

**UGANDA MARTYRS UNIVERSITY**  
**FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT**

**RISK ASSESSMENT AND FINANCIAL PERFORMANCE**  
**CASE OF BWAISE SACCO**

**BY**

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## **DEDICATION**

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## TABLE OF CONTENTS

DECLARATION .....	i
DEDICATION .....	ii
ACKNOWLEDGEMENT .....	iii
LIST OF ABBREVIATIONS .....	vii
ABSTRACT.....	viii
<b>CHAPTER ONE;</b> .....	<b>1</b>
1.0 Introduction;.....	1
1.2 Background of the study. ....	1
1.3 Problem statement.....	2
1.4 Objectives of the study.....	4
1.5 Research questions.....	4
1.6 Scope of the study .....	5
1.6.1 Geographical scope .....	5
1.7 Content scope.....	5
1.8 Time scope .....	5
1.9 Justification of the study .....	5
1.10 Significance of the study.....	6
1.11 Definition of key words .....	7
1.12 Conceptual framework.....	8
<b>CHAPTER TWO</b> .....	<b>10</b>
LITERATURE REVIEW .....	10
2.0 INTRODUCTION .....	10
2.0.1 Theoretical review of risk and performance .....	10
2.1 Client identification and the financial performance.....	11
2.2 Loan processing appraisal and financial performance.....	13
2.3 Client monitoring and evaluation and financial performance.....	14
2.4 Performance of sacco in Uganda.....	16
2.4.1 Profitability .....	16
2.4.2 Liquidity.....	17
2.4.3 Non performing loans.....	17
2.5 Conclusions.....	19

<b>CHAPTER THREE</b> .....	<b>20</b>
RESEARCH METHODOLOGY.....	20
3.1 Introduction.....	20
3.2 Research Design.....	20
3.3 Target Population.....	20
3.4 Sampling technique (purposive ) sampling.....	21
3.4.1 Research Sample Size .....	21
3.4.2 Data collection methods.....	21
3.5 The primary data .....	21
3.6 The secondary data .....	21
3.7 Data collection instruments.....	22
3.8 Validity and reliability .....	23
3.9 Data analysis. ....	23
3.11 Limitations to the Study.....	25
<b>CHAPTER FOUR</b> .....	<b>26</b>
PRESENTATION, INTERPRETATION AND ANALYSIS .....	26
4.1 Introduction.....	26
4.2 Demographic characteristics of respondents. ....	26
4.2.1 Summary of the statistics of respondents.....	26
4.2.2 Gender of respondents. ....	27
4.2.3 Age structure of the respondents.....	27
4.2.4 Qualification of respondents .....	29
4.2.5 Position held by Respondents. ....	29
4.2.6 Employees years in service. ....	30
4.3.0 Client identification analysis.....	31
4.8 Conclusion .....	38
<b>CHAPTER FIVE</b> .....	<b>39</b>
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	39
5.1 Introduction.....	39
5.2 Summaries.....	39
5.2.1 Findings on client identification methods employed in sacco's in Uganda.....	39
5.2.2 Loan processing appraisal methods used by sacco's in Uganda.....	39

5.2.3 Client monitoring and evaluation method used by sacco's in Uganda.....	40
5.3 Conclusions.....	40
5.4 Recommendations.....	40
5.5 Area of further study.....	41
REFERENCES .....	42
APPENDIX: I QUESTIONNAIRE .....	44

## **LIST OF ABBREVIATIONS**

SACCO- Savings And Credit Co-operative.

SPSS -Statistical Package for the Social Scientists.

CDD- Client Due Diligence

SMEs-Small Medium Enterprises

ROA-Return On Assets

ASSPs- Authorized Securities Services Providers

## ABSTRACT

This study analyzed the effect of risk assessment and financial performance in saccos. It was conducted under three objectives which sought to; client identification, client monitoring and evaluation and loan processing appraisal,

A case study was used for both quantitative and qualitative analysis on a sample of 80 respondents. The sample was selected using simple random and purposive sampling techniques. Data was obtained by use of questionnaires. Data was analyzed qualitatively and quantitatively. Quantitative data was analyzed using the Statistical Package for Social Scientists 16.0 (SPSS) program. Qualitative data was interpreted by composing explanations and substantiating them using the respondents open responses.

The study found out that there was a relationship between client identification and financial performance, client monitoring and evaluation and financial performance, relationship between loan processing appraisal and financial performance. It also found out there was a good relationship between risk assessment and financial performance of saccos. Therefore, the study concluded that risk assessment has big effect on the financial performance of Saccos. Though risk assessment has an influence on the financial performance of Saccos. Similarly, monitoring and evaluation has an effect on the financial performance of Saccos. It was thus recommended basing on the findings and critical literature; risk assessment of Saccos should focus on monitoring the performance of their businesses by understanding their profitability, liquidity and non performing loans, leaders of local governments should train Saccos owners on how to manage their credits in order to attain desired performance and growth in business.



## **CHAPTER ONE;**

### **1.0 INTRODUCTION;**

This study will be conducted to determine that effect of credit risk assessment on the financial performance of Sacco's. In this chapter, the researcher will cover the introduction, background, problem statement, purpose of the study, objective, research questions, scope and justification of the study and the conceptual framework.

### **1.2 BACKGROUND OF THE STUDY.**

The risk assessment will vary from business to business based on their size or industry sector. It is therefore logical to assume that every business organization has put in place a strong risk assessment structure and internal control systems to help achieve its goals. These are fundamental to the successful operation and day to day running of a business and assist a company in achieving its objectives.

Risk assessment is a process of understanding and managing the risks that the entity is inevitably subject to in attempt to achieve its corporate objectives. For assessment purposes to achieve it's cooperate objectives.(James.Cetal 2003) For assessment purposes risks are usually divided into categories such as operational, financial, legal compliance, information and personnel. One example of an integrated solution to risk assessment is enterprise risk assessment (CIMA,2005). Effective risk assessment involves client identification, loan processing appraisal, monitoring and evaluation. The focus of good assessment is identification and treatment of these risks in accordance with the organization's risk appetite. These risks need to be managed and controlled in order to prevent vibrant organization from catasophic losses and help them achieve their goals and objectives.

Therefore SACCOS should strive to maximize the earning to build the institutional capital( branch and Cifunentes, 2001, ombado, 2010). This institutional capital ensures the performance and growth and, remain economically and financially viable ( Gijselinki and Devetere,2007) such growth is enhanced by effective financial particles'. Imperatively each SACCO need to generate income which is adequate to cover all its operational costs, enhance the institutional capital, dividends and rebates. In this regard, financial practice is based on sound financial Management, solid capital structure, and prudent funds allocation strategy (Maina, 2007). It is in this regard that there are risk management that explains growth of wealth in terms of risk assessment.

SACCOS in Africa are still crawling as they are new comers among those offering savings and credit. In fact they small shares is providing financial services, their market shares is insignificant when compare to other players in financial services provision( Mwakajumilo,2011), There are 28 countries in Africa that have established SACCOS( Savings Plus, 2010)

### **1.3 Problem statement**

The SME sector has been experiencing stagnation with no significant graduation from one enterprise level to the next. Risk are inherent in every economic activity and every organization has to manage it according to its size and nature of operation because without risk assessment no organization can survive in the long run (Bellis 2011). In addition, business today like SACCOS are faced with far challenges than before due to the fact that economically, technological and legal interdependence are becoming more prevalent and pronounced (Bamire,et al 2005 ).

Risks may affect many areas of activity such as strategy, operation, finance, technology and environment. In term of loss of key staff, substantial reduction in financial and other

resources disruption to the flow of information and communication fires or other physical disasters, leading to interruptions of business and or loss of records. More generally, risk also encompasses issues such as fraud, waste, abuse and mismanagement.

Ademba(2010) the Sacco's in Uganda are faced by the such problems as poor governance and lack of members confidence, among furthermore Ndungu'u (2010)adds that SACCOS societies are encompassed by mismanagement and poor investment decisions.

If risk assessment is not done well, SME's face a wide range of risks each day than can effect their ability to achieve certain business objectives and stay in business. Risk assessment is an important and sophisticated process used to assess an organization risk so that it can mitigate and reduce risk toan acceptable level.( Bruce K.L & Bruce Hollcroft 2012)

Ultimate goal of an occupational risk assessment system is to continually improve performance and minimize risk and associate cost of occupational incidents. For the system to reach its goal, risks must be evaluated to understand their potential for occurring and their magnitude of loss as well as existing control and needed improve. (Manuel je F.A 2008).

In most cases risk assessment is not performed. In most countries many companies rely on checklist and hazard inspection methods that focus on regulatory compliance and prescribed hazards and conditions to evaluate workplace. Unfortunately such methods do not provide a true measure of risk. Fail to define the context and objective of risk assessment without appropriate guidance, risk assessment may wander aimlessly and far from its intended purpose.( Centrell & Clemens 2009)

A quality risk assessment starts with establishing the objective and context by defining basic parameters, scope and criteria. The purpose of risk assessment should be determined by those who will use the resulting information to make informed decisions. (Clemens P.L 2000).

SACCOs professionals should have a firm standing of the avoid the failures described.

Well executed risk assessment enables companies to make the right decisions, protect their assets and properly manage their risk and they operate, grow and improve their business.

In addition Bellis (2011) urges that lack of planning, improper risk management tool and poor assessment has been posited as the main causes of failure of SACCOS. What inspired this study the knowledge gap of the effect of the risk assessment on the financial performance of SACCOS in Uganda.

In light of this, it is expedient to find out the risks that threaten the operations of Sacco's institution in the financial sector and listed on Oslo Bars which risk management is put in place. How this control measure facilitate the smooth of the business in achieving its objectives and goals, the effect of risk management on the profitability and sustainability of Sacco's.

#### **1.4 Objectives of the study**

To establish client identification and performance in Sacco's in Uganda

To evaluate loan processing appraisals methods and performance employed by Sacco's in Uganda.

To examine client monitoring and evaluation methods and performance used by Sacco's in Uganda.

#### **1.5 Research questions**

- What client identification method is employed by Sacco's in Uganda?
- What loan processing appraisal methods are used by Sacco's in Uganda?
- What client monitoring and evaluation method is used by Sacco's in Uganda?

## **1.6 Scope of the study**

There three types of scope in this study that is to say; geographical scope, content scope, and time scope as explained below;

### **1.6.1 Geographical scope**

The research study focused on Bwaise cooperation and saving union located in Bwaise. Kampala district, plot 14 bombo road Kampala Uganda the study covered Bwaise SACCO found in Kampala the capital city of Kampala.

## **1.7 CONTENT SCOPE**

Under content scope the research study was limited to evaluate the effect of credit risk assessment on the financial performance of Sacco's in Uganda, client identification, loan processing appraisal, client monitoring and evaluation.

## **1.8 TIME SCOPE**

The time scope of the scope of the study focused of BWAISE SACCO for a period of four years 2015-2016 in order to take into custody of the past, the recent information and data to ensure legitimacy for the present findings. This will help the research to find out if risk management effects on the performance of SACCOS in Uganda.

## **1.9 Justification of the study**

Risk assessment increases profitability. Contracts can be selected and priced at the right level of risk and the business can be managed with risk fully understood. Specific risks can be negotiated; it can be built into contracts.

Cost commitments can also be understand and budgeted with risk taken into accounts. Risk assessment can give commitment curves at preferred level of confidence. In addition, revenue estimates can be expressed as ranges so revenue pip lines as well as profit forecast can be

understood. Investment decisions can be made at preferred level of risk while taking into account at the knowledge available.

Besides an understanding of cost and revenue pipeline business decisions also requires an understanding of risk sensitivity. Risk assessment by making better decisions based on accurate information. You benefit from realistic forecasting and understanding of sensitivity and you make management decisions by taking into account the best knowledge the future.

### **1.10 Significance of the study**

Managers- when risk assessment program has been identified and prioritized key risks that are likely to occur, it helps the manager improve the company's chance to plan and respond.

Clients- This research will improve the organizations understanding of the role of credit policy of the performance of Sacco's. This helps in proper organisational planning's hence a reducing on losses that could have been incurred by the organization. This gives confidence to clients of the business.

Policy makers- Risk assessment helps you build and support strategic planning through development of programs and establishment of standards' to which you can evaluate performance and adopt to changing needs when one anticipates risk they preparations begins and the shock of the unexpected is dissipated.

Researchers- This study will widen researcher's ability in conducting future research works. For insistence this, will widen the researcher's skills in using different research methods like interviews hence improvement of the researcher's communication skills.

### **1.11 Definition of key words**

Risk assessment;

Risk assessment is the determine of quantitative and qualitative estimates of risk related to a well-defined situation and a recognized threat. Quantitative risk assessment requires calculations of two components of risk the magnitude of the potential loss and the probability that the loss will occur.

SACCOS;

SACCO is the acronym for savings and credit Cooperative democratic, unique member driven, self-help cooperative. It is owned, governed and managed by its members who have the same common bond working for the same employer, belonging to the same church, labor union, social fraternity or living/working in the same community.

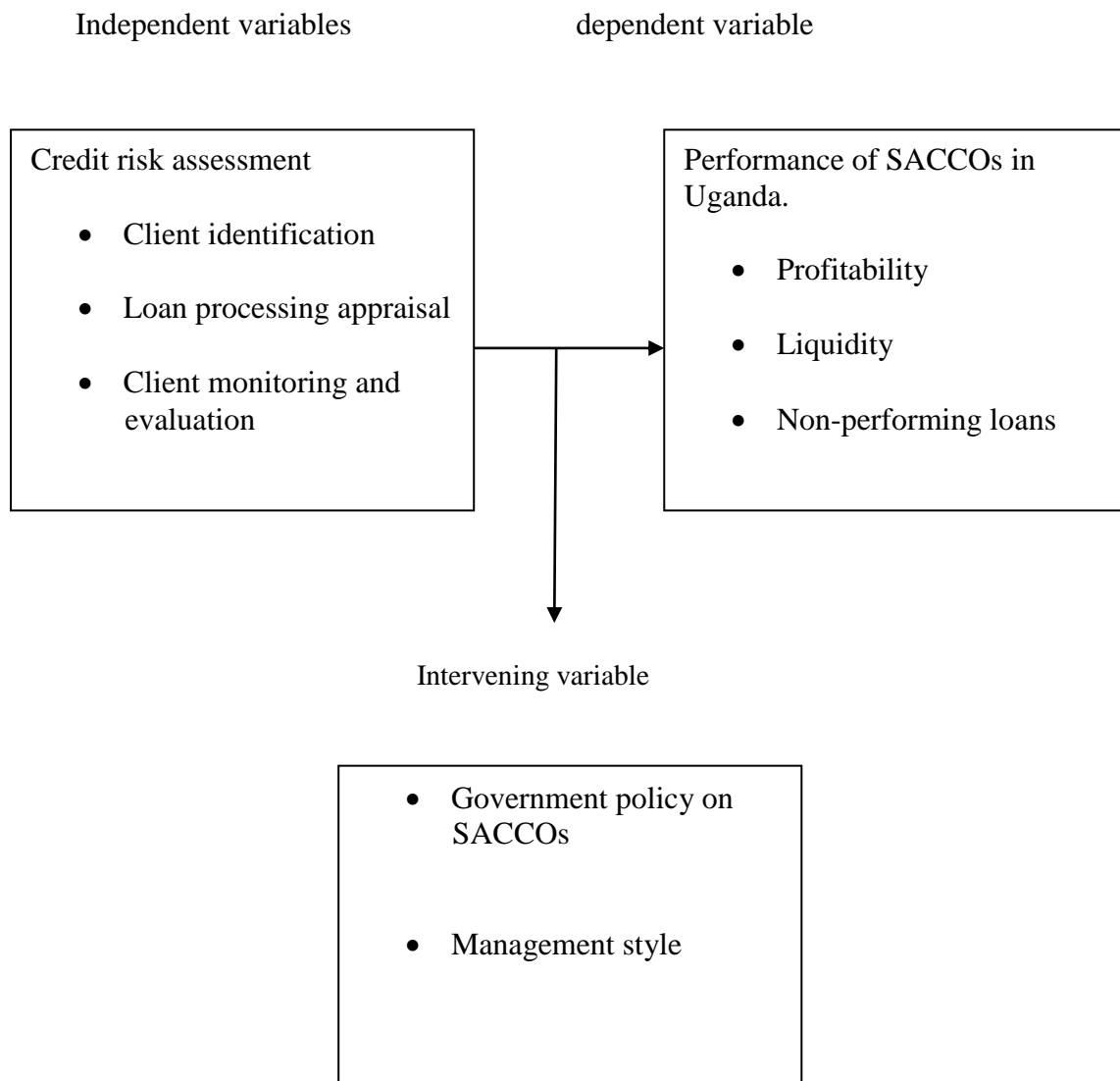
A saving and credit Cc-operative's membership is open to all who belong to the group, regardless of race, religion, color creed and gender or job status. Those members agree to save their money together in the SACCO and make loans to each other at reasonable rate of interest; interest is charged on loans to cover the interest cost on savings and the coat of administration. There is no payment or profit to outside interest or internal owners. The members are the owners and the members decide how their money will be used for the benefit of each other.

Financial Performance;

Is the subjective measure of how well a firm can use assets from its primary mode of business and generate revenues? The term is also used as a general measure of affirms overall financial health over a given period of time, and can be used to compare similar firm across the same industry or to compare industries or sectors in aggregation.

## 1.12 CONCEPTUAL FRAMEWORK.

Figure 1; conceptual frame work



**Source: Adopted from (Branch 2005) and modified by the research**

The study will explain the effect of credit risk assessment client identification, loan processing appraisal, client monitoring a client evaluation on the performance of Sacco's in Uganda from the reviewed literature. It will show how independent, dependent and intervening variables influence each other in order to bring out the desired result.



According to (Bruce K. L2012) Risk assessment deals with tools used to assess operational risk so an organization can effectively mitigate and manage risk to an acceptable level unfortunately many organizations fail to perform quality risk assessment.

While financial performance also deals with the subjective measure of how well a firm can use assets from its primary mode of business and generate revenue. This term is also used as a general measure of a firm's overall financial wealth over a given period of time and can be used to compare similar firms across the same industry.

It also aims at developing the credit cooperation view on the credit risk assessments hence improving on the profitability of the cooperation.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

Generally credit risk assessment affects the performance of saving and credit co operations in Uganda. This chapter presents the works of the past researchers that was summarized and only those pertinent ideas relevant to the study were identified and only those in line with the objectives of the study were captured. The literature review was conducted in accordance with the objectives and citations made in each objective indicating the research gaps that the study intended to fulfill. The researcher further gave the written facts and identifies about the various dimensions on the effect of financial management on the performance SACCOS in Uganda.

#### **2.0.1 Theoretical review of risk and performance**

The origin of the financial crisis will be debated for sometime, but the fallout exposed one clear short coming; inadequate risk assessment practices. Too many SME's take an excessive risk with too little regard of reasonable, realistic long term performance expectations. Reform will stretch risk assessment across the companies and involves systemically linking risk and corporate performance management, leading to an informed view of reward.

Extreme volatility even financial crisis isn't new to business companies, keep their proverbial eyes on the ball on improving performance, both financially and operationally will emerge from these trying time better positioned to take advantage of opportunities. Many recent researches show that many companies fail to connect risk and performance in the course of basis performance management. Just 37% of nearly a hundred senior executives say that their companies link their key indicators to corporate performance indicators. So that way in which

risk is related to performance is based around variety of organizational elements that may inhibit and conversely facilitate the integration of risk and performance process.

## **2.1 Client identification and the financial performance**

Client and beneficial owner identification and verification, know your client, as well as the keeping of the related data are considered the Client Due Diligence process (CDD process).(John Phibbs) The CDD process is a key component of assessment requirements,the protection of investors ensuring that markets are fair, efficient and transparent and prevention of the illegal use of the loans. The objectives must be taken into account to their broadest extent when implementing requirements relating to CDD process. From the perspective of risk assessment the CDD process must be carried out by authorized Sacco's provider to fulfill client identification as well as know your client requirements.(Chris greenhalgh 2009)

In light to small credit associations like Sacco's client identification was established to study existing credit risk assessment regimes relating to the identification of clients to develop a purpose that address aspects of CDD processes one of one standing pillars of Sacco's.

The main objective of these principles are to the prevent credit fraud and market abuse. The application of CDD process in the Sacco's also contributes to the pursuit of other policy goals related to the prevention of the illegal use of loans

An effective CDD process can help deter violation of credit laws, codes and reduce the risk of illegal use of loans in Sacco's. Client identification and verification facilitates the prevention, detection and prosecution of the illegal use in saccos sector. Effective client

identification and verification procedures are necessary to protect investors and to maintain the integrity of the markets. ASSPs client identification and verification procedures should be documented and should provide a reasonable basis for the ASSP to believe that the true identity of each client will be adequately known. ASSPs should have client acceptance policies. They must identify the clients before or when establishing a business relationship (this is when a client's account is opened or a client is granted authority to conduct transactions with respect to an account), and verify their identity as soon as possible, before or after the business relationship has been established, for purposes of assuming that the risks are effectively managed. In this regard, it is essential not to interrupt the normal conduct of business. This flexibility must be exercised in a reasonable manner, given that verifications should occur as soon as is reasonably practicable after the client has been identified, in order to avoid illegal activities while verification is pending. ASSP also should adopt risk management procedures to monitor accounts while client identity is being verified, taking into account the conditions under which a client may utilize the business relationship prior to verification of identity.(Andrew beatty 2009)

Cooperative societies as formal organizations enable their membership make efforts to achieve any common objectives on voluntary and democratic basis. According to (John, 2002), the first ever Co-operative movement was started by Robert Owen in the year 1844 and in recent years the SACCO sector has faced tough challenges globally as noted by (WOCCU, 2012) to include mission drifts, income generation, compliance, competition, insufficient capital among many others. The sectors financial stability will impact broadly on the nation's economic growth and employment creation. SACCOs are required to file audited financial statements every fiscal year and although SACCOs comply with this requirement, financial statements have shortcomings including non availability on regular basis. To

promote financial transparency SACCOs should provide timely financial updates and external auditors are evaluate every three to five years using competitive bidding process. Going concern is general accounting assumption and according to (Wood & Sangster, 2005) economic entities are assumed to continue operating in the foreseeable future. It's on this basis that financial statements are prepared and auditors express opinion A study by (Chavez, 2006) based PEARL rating found that the financial performance of the SACCO sector is extremely weak and translating to weakness in other areas, especially govcerance, fiscal discipline, financial, operational, internal controls, and the risk assesement involved in running a financial institution.

## **2.2 Loan processing appraisal and financial performance**

loan processing refers to the inter-related activities undertaken from time to time the prospective loan applies for the loan up to the time the loan is approved, agreement signed and loan secured.( RS Karnah 2008)

Credit cooperation's usually evaluate the loans application they receive from potential borrowers based on the 5c's of credit which are character, capital, capacity, and collateral. My interest is prompted by the urge to compare how the top major deposits taking saccos were performing relative to the commercial banks. it however came clear that if the entire local major saccos and commercial banks were ranked together either in terms of net assets, total deposits, number of loan accounts, a good number of saccos would appear in the top 20 list. .( John Gorecki 2015)

He purpose of the loan is to eliminate all those debts which are of higher interest rate. This is loan appraisal process in saccos the most reliable financial scheme when you are loan processing in saccos completely out of money. The legal option available in case we fail to repay on time.

The formalities which consume most of time are credit checking or borrowers. That should give one plenty of time to refinance and then the seller and doesn't feel the loan appraisal processing in financial institutes. If one is a loan appraisal institute that help in day loan loans, in such a situation income protection insurance or unemployment insurance will come in handy and provide a steady source of income to support the sacco until come in handy and provide steady source of income to support you until you get back to your feet. Money is a very important part of human life. It is very common with people spend their salary before their next day pay or sometimes an expenditure come in away that one can not meet it as it requires the amount that he could not save from last pay check. The funds are approved without considering your past credit records and with easy pay terms and conditions. This is much advantageous and instantaneous method of loan appraisal process in sacco when money lending. Plus no additional fee is required from you. A credit is very ideal for tenants as they don't have assets to place loan appraisal in banks.( SK Dash "Til Bits of General Advance & financial services)

### **2.3 Client monitoring and evaluation and financial performance**

Monitoring and evaluation help improve performance and achieve results. More precisely, the overall purpose of monitoring and evaluation is the measurement and assessment financial performance in order to more effectively manage the outcome and output known as development results to clients. (Evaluation office task force simplification report to the executive team)

Performance is defined as progress towards and achievement of results. As part of the emphasis on results in sacco today, the need to demonstrate performance is placing new demand on monitoring and evaluation in credit cooperation's . Traditionally monitoring and evaluation focused on assessing inputs and implementation processes towards clients. Today,

the focus is on assessing the contribution of various factors to a given development outcome such factors include output by credit cooperation's, policy advice. Programme managers are being asked to actively apply the information gained through monitoring and evaluation to improve client welfare and to improve strategies, programmes, and other activities. (gloonan IAWG presentation Linda sherry BRM, M & E Geneva 2001)

The main objectives of today's results oriented monitoring and evaluation are to; Enhance organizational and development learning, and ensure informed decision making.

To assess performance, it is necessary to know about more than actual achievements. Also required is information about how to be achieved. Factors that influence positively and negatively whether the achievements were exceptionally good or bad and who were mainly responsible. (Alex Rusita, Evalnet, end of mission report, 2001) Traditionally it has been easier to measure financial or administrative performance, such as efficiency.

Monitoring and evaluation is applied to improve the overall performance and quality of results of clients. Knowledge gained through client monitoring and evaluation is at the core of saccos learning process. Monitoring and evaluation provide information and facts that accept and internalize become knowledge that promotes learning.( Siv Tokle IAWG presentation on RBM & monitoring & evaluating Geneva 2001) learning must therefore be incorporated into programming cycle through an effective feedback system.

The major challenge in monitoring and evaluation is to gather, store and use information that serves different levels of assessment of clients. Monitoring should be multifunctional so that information generated at one level is useful at the next.

## **2.4 Performance of sacco in Uganda**

### **2.4.1 Profitability**

Profitability is the measurement of how successful a business is. The more profitable the business, the more money the business is making. Profitability refers to a business's ability to generate an adequate return on invested capital. Return is judged by assessing earnings relative to the level and sources of financing. Profitability is also relevant to solvency.

A business is conducted primarily to earn profits. The amount of profits earned measures the efficiency of a business. However, the business must have the ability to continuously earn this profit hence the term profitability which is 'the net surplus of a large number of policies and decisions'

Profitability ratios measure the income or operating success of a business for a given period of time. Income or lack of it, affects the business's ability to obtain debt and equity financing. It also affects the business's liquidity position and the business's ability to grow. As a consequence, both creditors and investors are interested in evaluating earning power or profitability. Analysts frequently use profitability as the ultimate test of management's operating effectiveness.

The profitability position of the SMEs was analyzed using Return on Assets. It is a useful indicator of how profitable a business is relative to its total assets. It also gives an idea as to how well the business is able to use their assets to generate earnings. The higher the ROA figure the better it is seen as the business is earning more money on less invested capital. Mokhtar et al. (2005) states that return on asset must be positive and the standard figure of ROA is 10%-12%.



### **2.4.2 Liquidity**

Qasim & Ramiz (2011) indicate the fact that liquidity refers to the available cash for the near future, after taking into account the financial obligations corresponding to that period. Further, Qasim and Ramiz (2011) posit that liquidity management is very important for every organization that means to pay current obligations on business that include operating and financial expenses that are short term.

Liquidity ratios measure a business' ability to meet the payment obligations by comparing the cash and near-cash with the payment obligations. If the coverage of the latter by the former is insufficient, it indicates that the business might face difficulties in meeting its immediate financial obligations. This can, in turn, affect the company's business operations and profitability. The Liquidity versus Profitability Principle: There is a trade-off between liquidity and profitability; gaining more of one ordinarily means giving up some of the other.

Morris and Shin (2010) conceptually defines the liquidity ratio as “realizable cash on the balance sheet to short term liabilities.” In turn, “realizable cash” is defined as liquid assets plus other assets to which a haircut has been applied. Ration analysis is one of the conventional way that use financial statements to evaluate the company and create standards that have simply interpreted financial sense.

### **2.4.3 Non performing loans**

A loan becomes non performing when payments of interest and principal are past due 90 days or more, or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement.

High and increasing level of non performing loans (NLPs) in many central and eastern part the country continue to exert strong pressure on the bank's balance sheet with possible

adverse effect on the lending operations. (Myers 1977). The objective of this study is twofold. First, the study aims to evaluate the determinants of non performing loans in economic indicators over 1998-2011. such an exercise would be useful not only to evaluate the relative importance of bank level vs. Macro economic factors but also to examine how relative important has can get since the onset of financial crisis. The literature identifies two sets of factors to explain the evolution of NPLs overtime. One group focuses on external events such as the overall macroeconomic conditions, which are likely to affect the borrower's capacity to repay their loans, while the second group which looks more at the variability of NPLs across banks, attributes the level of non performing loans to bank level factors. Empirical evidence however, find support for both sets of factors.( Berger and De Young 1997).

Berger and De Young 1997 also studied the link between NPLs, cost efficiency and capitalization in commercial bank, found two ways causality between cost efficiency to NPLs. While they explained the causality between cost efficiency as “bad luck” driven mainly by the deterioration in macroeconomic conditions, they explained causality from cost efficiency to NPLs through the hypothesis of load management. In particular this hypothesis argues that low cost efficiency is a signal of poor management practices, thus implying that as a result of poor management loan underwriting, monitoring and control, NPLs are likely to increase. (Schwaiger & Winker 2005). The moral hazard hypothesis which was discussed by Keeton & Morris 1987 argues the SME's with relatively low capital respond to moral hazard incentives by increasing the riskiness of the loan portfolio which in turn results into higher non performing loans on average in the future. They also argued the banks that tend to lending eventually absorbed higher losses.

In conclusion the increase in NPLs not only increases banks vulnerability to further shocks but also limits lending operations with broader repercussions for economic activity.

## **2.5 Conclusions**

Basing on the above findings, there seems to be risk assessment is seen among the influential factors towards financial performance of the different small business.

Firms go on to face Marco economic, uncertainty about loans as well as others as a result of appropriateness in risk assessment which affects financial performance of firms hence the intends to investigate future in the actual review.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the approaches that helped the researcher while carrying out the research study. Under this section, the researcher will organize the following sections for easy comprehension and categorized of the following; research design, research sample, research population, data collection methods, quality control methods, data analysis, assumptions and limitations of the study and ethical consideration.

#### **3.2 Research Design**

The study will use a cross sectional design and descriptive approach using both quantitative and qualitative methods .According to Kisilu et al. (2006), a research design refers to the blue print for the collection, measurement and analysis of data based on the research questions of the study.

The study was descriptive an explanatory in nature thus giving an opportunity to study in depth the study of effect of credit risk assessment on the performance of SACCOS in Uganda, In modern research, it's inevitable to rectangular methodologies; hence the study was both quantitative and quantitative plus figure and in nature .

#### **3.3 Target Population**

The target population for this study are 100 clients of Bwaise SACCOS, of the SACCOS. The population will be the staff of SACCOs which are more knowledgeable about business operations and clients who have experienced the SACCOs activities, challenges, and supported the SACCOs progress.

### **3.4 Sampling technique (purposive ) sampling**

#### **3.4.1 Research Sample Size**

According to Krejcie & Morgan (1990), the sample size of the study will be 80 .that's to say 40 clients and 40 staff because it very easy to use and most commonly employed method. But also it has a limitation is its kind complex to use the krejcie & Morgan formula of determining sampling size. The researcher is using likert scale ranging from 1 (strongly disagree and 5 (strongly agree)

#### **3.4.2 Data collection methods**

The data collection methods under this study we are going to apply both primary and secondary data as explained below;

### **3.5 The primary data**

Amin (2005), primary data is the kind of data that has been gathered for the first time, it has never been reported anywhere. The following are some of the tools that can be used in the collection of primary sources of data; interviews, questionnaires, observation and many others. In this case the researcher used self administered questionnaires that were issued to employees, management and clients Bwise SACCOS as well as carrying out interviews. This helped the researcher in getting the first hand information and to cover a large population quickly.

### **3.6 The secondary data**

Amin(2003),secondary data is the kind of data that is available ,already reported by some other scholars .secondary data include policy documents and abstracts of various relating scholars to the topic of discussion in the questions .Secondary data in this case was got from

sources like libraries ,online information ,textbooks and published research reports. This is because it was readily available and easier to comprehend, as comprised of extensive research work.

### **3.7 Data collection instruments**

#### **Questionnaire**

A questionnaire is a formulated written set of questions to which respondents record their answers. The respondents answer question by completing the questionnaire themselves (sekaran, 2003). The researcher designed questionnaires in two formats. One of the questionnaires was redistributed to the managing directors and management of Harris International Limited and the other one was redistributed to the customers and other company employees. The questionnaire was on the basis that the variables under study could not be observed in form of views and opinions and feelings of the respondents. The researcher went to the field and humbly requested the respondents to help her provide the information required.

#### **Interviews guide**

The researcher prepared an interview guide that were administered to the respondents (managing directors and management ). It was used to only respondents who were well versed with the required information but with the problem of illiteracy ( people who do not understand English and the local languages like Luganda ). This helped the researcher to get first hand information on the issue of interest. In this case, during the research study, the researcher administered structured interview guides to the respondents of Bwaise SACCOS.

### **3.8 Validity and reliability**

#### **Validity**

validity can help to ensure construct validity and give confidence to the readers and researchers about instruments. content validity refers to the degree that the instrument covers the content that it is supposed to measure. Purpose: To develop content valid scale for assessing experience with content Background: Measuring content validity of instruments are important. This type of computer usage.

Conclusion: Although documenting validity of an instrument may seem expensive in terms of time and to be developed human resources, its importance warrants greater attention when a valid assessment instrument is.

#### **Reliability**

Suppose you wish to give survey that measures job motivation by asking five questions. In analyzing the data, you want to ensure that these questions ( q1 through q5) all reliably measure the same latent variable( i.e. job motivation.). to test the internal consistency,). you can run the Cronbach's alpha test using the reliability command in SPSS, as follows;

### **3.9 Data analysis.**

Data analysis will be recorded, coded, entered, edited and analyzed using SPSS software for the case of quantitative data. And qualitative data will be explained using thematic analysis for example to explain events happening.

#### **Measurement of the variables risk assessment and performance**

This risk assessment tool will help the sacco identify the extent to which you can have components of a performance management system. Developed by and for sacco, this tool

will be used and organized around each of the four components of performance management identified in turning point of performance. (Performance Management to improve organization, 2003)

The National Excellence Collaborative model is a tool used to measure risk assessment and performance its as follows:

Performance standards

Performance measurements

Reporting of progress

Quality of performance improvement process

For each component several questions serve as indicators of your performance management capacity. Those questions cover elements of your capacity such as having the necessary resources, skills, accountability, and communication to be effective in each component.

We Preview the entire tool and defintation before we begin. The detailed questions in section 1-5 may help to better understand performance and more accurately complete section 1overall accountability.

Be honest about what you are currently doing or not doing to manage performance. If you are very little in an area, it is better to say no, than to overstate the attention and resources allocated to it. For questions marked no, decision makers can then choose to invest resources, priorities or determine that you will not be accountable for such activity. Using information for such decision making is a basic tenet of performance.



### **3.11 Limitations to the Study**

The researcher was faced with time constraints to carryout adequate research within the require time and a lot of collecting ,analyzing and processing of data which was involved .But the interval of the study , the researcher minimized the weakness by using both qualitative and quantitative techniques ..

The researcher also had constraints of inadequate finances for like; transport that is to be used to go into different fields in order to get the required information. This limits the study as lack of enough finances may lead to getting little information as compared to what is needed due to failure to access some other areas.

The organization management might be so busy to fix time for my research questions. In addition, the Bwaise SACCOS is a busy place which might the information may not be fully provided due their policies.Also another problem faced by the researcher is respondents delay to asking the questionnaires.

## CHAPTER FOUR

### PRESENTATION, INTERPRETATION AND ANALYSIS

#### 4.1 Introduction.

This chapter presents analysed and interpreted data according to research questions.

Findings are presented in statistical tables and percentages with the help of SPSS. Responses from the respondents were analyzed and the results are presented in this chapter.

#### 4.2 Demographic characteristics of respondents.

##### 4.2.1 Summary of the statistics of respondents.

The table below shows the summations of statistics of statistics of the respondents.

**Table1: Summary of the statistics of the respondents.**

#### Statistics

	gender of respondents	Age bracket	level of education of respondents	years in service	position held in the institute
N Valid	80	80	80	80	80
Missing	0	0	0	0	0

Source: primary data

The above table indicates the overall data collection in relation to the sample size of 80. (40 employees and 40 clients). It shows that all the distributed questionnaires were successfully retrieved after being fully filled.

#### 4.2.2 Gender of respondents.

The table below shows the gender of the respondents.

Table 2: Sex of the respondents.

##### Gender of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid male	38	47.5	47.5	47.5
female	42	52.5	52.5	100.0
Total	80	100.0	100.0	

Source: primary data

The above table indicates that the majority of the respondents 52.5% were females and the minority of the respondents 47.5% were male. This implies that the females were more cooperative than the males.

#### 4.2.3 Age structure of the respondents

The researcher found it necessary to establish the age groups of the respondents since this could explain the perspective in which credit risk assessment and financial performance was viewed.

Table 3 showing the age structure of the respondents

**Age bracket**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 18-25	22	27.5	27.5	27.5
26-35	37	46.2	46.2	73.8
36-46	13	16.2	16.2	90.0
46 and above	8	10.0	10.0	100.0
Total	80	100.0	100.0	

**Source: primary data.**

In accordance to the age group table above 27.5% were between 18-25%,46.2% were between 26-35 years, 16.2% were between 36-46 years, 10% were 46 and above. This indicates that the respondents between 26-35 years are mature and more knowledgeable about information concerning credit risk assessment and financial performance.

#### 4.2.4 Qualification of respondents

Table 4 showing the qualification of respondents

##### Level of education of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Secondary	2	2.5	2.5	2.5
Certificate	4	5.0	5.0	7.5
Diploma	15	18.8	18.8	26.2
Degree	41	51.2	51.2	77.5
Masters	18	22.5	22.5	100.0
Total	80	100.0	100.0	

Source: primary data

This indicates that the clients and employees of Bwaise Sacco were well educated and the capacity to understand the questions listed on the questionnaires accordingly. 2.5% were secondary, 5.0% were certificate holders, 18.8% were diploma holders, 51.2% were degree holders and 22.5% were masters' degree holders.

#### 4.2.5 Position held by Respondents.

The researcher found it important to include this section so that she could ascertain whether the information about credit risk assessment and financial performance is being obtained from the right kind of people who are knowledgeable about such information.

**Table 5: Position held by Respondents**

**Job position of respondents**

**Table 5 Position held in the institute**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid finance manager	49	61.2	61.2	61.2
human resource manager	30	37.5	37.5	98.8
5	1	1.2	1.2	100.0
Total	80	100.0	100.0	

**Source: Primary data**

**4.2.6 Employees years in service.**

**Table 6 years in service**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-6months	7	8.8	8.8	8.8
6-12months	3	3.8	3.8	12.5
1-3years	37	46.2	46.2	58.8
4-10years	33	41.2	41.2	100.0
Total	80	100.0	100.0	

The above indicates that some of the employees of Bwaise Sacco had varying working experience duration that's to say between 1-6months, between 6-12 months, between 1-3years and 4-10years.

#### **4.3.0 Client identification analysis.**

Findings were indicated on a scale of 1 to 5, above three represented those in agreement whereas below three represented those in disagreement.

The study sought to establish the client identification of Bwaise Sacco and how it impacts on financial performance. Different questions were asked in relation to this and responded to by respondents. The following were the findings.

Table 7

**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
the company carries out due diligence	80	1	5	3.50	1.322
client due diligence reduces the risk of illegal use of loans in Saccos	80	1	5	3.55	1.262
perspective of risk assessment in the CDD process must be carried out by authorised Saccos provider to fulfill client identification	80	2	5	3.66	1.030
client identification and verification procedures are necessary to protect investors and maintain the integrity of the market	80	2	5	4.16	.683
was client identification established to study existing risk assessment regimes relating to the identification of clients	80	2	5	4.21	.882
Valid N (listwise)	80				



## Findings on the relationship between client identification and financial performance

Table 8

### Correlations

		Client identification	Financial performance
Client identification	Pearson Correlation	1	.026
	Sig. (2-tailed)		.819
	N	80	80
Financial performance	Pearson Correlation	.026	1
	Sig. (2-tailed)	.819	
	N	80	80

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

Findings in table 7 above indicates that majority of the respondents agreed that the company carries out customer due diligence to reduce on the illegal use of loans and this is shown by the means 3.50, 3.55 respectively. However, they also agreed that client identification and verification is essential to protect investors and necessary for risk assessment that must be carried out by an authorized person. In conclusion, table 8 indicates that there is a positive and significant relationship between client identification on the financial performance of SACCOS and this is shown by a correlation of ( $r = 0.026$ ,  $p > 0.01$ ). This implies that client identification affects the financial performance in saccos. These findings are in agreement with Chris Greenhaigh (2009) who asserts that client identification CDD process is a key components of assessments requirement, the protection of investors ensures fair, efficient and transparent presentation of illegal use of the loans.

## Client monitoring and evaluation analysis

The researcher sought to find out client monitoring and evaluation in Bwaise sacco's impact on the financial performance.

Table 9

### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
companies monitor loans that they issue to their clients	80	1	5	4.10	.989
clients evaluation in the loan process of the loans which provide information and facts that internalize and get knowledge that promotes learning	80	2	5	3.87	.986
the client monitors and evaluates clients to improve the overall performance and quality of the results of clients	80	1	5	3.54	.913
knowledge gained through client monitoring and evaluation is at the core of sacco's learning process	80	2	5	3.94	.932
client managers use the information gained through monitoring and evaluation to improve client welfare and to improve strategies	80	1	5	4.23	.886
Valid N (listwise)	80				

Source: Primary source

## The relationship between client monitoring and evaluation and financial performance

Table 10

### Correlations

		loan processing appraisal	Financial performance
loan appraisal	processing Pearson Correlation	1	.303**
	Sig. (2-tailed)		.006
	N	80	80
Finance performance	Pearson Correlation	.303**	1
	Sig. (2-tailed)	.006	
	N	80	80

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

Findings from the table 9 above indicate that majority of the respondents agreed that the company monitors and its clients and information gained from the evaluation process is used by managers to monitor the loan process and this information is core for learning. The level of agreement by all respondents is reflected by the various means and disagreements by the standard deviations. In conclusion table 10 indicates that there is a positive and significant relationship between client monitoring and evaluation on financial performance reflected by a correlation of (0.304  $p < 0.01$ ). This implies that client monitoring and evaluating methods are of great impact on financial performance. These findings are in agreement with the (John Gorecki, 2015). That credit co operations usually evaluate loan applications they receive from potential borrowers based on the 5c's of credit and the interest is prompted by the urge to compare how the top major deposits taking sacco's were performing relative to the commercial banks

**Loan processing appraisal.**

**Table 11 Descriptive Statistics**

	N	Mini mum	Maximum	Mean	Std. Deviation
management evaluates the loan application they receive from potential borrowers based on the 5c's of credit which are character, capital, capacity and collateral.	80	1	5	3.73	1.091
the formalities which consume most of the time are credit checking of borrowers	80	2	5	3.45	.953
the funds are approved without considering your pas credit records and with easy pay terms and conditions	80	1	5	3.26	1.421
loan processing improve knowledge and skills in credit appraisal	80	2	5	4.07	.497
have comprehensive understanding covering the entire effect of credit appraisal	80	2	5	4.01	.974
Valid N (listwise)	80				

Source: Primary source.

**The relationship between loan processing appraisal and financial performance**

**Table12 Correlations**

	Client monitoring and evaluation	Financial performance
Client monitoring and evaluation	1	.304**
Pearson Correlation		
Sig. (2-tailed)		.006
N	80	80
Finance performance	.304**	1
Pearson Correlation		
Sig. (2-tailed)	.006	
N	80	80

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

Findings from the table 11 above indicate that majority of the respondents agreed that management must have comprehensive understanding covering the entire effect of the credit appraisal in order to evaluate the loan applications from potential borrowers using the 5c,s of credit whose information improves knowledge and skills in credit appraisal and funds are approved with out considering the past credit records of the customers. The level of agreement is reflected by the various means in the table shown above. In conclusion, Findings from table 12 indicate that there is positive and significant relationship between loan processing and financial performance is SACCOS and this is reflected by a correlation

of (  $r = 0.303, p < 0.01$ ). This implies loan processing appraisal methods affect financial performance. The above findings are in agreement with (Alex Kusita, Evalnet 2001) to assess performance, its necessary to know more than actual achievement. Factors that influence positively and negatively whelter the achievement were exceptionally good or bad and who were mainly responsible. Traditionally it has been easier to measure financial performance, such as efficiency standard deviation of 0.974.

#### **4.8 Conclusion**

From the findings above collected from the various opinions of the staff and customers of Bwaise SACCO, and supported by the various authors in chapter two, there is a clear indication that risk assessment has an effect of financial performance. This is shown by the positive and significant correlations between the independent variables and dependent variables

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary discussions, conclusion and recommendations of the findings. The summary focuses on the findings in relations to objective of the study that it intends to achieve, the summary is followed by the conclusion which is also based on the findings of the study and lastly the recommendations to improve credit risk assessment in Bwaise sacco

#### **5.2 Summaries**

##### **5.2.1 Findings on client identification methods employed in sacco's in Uganda**

Finding of this study indicate that respondents agreed that the company carries out customer due diligence to reduce on the illegal use of loans and this process is important for investors. It was also established that there is a clear relationship between client identification and financial performance. This is in correspondence with (Chris Greenhalgh 2009)

##### **5.2.2 Loan processing appraisal methods used by sacco's in Uganda**

Findings from the respondents agreed that management must have comprehensive understanding covering the entire effect of the credit appraisal in order to evaluate the loan applications from potential borrowers using the 5c,s of credit whose information improves knowledge and skills in credit appraisal and funds are approved with out considering the past credit records of the customers. Further findings also asserted that there is a relationship between loan appraisal and financial performance. This is in correspondence with (john Gorecki 2015)

### **5.2.3 Client monitoring and evaluation method used by sacco's in Uganda**

Findings reflected that that the company monitors and its clients and information gained from the evaluation process is used by managers to monitor the loan process and this information is core for learning. Further findings established that there is a relationship between client monitoring and evaluation on financial performance.

### **5.3 Conclusions**

The following are the major conclusions based on the findings and discussions from the study. It can be concluded that, risk assessment has greatly impacted on the sacco's in Uganda. Most sacco's reported recent improvement in their performance both in membership, portfolio and loan cycle and general efficiency. Even though this was attributed to a number of factors ranging from increase non performing loans, liquidity, and high efficiency.

It is clear from the respondents almost all sacco's are conversant with the contents of the risk assessment and there are working hard to comply. Also the current tools used in place to disseminate information seem to be effective.

### **5.4 Recommendations**

Basing on the findings revealed the following are the recommendable areas of improvement to improve and give boost to the financial performance of sacco's some policies have been suggested.

There is strong need for sacco officials to come up with measures to assist them increase their income level so as to meet their current liquidity needs.

There is also a need for Bwaise sacco to carry out there depth survey on assessing there lending regulations on the sacco industry to establish if there objectives as a lending institution are being met and at what cost because even as they strife to achieve to protect the member funds. Sacco's should also be able to meet there goals.



## **5.5 Area of further study**

The following areas can be researchable to effectively explore assessment and financial performance of sacco.

Risk management and financial performance of sacco

Cash management and financial performance in SMEs

Employee Training and firm productivity among sacco.

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Netnarumon sirimonthon, Evalnet, Tripartite meetings linda sherry

## APPENDIX: I QUESTIONNAIRE

Dear respondents

I Vanessa Juliet Namubiru ,pursuing bachelor's degree in business administration and management in Uganda martyrs university ,Nkozi .as part of my partial fulfillment of the requirement for the reward of a bachelor's degree in business administration and management .am required to carryout an individual research project entitled the effect of credit risk assessment on the financial performance of sacco's in Uganda. And you have been selected to participate in the data collection of the study, requesting that you spare some time to respond to the questions to the best of your knowledge and your responses will be highly appreciated.

The information that will be got out of the study will be kept confidently and used strictly for academic purposes only.

### SECTION A

1. What is your gender or sex as a respondent?

Male  Female

2. Which is your age bracket?

(18-25)  (26-35)  (36-45)  (46 and above)

3. What is your highest level of Education?

Primary  Secondary

Certificate  Diploma

Degree  Masters

If any other, specify.....

4. number of years in service

1-6 months  6-12 months

1-3 years  4-10 years

5. Which position do you hold in the institute?

Past Clients  Present Clients

### SECTION B; CREDIT RISK ASSESSMENT

6. Please tick appropriate the extent to which the clients have been practicing the following

Effect of credit risk assessment on the financial performance of saccos in Uganda

1. Strong disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly agree

#### Client identification

Statement	1	2	3	4	5
The company carries out due diligence					
An effective client due diligence reduces the risk of illegal use of loans in saccos					
The company carries out credit risk assessment					
An effective client identification and verification procedures are necessary to protect investors and maintain the integrity of the market					
Sacco's client identification was established to study existing credit risk assessment regimes					

relating to the identification of clients					
Client identification prevent credit fraud and market abuse					

**Client monitoring and evaluation**

<b>Statement</b>	1	2	3	4	5
Companies monitor loans that they issued to their clients					
Client evaluation the loan process of the loans which provides information and facts that internalize and become knowledge that promotes learning					
The company Monitors and evaluations clients to improve the overall performance and quality of results of clients					
Knowledge gained through client monitoring and evaluation is at the core of sacco's learning process					
Credit managers use the information gained through monitoring and evaluation to improve client welfare and to improve strategies.					

## Loan processing appraisal

Statement	1	2	3	4	5
Management evaluates the loan application they receive from potential borrowers based on the 5c's of credit which are character, capital, capacity, and collateral.					
The formalities which consume most of time are credit checking of borrowers.					
The funds are approved without considering your past credit records and with easy pay terms and conditions.					
Loan processing Improve knowledge and skills in credit appraisal					
Have comprehensive understanding covering the entire effect of credit appraisal					

**SECTION C**

**FINANCIAL PERFORMANCE IN SACCOS**

PROFITABILITY	1	2	3	4	5
Our company makes profits					
Our surpluses increase over the years					
The amount of profits earned measures the efficiency of a business					
Revenue is higher than the cost of operation					
The company has recorded an increasing growth in sales					
FINANCIAL LIQUIDITY					
Cash is made available to meet day to day operations					
Expenses are paid for when they fall due					
Huge transactions are made by banks payments					
They are established credit lines to potential creditors to suppress high running expenses					
Cash floats are taken to bank for miscellaneous use					
NON PERFORMANCING LOANS					
Are there loans that are due 90 days					
Loans which have been placed on non accrual and interest is no longer accrued and posted to the income statement					
Are they mostly used in agricultural sector where farmers cant pay back the loans					
Are they due to clients that have failed to pay loans					
Marco economic conditions affect the borrowers capacity to repay their loans					

**Thank you very much for your corporation**