



MAKERERE UNIVERSITY BUSINESS SCHOOL

MANAGEMENT COMPETENCE, CREDIT TERMS AND LOAN RECOVERY.

THE CASE OF SACCOs IN WEST NILE REGION.

BY

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2015/HD10/1963U

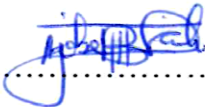
**A DISSERTATION SUBMITTED TO MAKERERE UNIVERSITY BUSINESS
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PLAN A

SEPTEMBER, 2025

DECLARATION

I **Ajobe Bran Adason** declare that this dissertation is my original work and has not been published or submitted in for any award in any other university.

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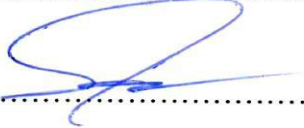
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APPROVAL

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DEDICATION

I would like to dedicate this research work to my family; my beloved wife, Gire Hanifa, for her endless support, to my loving son Anyole Murshid Adason for keeping my spirit up, my beloved mother Zaida Izati and my brother Buruga Habib Anderson for their constant encouragement to accomplish this research work. Last but not the least my friends Odong David and Apire Samuel for their positive words of encouragement.

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LIST OF ACRONYMS

DF:	Degree of Freedom
et al:	and others
KMO:	Kaiser-Meyer-Olkin Measure of Sampling Adequacy
MDIs:	Micro Deposit Institutions
MIS:	Management Information System
SACCO(s):	Savings and Credit Co-operative Society (ies)
SPSS:	Statistical Package for Social Scientists
UCA:	Uganda Cooperative Alliance
UMSC:	Uganda Microfinance Support Centre

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ABSTRACT

The study examined the relationship among management competence, credit terms and loan recovery of SACCOs in West Nile region, Uganda. The study sought to determine the extent to which loan recovery of SACCOs is attributed to management competence and credit terms. The research problem was that the SACCOs Strategic Plan 2013 - 2018 set a target of maintaining the repayment rate at 95% implying that the management's expected default rate was to be 5%. It was established that the loan recovery rate by SACCOs was low at 62% in west Nile which was below the target of 95% (Auditor general report, 2021/2022).

The study used cross sectional survey design using a sample of 53 SACCOs, giving a response rate of 79.2%. The data was collected using questionnaire and was analysed using SPSS version 22. Pearson correlation and regression analysis were used to determine the degree of the relationship among management competence, credit terms and loan recovery of SACCOs in West Nile in Uganda.

Findings of the study revealed a significant positive relationship between management competence, credit terms and loan recovery of SACCOs. The regression analysis results show that management competence and credit terms predict 77.4% of the observed variance in loan recovery of SACCOs. This implies that there are other predictors of loan recovery of SACCOs besides management competence and credit terms, thus, further research is called for, to find the other predictors of loan recovery of SACCOs

The study recommends that the district commercial officers should monitor the activities of SACCOs and train them so that they can be able to know where they are going wrong. Also, they should initiate auditing of SACCO books of account quarterly and yearly.

The management of SACCOs should put more emphasis on credit terms since it has more predictive power (45.5%) on loan recovery of SACCOs by putting affordable interest rates and appropriate policies for borrowers that would enable them to repay loan borrowed.

SACCO management should also enforce management competence through improvising Loan officer is knowledgeable on SACCO management, loan officer communicates effectively to the SACCO team, loan officer trains SACCO members on a regular basis to achieve SACCO objectives and loan officer guides SACCO members on a daily basis to achieve SACCO objective as it improves loan recovery of SACCOs by 31.3%.

CHAPTER ONE

1.1 Background to the Study

Loan recovery in cooperative is still more important as they help to meet social commitments and development of both the client and the microfinance institution thus any delay in recovery hampers the recycling of funds and cooperative ability to return to members is impaired. As a result, good borrowers and prospective members suffer from unavailability of loans to be lent out to them (Sabina & Kumar, 2008). Loan recovery is a practice employed by SACCOs to recover funds that are overdue. It should be noted that employing services of credit agencies for loan recovery is a very critical factor in financial sustainability and growth of the SACCOs where failure to recover loans has proved difficult (Ronald, 2011). The primary objective of SACCOs is to provide financial services such as credit and saving to the poor in order to relieve financial constraints and help alleviate poverty (Fikirte, 2011). SACCOs must reach at the position of high recovery rate because achieving high recovery rate benefits both lenders as well as borrowers in the long run. When there is a loss in the SACCO liquidity due to high levels of non-recovery, the cyclical flow of funds between the SACCOs and the borrowers will be interrupted (Nawai and Shariff, 2013).

Loan Recovery is an important concept for all the lending institutions. It is a measure of whether loans are settled up in full according to the loan contract or not. The higher loan recovery leads to the higher probability of the collecting interest revenues and lower loan recovery leads to losses in a lending institution (Okurut and Kinyondo, 2009). Loan recovery in SACCOs involves integration of management competence and credit terms. Management competence is “the ability to turn/transform knowledge into action effectively” (Aslan, 2016). Bourne & Franco-Santos (2010) state that management competence consists of knowledge, skills and behaviors that

makes a manager or leader in an organization unique and does the job effectively. Credit terms have been understood to mean collateral, repayment periods and interest rate (Ssekiziyivu, *et al.* 2017). Collateral is the security given by a borrower to a lender as an assurance that the loan will be paid (Ssekiziyivu *et al.*, 2017) and operates as a broad insurance against uninsurable risk or intentional default leading to non-payment of the loan (Ayyagari, Beck and Demirgu, (2003). Loan repayment period is the time in which the borrower should repay the loan (Nkundabanyanga, 2014). Interest rate is the price of money that is paid per unit of time expressed as a percentage of the amount borrowed (Ransford, Owusu, 2014). According to Stiglitz and Weiss (1981), credit terms are part of a general exercise to help determine the extent of risk for each borrower.

The theoretical explanation of loan recovery of SACCOs is that in cases of non-repayment, SACCOs may recover outstanding amounts by holding guarantors accountable or liquidating collateral (Kowa, Turinawe, & Mukokoma, 2023). Guarantors are often SACCO members, making them cautious when co-signing loans, which indirectly reduces the likelihood of defaults.

Globally between 2015- 2018 the bad debt recovery rate averaged 43 per cent, oscillating between a low of 34 per cent and a high of 49 per cent (Ciocchetta, 2018). The data do not follow any clear pattern. It is noteworthy that recovery rates did not fall with the onset of the economic crisis. Put differently, the composition effect explains almost half of the decline in the two years 2015 - 2016 compared with the average rate of 47 per cent recorded in the previous period.

In Uganda, Savings, Credit and Cooperative Societies (SACCOs) which were initiated under the Uganda Cooperative Alliance (UCA) with the aim of providing quality financial services on the

basis of self-reliance through mobilization and management of their own financial activities (Mpiira, Kiiza, Katungi, Tabuti, Staver, Tushemereirwe, 2014). One of the major roles of SACCOs is to provide loans to the poor either individually or in a group that is neglected by the commercial banks especially those in rural areas (Ray and Mahapatra, 2016). In Arua district of West Nile, studies carried out by Uganda Radio Network (URN) report, 2017 found out that Uganda Microfinance Support Centre (UMSC) dragged ten SACCOs in West Nile Region to court for alleged failure to service their loans.

Although Ugandan government has put in place policies and regulations governing operations of SACCOs some people still pick loans and never pay back the loans. Several attempts have been made to recover the loans from the SACCOs in vain in West Nile sub region of Uganda as they became doggy until some of them escaped to Democratic Republic of Congo and the Republic of Southern Sudan (URN report, 2017). The SACCOs Strategic Plan 2013 - 2018 set a target of maintaining the repayment rate at 95% implying that the management's expected default rate was to be 5%. It was established that the loan recovery rate by SACCOs in West Nile was low at 62% which was below the target of 95% (Auditor general report, 2018). If this situation continues SAACOs in West Nile region will lose money lent out to borrowers and will fail to perform their activities.

1.2 Statement of the problem

Much as there are rules and regulations provided by the Microfinance Support Centre (MSC) to governor the operations of SACCOs, various attempts have been made to recover the loans from the SACCOs in vain as they became doggy until some of them closed their operation. According to Mr. Lamet Olum, the Zombo district commercial officer, a total of eight SACCOs were registered in the district in 2001 but only two have survived to date. The collapse of the other

SACCOs was due to low savings, mismanagement of funds and cases of un-serviced loans. This was as a result of people joining SACCO groups with the aim of picking loan and disappear thereafter (<https://www.westnileweb.com/news>) (23rd August, 2018). The agreements signed by SACCO management with individual clients provide that, borrowers should make loan repayments in accordance with the loan repayment schedule. The SACCOs Strategic Plan 2013 - 2018 set a target of maintaining the repayment rate at 95% implying that the management's expected default rate was to be 5%. It was established that the loan recovery rate by SACCOs was low at 62% in west Nile which was below the target of 95% (Auditor general report, 2021/2022). If this situation continues SACCOs will lose money and eventually collapse. The researcher therefore will aim at determining the relationship between management competence, credit terms and loan recovery in SACCOs in West Nile Region.

1.3 Purpose of the study

The purpose of the study is to investigate the relationship between management competence, credit terms and loan recovery.

1.4 Objectives of the study

- i. To investigate the relationship between management competence and loan recovery
- ii. To examine the relationship between credit terms and loan recovery
- iii. To investigate the joint effect of management competence and credit terms on loan recovery.

1.5 Research questions

- i. What is the relationship between management competence and loan recovery?
- ii. What is the relationship between credit terms and loan recovery?

- iii. What is the joint effect of management competence, credit terms on loan recovery?

1.6 Scope of the study

Content scope

The scope of the study was limited to the study topic management competence, credit terms and loan recovery of SACCOs in West Nile region.

Geographical scope

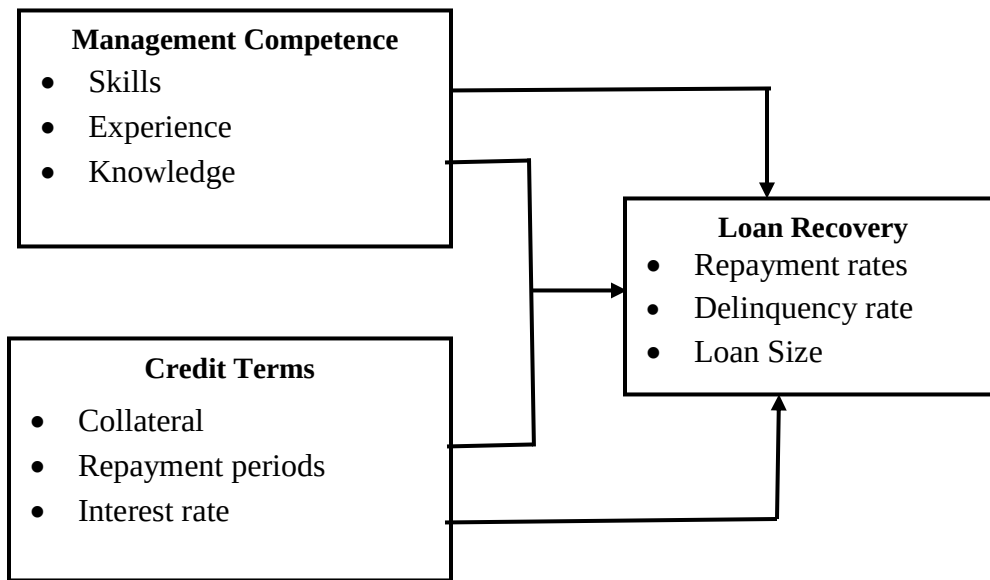
The study was carried out in West Nile region. This was because data can be got from the SACCOs to support the study.

1.7 Significance of the study

- This study would provide a ground toward recognition of different factors affecting SACCOS' capacity to fulfill member's expectations.
- The study would enable the management of SACCOS to be aware of issues that need greater attention so as to create more vibrant organizations through working on such challenges.
- The study would be of great value to academicians and future researchers in literature review to enhance further research.
- The study would enable policy makers/government and other stakeholders to recognize key areas that need well designed attention to enable the SACCOS to be stronger organizations capable of competing, generate surplus and fulfill members' expectations.

1.8 Conceptual Framework

Figure 1: Conceptual Framework



Source: Adopted and modified from Girma Gudde Jote, 2018

The study was guided by the conceptualization model that if organizations have to perform well there is need to have effective management competence and clear loan recovery plans in place and therefore government, communities, SACCO members and policies and procedures, collaterals, recovery periods and interest rate would be seen as the components of loan recovery which when well adhered to would lead to better performance in loan recovery of SACCOs in West Nile region of Uganda.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section presents a review of literature drawn from scholarly articles. The section will contain related information on loan recovery, management competence and credit terms in SACCOs.

2.2 Managerial Competence

According to Lakshminarayanan, *et al.*, (2016), managerial competences are characteristics that enable one to perform his or her job. They consist of numerous forms and combinations of knowledge, skills, abilities, motives and traits. Competences are qualities the individual can use to perform activities in an exemplary and successful manner (Dubois & Rothwell, 2008). Managerial competence is the ability of managers to direct work streams and define outcomes clearly while leading staff as a team (Jay, 2010). Managerial competence is determined by knowledge, experience and skill of the managers to do the job per the required expectations. A competence is a combination of the experience, knowledge and understanding, skills and abilities that a person brings to a job. According to Aslan, (2016), management competency is “*the ability to turn/transform knowledge into action effectively*”.

Managerial competence is described as a complex combination of knowledge, skills, experiences, understanding, values, attitudes and desires that lead to effective, embodied human action in the world (Pratibha, 2016). Competency is used to describe professional ability, including both the ability to perform specific functions and the ability to demonstrate acquired knowledge and conceptualization.

According Mulyasa, (2004) managerial competence is a combination of knowledge, skills, values and attitudes reflected in the habit of thinking and acting. According to Akiri & Ugborugbo, (2009) managerial competence is regarded as a multidimensional construct which encompasses various interrelated elements towards transformation of knowledge and skills to learners.

2.3 Credit Terms

Brako Ntiamoah, (2014), credit terms refer to the conditions under which microfinance advances credit to its customers. The credit terms will specify the collateral, credit period and interest rates. Kakuru, (2007), defines Credit terms as standards or negotiated terms (offered by a seller to a buyer) that control the monthly and total credit amount, maximum time allowed for recovery, discount for cash or early payment, and the amount or rate of late payment penalty. These are in form of interest rate, loan period and collateral that must be agreed upon before extending credit facilities. Anderson, (2002), contends that credit terms are a set of policy actions designed to minimize costs associated with credit while maximizing the benefits from it.

According to Kakuru, (2005), credit terms are the stipulations under which the firm grants/sells on credit to its customers, the credit terms specify the credit amount, period and interest rates. He defines credit period as the period of time in which the credit is granted and interest rate as a cost on borrowed funds. The SACCOs methodology recommends interest to range between 5% and 10% per month for easy computation when members take loans (Allen, 2014). The period for repayment of SACCOs loans is agreed when the loan is taken and the interest charge for loans (normally between 5% to 10%) which are applied to the balance of the loan at every repayment until the loan is fully repaid (Kaberia *et al.*, 2011). All SACCOs loans should be repaid within a maximum of 12 weeks during the first cycle and the borrower is free to pay in whatever amounts

she/he wishes at each loan meeting, but must repay the total sum owing within the agreed-upon period (CARE, 2011). However, interest rates are a contentious issue in some SACCOs, there seems to be a perceived conflict between the program policy guidelines and the Islamic religious teaching that considers interest as sinful, as a result some SACCO groups stopped charging interest and two are charging between 1-3% in Zambia (Anyango *et al.*, 2006).

2.4 Loan Recovery

Loan recovery of SACCOs is a measure of whether the loans are repaid in full according to the loan contract (Okurut and Kinyondo, 2009). The higher the loan recovery, the higher the probability of the SACCOs collecting interest revenues and lower the loan losses (through negligible write-off of bad debts), both of which enhance sustainability. High recovery rates are indeed largely associated with benefits both for the financial institution and the borrower. They enable the financial institution to cut the interest rate it charges to the borrowers, thus reducing the financial cost of credit and allowing more borrowers to have access to it (Kon and Storey, 2003). Improving recovery rates also help reduce the dependence on subsidies of the financial institution which would improve sustainability.

According to Huseyin, (2011), loan recovery is a practice employed by a SACCOs to recover funds that are overdue. It should be noted that employing services of credit agencies for loan recovery is a very critical factor in financial sustainability and growth of the SACCOs where failure to recover loans has proved difficult (Ronald, 2011).

Robinson M.S. report on microfinance revolution Volume (1994) I defines a loan as an extension of credit to another person (client) which maybe long term (more than a year) a short term (less than a year). Breth, (1999) stated that before a deal is signed a loan application is to be

completed. This provides risk protections by enabling the lending institutions to follow up when the borrowers fail to honor the agreement.

Loan recovery is defined as the process involving procedures that banks or any other micro finance institution uses to collect its money from debtors (Kyagulanyi, 1998). The longer the debt is allowed to run, the higher the possibility eventually defaults and thus systematic progress of follow up procedures is required bearing in mind the risk of offending a valued bank customer to such an extent that they lose business.

2.5 Management Competence and Loan Recovery

In Micro Deposit Institutions (MDIs) achieving performance targets is associated to several factors for example competence of the employees assigned with management of loan facility. Loan officer competence refers to the skills, knowledge abilities and experience that are measurable and specific that is required to undertake a particular role or function effectively in a given work setting (Woodruffe, 1998) and are considered to be a key foundation in which an incorporated system of talent management can be improved, managed and designed.

According to Matsukawa, (2010), loan officers are the frontline of micro loans in MDIs. They are the means through which the ‘social good’ is managed and delivered. Loan officers play a key role in providing of financial services to the poor by connecting them with financial institutions (Reilly, 2006). Loan officers are capable of reducing information asymmetry problems, by collecting information on applicant’s solvency level and presenting it to the credit committee for okay. As such, it is paramount that credit officers are competent, and adequately trained to avoid such eventualities (Goddard *et al.*, 2014).

Accordingly, loan officers categorize the borrowers as good borrowers and bad borrowers. Monitoring the borrowers will aid in making sure that loans are utilized for the right purposes meaning that they can pay back their loans (Stiglitz, & Weiss, (1981). Looking at the borrowers' past record is another criterion to determine if the borrower is likely to repay the loan or not (Greenbaum, & Thakor, (1995)). Borrowers with no training related to their businesses have a higher possibility to default (Roslan, & Zaini, (2009)). The lending firm characteristics may also affect their recovery performance (Oke, Adeyemo, & Agbonlahor, (2007). A firm's poor management procedures may also contribute to most of the bad loan recovery and a firm's good management procedures contribute to the good loan recovery. The design of the loan, access methods, screening methods, and incentives to repay may largely affect the lending agencies loan recovery rates (Hulme, & Mosley (1996)).

Awoyemi, *et al*, (2010) stated that the larger the loan size, the lower the probability of recovery default. A poorly designed lending program and improper implementation may lead to defaults (Copisarow, (2000)). The work of loan officers is to intermediary between SAACOs and clients and consequently, their ability to make correct judgment in loan advancement will determine the recovery level as well as non-performing loans level. Before disbursing the loan sums to clients, SACCOs through their loan officers screen their clients (borrowers) characteristics in terms of their demographics, ability to pay and assets owned.

Siwale, and Ritchie, (2011), credit officers provided some supervision during the formation of groups and worked directly with the market enterprise committee leadership to ensure loans are repaid on time. However, their involvement in regular monitoring was limited, and so the obligation fell mainly on market enterprise committee leaders and members. Loan officers may

nevertheless continue to support them in cases where group leaders are thought to be ineffective and unable to push for timely loan recovery.

Management officers work as an intermediary between Microfinance institutions and clients. Loan officers are front line staff and as they spend most of the times with clients, their direct communication allows them to see, hear or even experience the need of the clients. (Gray, B. 2013). Considering most of the methodologies, loan officers are mainly in charge of screening potential customers, screening the loan applications, continuous monitoring and follow up of the loans, producing required reports. (Holtmann and Grammling, 2005; Labie *et al.*, 2009). Loan officers take a major role in selection of clients who will finally be financed.

Khan, *et al.* (2012), loan officers not only face pressure from employers, or target but also face a serious pressure to pay their own money to recover the overdue amount. This statement is reflected in another paper saying that loan officers also pressurized to repay arrears of clients' from their own remuneration (Armendariz and Morduch, 2010). A firm's poor management procedures may also contribute to most of the default. The design of the loan, access methods, screening methods, and incentives to recover may largely affect the management recovery performance. In many SACCOS, internal control suffers from a lack of capacities of board members. The reporting structure between the management and the board of directors is still weak in most SACCOS, as no written evidence of the meetings exists. Most of the SACCOS also do not have Management Information System (MIS), which makes it difficult to monitor the performance adequately (Distler and Schmidt, 2011) which in return affects loan recovery in SACCOS.

2.6 Credit Terms and Loan Recovery

Empirical evidence focuses on both individual and institutional factor contribute to loan recovery. Mekonnen, (2015) argues that if the business plan of the creditor is profitable, it will contribute to timely recovery of the loan. Mekonnen, (2015) argues that timeliness of loan release has a significant influence on loan recovery performance of the respondents. The time between loan application and disbursement has an impact on the loan recovery. This factor has a positive impact on the borrower's loan recovery. Timely disbursement of loan increases significantly the loan recovery (Pasha and Negese, 2014). The chances that the loan would be used for intended purpose is increased when loan is disbursed at the right time.

Duy, (2013) argued that loan size affects the recovery of the loan. Smaller loans are likely to be repaid on time on group-based scheme while large loan is repaid on time by individual borrower. This could be because of the individual socio-economic position of the borrower in different schemes. Individual borrowers are relatively better endowed and have higher income levels. They assumed that individual borrower invests in expensive projects which boost their incomes. However, it is argued that larger loans are unlikely to be repaid than smaller loans. Larger loans may encourage unwise spending than small loans where caution is observed by the spender. Most of the borrowers are unused to handling of large funds and once given such funds could easily be misapplied. Similarly, Tundui and Tundui (2013) suggest that loans size increases with the default rate. As the loan size increases, more problems of default reported. This implies that the burden of recovery increases when one borrows large loans.

Anderson, (2002), contends that credit terms are a set of policy actions designed to minimize costs associated with credit while maximizing the benefits from it. The objective of these terms is to have optimal recovery from debtors as a firm may follow a lenient or stringent credit policy.

It is in the terms of MFIs that in order for the surplus funds to be invested, credit-issuing procedure must be adhered to, to achieve efficiency in institution's management. According to Stiglitz and Weiss, (2007), credit terms are part of a general exercise to help determine the extent of risk for each borrower (that is, the screening problem). It is designed on the part to ensure that borrowers take actions, and facilitate recovery/make recovery likely (incentive problem).

According to Malimba, (2009), grace period, collateral, interest rate charges and number of official visits to the credit societies, have a strong effect on loan recovery. Cohen (2002), found out that the higher interest rates induce firms to undertake projects with lower probability of success but higher payoffs when they succeed. He further indicated that since the financial institution is not able to control all actions of borrowers due to imperfect and costly information, it will formulate terms of the loan contract to induce borrowers to take actions in the interest of the financial institution and to attract low risk borrowers. According to Ejiako *et al*, (2014), the interest rate has an effect on the use, recovery of the loan and the overall performance of the business. When the interest rate charged is high, there is a tendency for the borrowers to keep part of the borrowed money to pay the interest or to use the business capital to pay the interest. According to (Malimba, 2009), Interest on borrowing is one of the costs of production. The higher the interest rate the higher the likelihood of loan recovery default as the costs of servicing the loan increase.

Anderson and Besley, (2002), indicated that an increase in interest rates negatively affects the borrowers by reducing their incentive to take actions conducive to loan recovery. According to Makorere, (2014), grace period is the period given by the financial institution to the borrower before the first installment is due. In other words, it is considered to be the time between when the loan was disbursed to the loan applicant and when the first installment is paid. While

conducting out a study in Tanzania, Makorere, (2014) found out that most of the financial institutions tend to provide a grace period of one month only, which was seen not to be sufficient for the small business enterprise owners to start realizing enough revenue for them to start paying their loans. The study found that businesses that get enough grace period and have never experienced problem of default. Woolcock, (2002), observed that if the loan term is too short, the borrower fails to generate revenue to enable him/her make recovery while a longer loan term may make the client extravagant and the client may in the end fail to pay back. For successful results, the loan terms should match the cash patterns to help the client budget cash flows (Stiglitz and Weiss, 2007). The findings made by Atieno, (2001), indicates that stringent lending terms discourage borrowers to apply for bank debt even when they are searching for finance to execute valuable investment projects. For example, pledging business collateral limits the firms' ability to obtain future loans.

Statham, (2008) stated that one of the important requirements for the success of microfinance institutions is to create awareness to potential clients by giving appropriate training to borrowers about loan utilization, loan terms and obligations. In addition, Admassie, (2005), agreed on the loan utilization and technical training should be given to improve the skill of potential and actual clients. Technical support is important to increase the productivity of borrowers. Training is one of the important requirements for the success of Microfinance institutions (Assefa, (2002)). If lender provides various training, the clients will be able to understand the rules and regulations easily. They also develop the skill how to do business and money utilization. Training is needed not only to clients, but also to loan officers. In both cases, it has positive contribution to the recovery rate. Norell, (2001) also agrees on the importance of training due to decreasing default rate. Among the determinants of loan recovery of microfinance institutions, training duration had

positive impact on loan recovery Olagunju, & Adeyemo, (2007). But, Welderufael, Tesfatsion and Gedifew, (2015) study reveals that there is statistically insignificant association between training and loan recovery performance because the training may not be continuous, relevant, timely and not catering the borrowers' requirement.

Makorere, (2014) further found out that businesses that get enough grace period have never defaulted. Ondieki *et al*, (2011) identified that, the external funds (loans) are always associated with high interest rates hence become a burden to the members.

According to Girma Gudde Jote (2018) assert that high loan amount is associated with high probability of loan repayment performance and high interest rate is associated with low probability of loan repayment performance.

2.7 Management Competence, credit terms and Loan recovery of SACCOs.

Moti *et al.*, (2012) and Wanjira (2010) in which they confirmed that good credit terms through use of collateral, longer repayment periods and low interest rate improves loan recovery of SACCOs.

Oni, Oladele and Oyewole, (2005) determined the effect of interest rate on the loan borrowed. They found out that it affects loan recovery but not significantly. Wongnaa and Awunyo-Vito (2013) posit that high recovery leads institutions to lower their interest rate and the cost of processing loan. Magali, (2012) suggest that interest rate affect credit risk and profitability of micro-finance. Ayogyam, Goddana, Mohammed, and Boateng, (2013) contend that interest rate affects recovery of agricultural loans. Addisu, (2006) points out that lack of collateral and smaller size of loan demanded has lowered interest rate in some formal financial intermediaries. In addition, better recovery performance is strongly and directly associated with educational

level of the borrower. The higher interest rate charged by some informal money lenders made the financial problem more unreachable.

Malimba and Ganesan, (2009) further argue that interest on borrowing is one of the costs of production. The higher the interest rate the higher the likelihood of loan recovery being problematic as the costs of servicing the loan increases.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This section presents the method that was used to obtain data from the respondents. It includes the research design, study population, sample population, data collection instruments, and measurement of research variables, validity and reliability of instruments, data processing and presentation.

3.2 Research design

Bist (2015) defines research design as the approach that guides data collection, analysis, interpretation, and presentation in research. The researcher used descriptive and cross-sectional research design to study management competence, credit terms with the objective that they affect loan recovery of SACCOs in West Nile region of Uganda. According to Kothari and Garg (2014), cross-sectional studies are conducted at a single time point or over a brief period of time. The quantitative technique comprises gathering quantitative data, making it easy to examine the correlations between management competence, credit terms, and loan recovery of SACCOs in West Nile, Uganda.

3.3 Study population

The study population was 61 SACCOs in West Nile region of Uganda as per the Uganda Micro Finance Support Centre data (Uganda Microfinance Support Centre, 2018).

3.4 Sample Size and Selection Procedure

A sample size of 53 SACCOs in West Nile region were selected from a population of 61 SACCOs using Krejcie and Morgan (1970) table. The study used simple random method to

select SACCOs, which allowed all SACCOs to have equal chances to be selected to constitute the sample size. The unit of analysis were the SACCOs and unit of inquiry was the staff and borrowers of SACCOs. The total of 212 respondents were used as unit of inquiry for study and this included manager, credit officer, finance officer and loan's borrower as these interact with the system on a daily basis and they have detail information concerning SACCOs.

3.5 Source of Data

The primary data was collected using questionnaires. The selected respondents were reached using structure questionnaires which were physically delivered to them. Questionnaires are popular with researchers because information can be obtained easily and responses can be easily coded (Amin, 2005).

3.6 Collection Procedure

The data collection procedure that was used is questionnaire in collecting primary data to accomplish the study (Bhattacharyya (2003)). The structured questionnaire consisting of closed questions with a five-point likert scale was designed and administered to selected technical members and borrowers in SACCOs.

3.7 Reliability, Validity and normality of the instruments

A pretest of the research instrument to establish validity was done. The items in the instruments were discussed with the two supervisors to check for internal accuracy and relevancy for the study and based on the discussions; a consensus was reached on the items that were included in the final instrument to ensure that the instruments have content validity. Cronbach's Alpha coefficient was also used to test for reliability. A questionnaire was given to individuals to give their opinion regarding the questions using a 5-point Likert scale.

Validity

As criteria in determining the validity of the questions included in the questionnaire designed to collect data on the study variables, four experts on the subject matter expressed their opinion regarding the relevance or non-relevance of the questions and the research retained only those questions that remained relevant due to the expert opinion.

The research instrument was validated and found to be valid for use, as construct validity was attained since the measurements matched the theoretical expectation of a 0.7 content validity index. Any validity results above 0.7, according to Nunnally (1987), indicate that the instrument's questions are legitimate and suitable for use in additional research. The results of the test are shown below (Table 1).

Table 1: Validity Results

Variable	Total number of items	Number of items valid	Content Validity Index
Managerial competence	15	12	.800
Credit terms	13	10	.769
Loan recovery	15	13	.867

Source: Primary data

Results in Table 1 indicate a validity outcome of above 0.7 for each of the variable measures, indicating that the test items are valid and fit for use in the current study.

Reliability Test Result

Reliability test was carried using SPSS software version 26 and the results is as in the table below.

Table 2: Reliability Analysis

Variable	Cronbach's Alpha	Number of Items
Management Competence	.722	17
Credit terms	.737	17
Loan Recovery	.781	18

Source: Research Data

According to Grayson (2004), a cut – off alpha coefficient of 0.7 is sufficient to prove that the items in the instrument are reliable. Therefore, the reliability coefficients of the research instruments are higher than 0.7, implying that the instrument was reliable.

Normality Assumption in Parametric Tests

When using a parametric test, one of the key assumptions is normality. This means that the data in each group being analyzed should follow a normal distribution. This assumption is critical because parametric tests rely on the properties of the normal distribution to produce valid results. If the sample size is small (typically less than 30), statistical tests like the Shapiro-Wilk test can be used to check for normality. A p-value less than the chosen significance level indicates that the data is likely not normally distributed. For larger sample sizes, visual methods such as a Q-Q plot are preferred. If the data points in the Q-Q plot align closely with a diagonal line, the data likely follows a normal distribution.

It is important to note that violating the normality assumption can lead to inaccurate results in parametric tests. If the data is not normally distributed, alternative approaches such as non-parametric tests (e.g., Mann-Whitney U test or Kruskal-Wallis test) may be more appropriate.

3.8 Factor analysis output

Factor analysis was carried out by running a rotated component matrix thereby reducing the questions to those that are more relevant to the study variables. Considering the results of the

analysis, the Kaiser-Meyer-Olkin Measure of Sampling Adequacy ($KMO = 0.586 > 0.5$), and the Bartlett's Test of Sphericity revealed Chi-square ($X^2 = 153.645$; Degree of Freedom (DF)=66 and P-value $p = 0.00 < 0.01$) met the assumptions required in completing factor analysis. Using the Varimax method for principal components measurement, only those factors with an Eigen value greater than 1 were retained according to Guttman-Kaiser rule and the results in table 2 below showed that skills, experience and knowledge accounts 67.50% of the loan recovery in SACCOS in West Nile Region in Uganda. Of the 67.50% skills accounts for 25.15%, experience accounts for 22.63% and knowledge accounts for 19.72%. This implies that collateral contributed more in determining management competence than experience and knowledge.

Table 3: Management Competence

	Component		
	Skills	Experience	Knowledge
Loan officer trains SACCO members on a regular basis to achieve SACCO objectives.	.775		
The loan officer uses SACCO management best practices to implement SACCO activities.	.765		
A skillful loan officer is able to limit cases of change of stubbornness by a borrower through development of good communication with the borrower.	.736		
Loan officer is knowledgeable on SACCO management.	.712		
A loan officer has networking and influencing ability skills.	.687		
Development of an effective groups is enhanced with an effective loan officer and this limits cases of loan defaults.		.790	
Loan officer communicates effectively to the SACCO team.		.783	
The Loan officer provides solution to identified risk.		.769	
A loan officer has skills to problem-solving capacity.		.598	
The loan officer has experience in leading the SACCO to achieve SACCO objectives.			.875
Loan officer/team members are rewarded based on performance.			.750

A loan officer is skillful to determine better incidences of diversion of funds from the intended purpose.				.684
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<i>Eigen value</i>	<i>3.02</i>	<i>2.72</i>	<i>2.37</i>	
<i>Variance (%)</i>	<i>25.15</i>	<i>22.63</i>	<i>19.72</i>	
<i>Cumulative Variance (%)</i>	<i>25.15</i>	<i>47.78</i>	<i>67.50</i>	

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Source: Primary data

Table 4: Credit terms

	Component		
	Collaterals	Repayment Periods	Interest Rate
Interest rate is always communicated to borrowers.	.793		
The time period to pay loan installment is long enough.	.792		
Methods of calculating interest rates on loans are friendly.	.776		
Borrowers are satisfied with interest rates charged by the SACCO.	.660		
Borrowers negotiate with SACCO on the number of months to be considered to repay the loan.	.564		
The favorable interest rates enhance the willingness to repay.		.845	
Before loan is given, loan officers do loan appraisal.		.669	
The interest rate charged is adjusted frequently.			.821
Borrowers always divert loans for some other purpose.			.783
When members fail to pay loan installment their collateral is sold to recover the loan.			.663
<i>Eigen value</i>	2.79	1.95	1.86
<i>Variance (%)</i>	27.96	19.54	18.61
<i>Cumulative Variance (%)</i>	27.96	47.51	66.12
<i>Extraction Method: Principal Component Analysis.</i>			
<i>Rotation Method: Varimax with Kaiser Normalization.</i>			
<i>a. Rotation converged in 6 iterations.</i>			
Source: Primary data			

Table 5: Quality of service

	Component		
	Repayment Rates	Profitability	Lona Size
Interest rate charged are affordable by clients.	.896		
SACCOs give out many loans.	.870		
Borrowers are made to pay fine when they default to pay loan.	.853		
The operational expenses are minimum or low.	.632		
Loan installments are recovered on time schedule.	.615		
SACCOs generate enough revenue to run its activities.	.553		
When borrowers get bigger amount of loan they repay without defaulting.		.846	
The type of our investment requires a smaller amount of loan.		.791	
Borrowers willingly pay their loan installments without any inducement.		.685	
The process/mode of paying the loan installment is appropriate.		.606	
Increase in personnel expenses.			.803
SACCOs clients have outstanding loans.			.757
The nature of our business requires bigger amount of loan.			.733
<i>Eigen value</i>	3.63	2.38	2.00
<i>Variance (%)</i>	27.92	18.36	15.38
<i>Cumulative Variance (%)</i>	27.92	46.28	61.66
<i>Extraction Method: Principal Component Analysis.</i>			
<i>Rotation Method: Varimax with Kaiser Normalization.</i>			
<i>a. Rotation converged in 4 iterations.</i>			

Source: Primary data

3.9 Measurement of the research variables

The items in the questionnaires will be anchored onto a 5-point Likert scale ranging from strongly disagree (1) to strongly agree (5). This will help the respondents to rate their responses against given items on the various measures. The measures include the following:

- **Loan recovery** will be measured by instrument developed by repayment rates, delinquency rate and loan size (Huseyin, (2011)).
- **Management competence.** Will be measured by skills, experience and knowledge (Pratibha, 2016).
- **Credit terms** will be measured in terms of collateral, credit period and interest rates (Brako Ntiamoah, (2014)).

3.10 Data processing and Analysis

Data will be collected from the field using questionnaires, edited, sorted and coded to develop feel for the data. Statistical Packages for Social Scientist (SPSS) version 26 will be used to derive descriptive and inferential statistics on the data. For inferential statistics, correlation will be applied to determine the relationships between the study variables. Other statistical tools such as regression will be used to examine the predictive power of independent variables on the dependent variable.

3.11 Ethical Consideration

The researcher will make sure that ethical issues in the research processes are observed that is data from the respondents is collected after getting authority from the office of district commercial officer and management of SACCOs. The authorization of respondents will be sought first before collection of data and assurance is to be made regarding the purpose of the research as being academic and the information obtained will be used for academic purposes.

CHAPTER FOUR

ANALYSIS, PRESENTATION AND INTERPRETATION OF THE FINDINGS

4.1 Introduction

This chapter presents the analysis, presentation and interpretation of the findings. It focuses on the descriptive statistics of the demographic characteristics, correlation and regression analysis of the study variables. These results are presented according to the study objectives.

4.2 Response Rate

The researcher collected data from 41 SACCOs out of 53 SACCOs, giving a total sample of 212 respondents since four (4) members were selected from each SACCO and so generating a response rate of 77.4%. Because, the questionnaires were distributed to 41 SACCOs but 41 SACCOs filled and returned their questionnaires. Some respondents did not respond as a result of being busy and information concealment. This response rate is a good representation of the whole population since it falls between 30 and 500 (Field, 2006).

4.3 Demographic characteristics of the respondents

4.3.1 Gender of Respondents

Respondents of different sex in West Nile Region SACCOs were as demonstrated in Table 5.

Table 6: Gender of Respondents

		Frequency	Percent	Cumulative Percent
Valid	Male	96	61.5	61.5
	Female	60	38.5	100.0
	Total	156	100.0	

Source: Primary data

Table 6 indicates that 61.5% of the respondents were male and 38.5% of the respondents were female. This implies that more males responded to questionnaires as compared to female members. It also implies that there are more men in SACCOs than women.

4.3.2 Age bracket

The Table 6 shows the age group of the respondents of SACCOs in West Nile region.

Table 7: Age bracket

	Frequency	Percent	Cumulative Percent
Valid 18 - 24 years	6	3.8	3.8
25 - 31 years	27	17.3	21.2
32 - 38 years	74	47.4	68.6
39 - 45 years	39	25.0	93.6
46 - 52 years	8	5.1	98.7
Above 52 years	2	1.3	100.0
Total	156	100.0	

Source: Primary data

The Table 7 depicts that 47.4% lies between 32-38 years and 1.3% of the respondents lie in the age group above 52 years. This indicates that majority of the respondents were above the age of 32 years and therefore were mature enough to comprehend and respond to the questionnaire.

4.3.3 Education level

The Table 7 depicts the education level of SACCOs members in Arua district.

Table 8: Education Level

		Frequency	Percent	Cumulative Percent
	Certificate	33	21.2	21.2
	Ordinary Diploma	78	50.0	71.2
Valid	Bachelor	39	25.0	96.2
	Post graduate diploma	6	3.8	100.0
	Total	156	100.0	

Source: Primary data

The results in Table 8 revealed that 50.0% were ordinary diploma holders and 3.8% of the respondents were post graduate diploma holders. This implies, on the basis of the above results, the respondents were literate, able to read and write, as well as understand the questions and had rightful skills to handle SACCO's finances.

4.3.4 Duration of SACCO

The Table 8 shows the duration taken by SACCO.

Table 9: Duration of SACCO

		Frequency	Percent	Cumulative Percent
	Less than one year	7	4.5	4.5
	1 - 5 years	21	13.5	17.9
Valid	6 - 10 years	36	23.1	41.0
	11 - 15 years	47	30.1	71.2
	16 - 20 years	45	28.8	100.0
	Total	156	100.0	

Source: Primary data

The results in Table 9 above revealed that 30.1% of the SACCOs have been in operation for between 11 – 15 years and 4.5% of the SACCOs have been in operation for less than one year. This analysis reveals that majority of the respondents have revealed that the SACCOs have been in operation for at least between 11 - 15 years; this means that they are matured and stable.

4.3.6 Position in SACCO

The results in Table 10 show the position of the respondents in SACCOs.

Table 10: Position in SACCO

		Frequency	Percent	Cumulative Percent
Valid	Manager	36	23.1	23.1
	Credit Officer	48	30.8	53.8
	Finance officer	34	21.8	75.6
	Loan's Borrower	38	24.4	100.0
	Total	156	100.0	

Source: Primary data

The results in Table 9 revealed that 30.8% were credit officers. This shows that the data collected was from the key stakeholders of SACCOs who according to the SACCO methodology are to approve and manage loan funds.

4.5 Correlation Analysis

Correlation analysis was run in order to establish the relationships between pairs of the study variables which arose out of the objectives of the study. As such, the Pearson's product moment correlation analysis was carried, generating correlation coefficients to measure the magnitude of the relationship between the management competence, credit terms and loan recovery. The analysis examined linear relationship and where it existed, the direction and strength of this relationship. Refer to the table 11 below.

Table 11: Pearson's Product Moment Correlation analysis**N = 41**

	1	2	3	4	5	6	7	8	9
Skills (1)	1.000								
Experience (2)	.332*	1.000							
Knowledge (3)	.534**	.220	1.000						
Management Competence (4)	.825**	.621**	.819**	1.000					
Collateral (5)	.625**	.363*	.572**	.694**	1.000				
Repayment Periods (6)	.715**	.234	.554**	.676**	.631**	1.000			
Interest Rate (7)	.204	.145	.308	.298	.099	.086	1.000		
Credit Terms (8)	.741**	.347*	.669**	.787**	.845**	.848**	.442**	1.000	
Loan Recovery (9)	.553**	.158	.738**	.672**	.651**	.518**	.343*	.702**	1.000

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

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data

4.5.1 Pearson Product Moment Correlation of the study variables

As seen in Table 11, the study found a significant positive relationship between management competence and loan recovery of SACCOs ($r = .672$, $p < .01$). A similar result was manifested between loan recovery of SACCOs and all constructs of management competence, the most significant occurring with knowledge ($r = .738$, $p < .01$). The result generally means that positive changes in the management competence of the SACCOs in respect to skills, experience and knowledge are associated with positive changes in the loan recovery of SACCOs.

From the findings in Table 11, there existed a significant positive relationship between credit terms and loan recovery of SACCOs ($r = .702$, $p < .01$). Furthermore, the results show that loan recovery of SACCOs was significantly correlated with all aspects of credit terms, among which the most notable was collateral ($r = .651$, $p < .01$). This means that an increase in credit terms is associated with a high level of loan recovery of SACCOs.

4.6 Regression Analysis

A regression analysis of loan recovery of SACCOs was carried in order to establish how the variation in management competence and credit terms individually and in combination affect the variation in the loan recovery of SACCOs. The results are presented in Table 12 addresses objective i, ii and iii.

Table 12: Beta Coefficients of standardized, variance and model summary

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.473	.473		1.000	.324		
	Management Competence	.347	.199	.313	1.737	.090	.380	2.632
	Credit Terms	.464	.184	.455	2.522	.006	.380	2.632

a. Dependent Variable: Loan Recovery

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.728 ^a	.530	.505	.28152

a. Predictors: (Constant), Credit Terms, Management Competence

Source: Primary data

$$Y = 0.473 + 0.313 X_1 + 0.455 X_2 + 0.28152$$

The beta values that were obtained were used to explain the regression equation above. The equation explains the contribution of each independent variable on to the dependent variable held at a constant value 0.473. The standardized beta coefficients give a measure of influence of each variable to the model and indicate how much the dependent variable varies with an independent variable when all other independent variables are held constant.

The results from the table above showed that management competence in the regression model had insignificant positive effect on loan recovery in West Nile region (beta = .313, p value = .090; >.01). This implies that management competence (skills, experience and knowledge) impact loan recovery. Therefore, we can conclude that there is statistical evidence that management competence impact loan recovery in West Nile region. Further, the results indicate that credit terms had significant positive effect on loan recovery in West Nile region (beta = .455, p value = .006; <.01). We can conclude that there is sufficient statistical evidence to suggest that credit terms impact loan recovery in West Nile region. However, from the model summary, the variables under study predicted 50.5 % of the variance in loan recovery in West Nile region. This implies that loan recovery explained by management competence and credit terms, as per this study.

In addition, the multi-collinearity test was carried out by running regression model (table 12) in which the variance inflation factor (VIF) and tolerance values were generated. The results of multicollinearity test suggest that there is no problem of collinearity in the model. The statistical standard is that the VIF must be less than 10 and the Tolerance value must be greater than 0.1 and from the table above all the VIF are less than 10 and the tolerance values are all greater than 0.1.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study was carried out to explain the loan recovery of SACCOs in West Nile Region. This chapter consists of discussion of the findings as guided by objectives of the study, conclusion, recommendations, limitations to the study and suggested areas for further research.

5.2 Discussion of the Findings

The study focused on the predictive potential of management competence and credit terms on loan recovery of SACCOs in West Nile Region as discussed below;

5.2.1 Management competence and loan recovery of SACCOs

According to the study, there was significant positive relationship between management competence and loan recovery. This implies that management competence is associated with loan recovery. This is so because SAACOs whose group members and top managers with skills, experience and knowledge are able to recovery their loans from their clients. This view was reflected by respondents that said loan officer trains SACCO members on a regular basis to achieve SACCO objectives, the loan officer uses SACCO management best practices to implement SACCO activities, a skillful loan officer is able to limit cases of change of stubbornness by a borrower through development of good communication with the borrower, loan officer is knowledgeable on SACCO management and a loan officer has networking and influencing ability skills. On experience, the respondents said; development of an effective groups is enhanced with an effective loan officer and this limits cases of loan defaults, loan officer communicates effectively to the SACCO team, the loan officer provides solution to identified risk and a loan officer has skills to problem-solving capacity. On knowledge the

respondents said; the loan officer has experience in leading the SACCO to achieve SACCO objectives, loan officer/team members are rewarded based on performance and a loan officer is skillful to determine better incidences of diversion of funds from the intended purpose.

The findings are in line with Awoyemi *et al.*, (2010) who stated that the larger the loan size, the lower the probability of recovery default. A poorly designed lending program and improper implementation may lead to defaults (Copisarow, (2000)). The work of loan officers is to intermediary between SACCOs and clients and consequently, their ability to make correct judgment in loan advancement will determine the recovery level as well as non-performing loans level. Before disbursing the loan sums to clients, SACCOs through their loan officers screen their clients (borrowers) characteristics in terms of their demographics, ability to pay and assets owned.

Siwale and Ritchie, (2011), credit officers provided some supervision during the formation of groups and worked directly with the market enterprise committee leadership to ensure loans are repaid on time. However, their involvement in regular monitoring was limited, and so the obligation fell mainly on market enterprise committee leaders and members. Loan officers may nevertheless continue to support them in cases where group leaders are thought to be ineffective and unable to push for timely loan recovery.

Khan, *et al.* (2012), loan officers not only face pressure from employers, or target but also face a serious pressure to pay their own money to recover the overdue amount. This statement is reflected in another paper saying that loan officers also pressurized to repay arrears of clients from their own remuneration (Armendariz and Morduch, 2010). A firm's poor management procedures may also contribute to most of the default. The design of the loan, access methods,

screening methods, and incentives to recover may largely affect the management recovery performance. In many SACCOS, internal control suffers from a lack of capacities of board members. The reporting structure between the management and the board of directors is still weak in most SACCOS, as no written evidence of the meetings exists. Most of the SACCOS also do not have Management Information System (MIS), which makes it difficult to monitor the performance adequately (Distler and Schmidt, 2011) which in return affects loan recovery in SACCOS.

5.2.2 Credit terms and Loan recovery of SACCOs.

The study also found significant positive relationship between credit terms and loan recovery this implies that a change in credit terms is associated with a change in loan recovery. This can happen by the SACCOs management improvising affordable collaterals is the most important element of credit terms, followed by repayment periods and last with interest rates better leads to loan recovery of SACCOs. Also, the respondents who strongly agreed interest rate is always communicated to borrowers, the time period to pay loan installment is long enough, methods of calculating interest rates on loans are friendly, borrowers are satisfied with interest rates charged by the SACCO and borrowers negotiate with SACCO on the number of months to be considered to repay the loan. For factor called repayment periods, two item scales were loaded onto it including, the favorable interest rates enhance the willingness to repay and before loan is given, loan officers do loan appraisal. For factor called interest rates, three item scales were loaded with the highest being that; the interest rate charged is adjusted frequently, borrowers always divert loans for some other purpose and when members fail to pay loan installment their collateral is sold to recover the loan.

The findings concur by Mekonnen, (2015) who argued that if the business plan of the creditor is profitable, it will contribute to timely recovery of the loan. Mekonnen, (2015) argued that timeliness of loan release has a significant influence on loan recovery performance of the respondents. The time between loan application and disbursement has an impact on the loan recovery. This factor has a positive impact on the borrower's loan recovery. Timely disbursement of loan increases significantly the loan recovery (Pasha and Negese, 2014). The chances that the loan would be used for intended purpose is increased when loan is disbursed at the right time.

Duy, (2013) argued that loan size affects the recovery of the loan. Smaller loans are likely to be repaid on time on group based scheme while large loan are repaid on time by individual borrower. This could be because of the individual socio-economic position of the borrower in different schemes. Individual borrowers are relatively better endowed and have higher income levels. They assumed that individual borrower invests in expensive projects which boost their incomes. However, it is argued that larger loans are unlikely to be repaid than smaller loans. Larger loans may encourage unwise spending than small loans where caution is observed by the spender. Most of the borrowers are unused to handling of large funds and once given such funds could easily be misapplied. Similarly, Tundui and Tundui (2013) suggest that loans size increases with the default rate. As the loan size increases, more problems of default reported. This implies that the burden of recovery increases when one borrows large loans.

According to Malimba, (2009), grace period, collateral, interest rate charges and number of official visits to the credit societies, have a strong effect on loan recovery. Cohen (2002), found out that the higher interest rates induce firms to undertake projects with lower probability of success but higher payoffs when they succeed. He further indicated that since the financial

institution is not able to control all actions of borrowers due to imperfect and costly information, it will formulate terms of the loan contract to induce borrowers to take actions in the interest of the financial institution and to attract low risk borrowers. According to Ejiako *et al.*, (2014), the interest rate has an effect on the use, recovery of the loan and the overall performance of the business. When the interest rate charged is high, there is a tendency for the borrowers to keep part of the borrowed money to pay the interest or to use the business capital to pay the interest. According to (Malimba, 2009), interest on borrowing is one of the costs of production. The higher the interest rate the higher the likelihood of loan recovery default as the costs of servicing the loan increase.

Anderson and Besley, (2002), indicated that an increase in interest rates negatively affects the borrowers by reducing their incentive to take actions conducive to loan recovery. According to Makorere, (2014), grace period is the period given by the financial institution to the borrower before the first installment is due. In other words, it is considered to be the time between when the loan was disbursed to the loan applicant and when the first installment is paid. While conducting out a study in Tanzania, Makorere, (2014) found out that most of the financial institutions tend to provide a grace period of one month only, which was seen not to be sufficient for the small business enterprise owners to start realizing enough revenue for them to start paying their loans. The study found that businesses that get enough grace period and have never experienced problem of default. Woolcock, (2002), observed that if the loan term is too short, the borrower fails to generate revenue to enable him/her make recovery while a longer loan term may make the client extravagant and the client may in the end fail to pay back. For successful results, the loan terms should match the cash patterns to help the client budget cash flows (Stiglitz and Weiss, 2007). The findings made by Atieno, (2001), indicates that stringent lending

terms discourage borrowers to apply for bank debt even when they are searching for finance to execute valuable investment projects. For example, pledging business collateral limits the firms' ability to obtain future loans.

Oni, Oladele and Oyewole, (2005) determined the effect of interest rate on the loan borrowed. They found out that it affects loan recovery but not significantly. Wongnaa and Awunyo-Vito (2013) posit that high recovery leads institutions to lower their interest rate and the cost of processing loan. Magali, (2012) suggest that interest rate affect credit risk and profitability of micro-finance. Ayogyam, Goddana, Mohammed, and Boateng, (2013) contend that interest rate affect recovery of agricultural loans. Addisu, (2006) points out that lack of collateral and smaller size of loan demanded has lowered interest rate in some formal financial intermediaries. In addition, better recovery performance is strongly and directly associated with educational level of the borrower. The higher interest rate charged by some informal money lenders made the financial problem more unreachable.

Malimba and Ganesan, (2009) further argue that interest on borrowing is one of the costs of production. The higher the interest rate the higher the likelihood of loan recovery being problematic as the costs of servicing the loan increases.

Makorere, (2014) further found out that businesses that get enough grace period have never defaulted. Ondieki *et al*, (2011) identified that, the external funds (loans) are always associated with high interest rates hence become a burden to the members.

5.3.3 Management Competence, credit terms and Loan recovery of SACCOs.

The results show that management competence and credit terms explain a positive change in loan recovery of SACCOs. The results of the regression analysis indicated that management

competence and credit terms contribute in explaining improvement of loan recovery of SACCOs. Credit terms is the best predictor 45.5% of loan recovery of SACCOs and it focuses on interest rates and policies to borrowers. The findings revealed that low interest rates charged by the lenders and putting appropriate policies to borrowers can accelerate recovery of loan of SACCOs. This is consistent with the study of Moti *et al.*, (2012) and Wanjira (2010) in which they confirmed that good credit terms through use of collateral, longer repayment periods and low interest rate improves loan recovery of SACCOs.

5.3 Conclusion

The findings show loan recovery is dependent on the levels of skills, experience and knowledge, SAACOs need to get top management buy-in and carry out skills enhancement for their staff. The study also concludes that an increase in any of the constructs mentioned above will increase the level of loan recovery in West Nile region through SACCOs loan officer trains SACCO members on a regular basis to achieve SACCO objectives, the loan officer uses SACCO management best practices to implement SACCO activities, the loan officer provides solution to identified risk and loan officer/team members are rewarded based on performance.

The study was carried out further to find the relationship between credit terms and loan recovery as the second objective of the study. The study reveals that there was significant positive relationship between credit terms and loan recovery ($r = .702^{**}$, $p < 0.01$). For successfully loan recovery, SAACOs need to communicate interest rate to borrowers, the time period to pay loan installment is long enough, methods of calculating interest rates on loans are friendly, the interest rate charged is adjusted frequently and interest rate charged are affordable by clients.

The study was also done to find out the combined effect of management competence and credit terms on loan recovery as the third objective of the study. The results of the study indicate that management competence and credit terms jointly explain 50.5% of the variance in loan recovery. Also noticeable in this study is the fact that with standardized Beta coefficient and level of significance of (Beta = .313, $p > .01$, Beta = .455, $p < .01$) for management competence and credit terms respectively, credit terms are better predictor of loan recovery than management competence. Policy makers and SACCOs leaders alike may use these findings as a way of loan recovery in Uganda since the use loan recovery can greatly contribute to better standard of living.

5.4 Recommendations

The recommendations are based on the findings of the study and discussions.

The district commercial officers should monitor the activities of SACCOs and train them so that they can be able to know where they are going wrong. Also, they should initiate auditing of SACCO books of account quarterly and yearly.

The management of SACCOs should use thorough credit analysis to evaluate a borrower's creditworthiness. This involves reviewing the borrower's credit history, income, and other financial commitments. By implementing credit scoring models, SACCOs can better assess the risk associated with each borrower.

The management of SACCOs should put more emphasis on credit terms since it has more predictive power (45.5%) on loan recovery of SACCOs by putting affordable interest rates and appropriate policies for borrowers that would enable them to repay loan borrowed.

SACCO management should also enforce management competence through improvising Loan officer has knowledge on SACCO management, loan officer communicates effectively to the SACCO team, loan officer trains SACCO members on a regular basis to achieve SACCO objectives and loan officer guides SACCO member on a daily basis to achieve SACCO objective as it improves loan recovery of SACCOs by 31.3%.

5.5 Limitations of the study

The researcher faced the following problems during the study: -

- ❖ Misunderstanding and misinterpretation due to the differing level of education among the respondents affected the quality of information hence inaccurate result. However, attempts were undertaken by the researcher to explain the key issues on the questionnaires in simple terms and language to ensure clarity in the concept used in the questionnaire.
- ❖ Non-responses due to the fear of touching foreign material (questionnaire) as relate to the current COVID-19 pandemic. The respondents were re-contacted to complete the questionnaires, once the attempts failed then such incomplete questionnaires were not captured for data analysis.
- ❖ Some SACCO leaders were not available to give data as they were busy with private farming activities. This made the research time consuming especially in getting these respondents. However, this was solved by visiting them on their meeting days.
- ❖ Respondents were not willing to disclose their failures relating to the work they do especially the group leaders. However, this was solved by re-assuring them that the research is strictly confidential and for academic purposes.

- ❖ The researcher experienced low response from members who never wanted to disclose their minds. This was mitigated by purposively selecting cooperated staff as was directed by influential leaders.

Despite the above limitations, the findings of the study still remain relevant because majority of the limitations were addressed.

5.6 Contribution of the Study

This study has, in the first place, it has contributed to the body of existing knowledge through the findings on the study variables, that is, management competence, credit terms and loan recovery.

SACCO management can use the findings to develop appropriate strategies to better their loan recovery rate. Although the findings of this study are specific to the SACCOs, they can be extrapolated to other financial institutions elsewhere, provided they are under similar conditions.

5.7 Areas for further study

Basing on the finding of the study, the researcher suggests the following areas for further research: -

- ❖ There is need to find out the other predictors of loan recovery of SACCOS since management competence and credit terms predict 50.5% of the variance in loan recovery of SACCOs in West Nile Region in Uganda.
- ❖ A comparative study with other regions apart from West Nile region in Uganda and even with other countries needs to be carried out on management competence, credit terms and loan recovery of SACCOs.
- ❖ There is need to carry out a similar study on loan recovery of SACCOs, but using the longitudinal research design.

- ❖ Research is also needed to establish the effect of management competence on credit terms.

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APPENDICES

Appendix i: Questionnaire

QUESTIONNAIRE

Dear respondents, **Ajobe Adason Bran** is a Master of Business Administration (MBA) student of Makerere University Business School conducting an academic study on the topic, **“Management Competence, Credit Terms and Loan Recovery, a Case Study of SACCOs in West Nile Sub Region of Uganda”**. This is purely an academic research although it can be used to improve SACCOs related operation activities in Uganda. Therefore, you are requested to participate in this study in order to enable its completion. Your responses will be used for only this study and with high level of confidentiality so be free to give correct information. Thank you for your valuable time and cooperation.

Section A: Social Demographic Characteristics of Respondents

The name of SACCO:

Gender: (Tick against the right gender)

Male ☐

Female ☐

Age Bracket (Tick against the right age bracket)

18-24 years	25-31 years	32-38 years	39-45 years	46-52 years	Above 52 years
☐	☐	☐	☐	☐	☐

Academic Qualification (Tick against the right qualification)

Certificate	Ordinary Diploma	Bachelor's Degree	Post Graduate Diploma	Master's Degree	PhD
☐	☐	☐	☐	☐	☐

Duration of SACCO existence

Less than 1 year	1 - 5 years	6 – 10 years	11 -15 years	16 – 20 years	Above 20 years
☐	☐	☐	☐	☐	☐

What is your position in SACCO?

Manager	☐
Credit Officer	☐
Finance officer	☐
Loan's Borrower	☐

Section B: Variables and Constructs

Please indicate by ticking in the appropriate box (tick the scale closest to your view) to what extent you agree/disagree to the following statements below about the **Management Competence, Credit Terms and Loan Recovery**. The case study of West Nile sub region of Uganda.

1. Strongly Disagree (SD)
2. Disagree (DA)
3. Neutral (N).
4. Agree (A)
5. Strongly Agree (SA)

MC	Management Competence	SD	D	N	A	SA
SK	Skills	1	2	3	4	5
Sk1	Loan officer trains SACCO members on a regular basis to achieve SACCO objectives.					
Sk2	The loan officer uses SACCO management best practices to implement SACCO activities.					
Sk3	A skillful loan officer is able to limit cases of change of stubbornness by a borrower through development of good communication with the borrower.					
Sk4	Loan officer is knowledgeable on SACCO management.					
Sk5	A loan officer has networking and influencing ability skills.					
EP	Experience	1	2	3	4	5
Ep1	Development of an effective groups is enhanced with an effective loan officer and this limits cases of loan defaults.					
Ep2	Loan officer communicates effectively to the SACCO team.					
Ep3	The Loan officer provides solution to identified risk.					
Ep4	A loan officer has skills to problem-solving capacity.					
KN	Knowledge	1	2	3	4	5
Kn1	The loan officer has experience in leading the SACCO to achieve SACCO objectives.					
Kn2	Loan officer/team members are rewarded based on performance.					
Kn3	A loan officer is skillful to determine better incidences of diversion of funds from the intended purpose.					
CT	Credit terms	SD	D	N	A	SA
CL	Collateral	1	2	3	4	5
Cl1	Interest rate is always communicated to borrowers.					
Cl2	The time period to pay loan installment is long enough.					
Cl3	Methods of calculating interest rates on loans are friendly.					
Cl4	Borrowers are satisfied with interest rates charged by the SACCO.					
Cl5	Borrowers negotiate with SACCO on the number of months to					

	be considered to repay the loan.					
RP	Repayment periods	1	2	3	4	5
Rp1	The favorable interest rates enhance the willingness to repay.					
Rp2	Before loan is given, loan officers do loan appraisal.					
IR	Interest rate	1	2	3	4	5
Ir1	The interest rate charged is adjusted frequently.					
Ir2	Borrowers always divert loans for some other purpose.					
Ir3	When members fail to pay loan installment their collateral is sold to recover the loan.					
LR	Loan Recovery	SD	D	N	A	SA
RR	Repayment rates	1	2	3	4	5
Rr1	Interest rate charged are affordable by clients.					
Rr2	SACCOs give out many loans.					
Rr3	Borrowers are made to pay fine when they default to pay loan.					
Rr4	The operational expenses are minimum or low.					
Rr5	Loan installments are recovered on time schedule.					
Rr6	SACCOs generate enough revenue to run its activities.					
PF	Delinquency rate	1	2	3	4	5
Pf1	When borrowers get bigger amount of loan they repay without defaulting.					
Pf2	The type of our investment requires a smaller amount of loan.					
Pf3	Borrowers willingly pay their loan installments without any inducement.					
Pf4	The process/mode of paying the loan installment is appropriate.					
LS	Loan Size	1	2	3	4	5
Ls1	Increase in personnel expenses.					
Ls2	SACCO's clients have outstanding loans.					
Ls3	The nature of our business requires bigger amount of loan.					

Once again thank you so much for your valuable time and cooperation.