CREDIT RISK MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF SAVING AND CREDIT COOPERATIVE ORGANIZATIONS: A SURVEY OF RUTSIRO DISTRICT, RWANDA

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A research Project Submitted in Partial Fulfillment for the Award of the Degree of Master of Business Administration (Accounting and Finance Option) of Mount Kenya University

SEPTEMBER 2016
DECLARATION

This research Project study is my original work and has not been presented to any other Institution. No part of this research Project should be reproduced without the authors’ consent or that of Mount Kenya University.

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This research Project has been submitted with my approval as The Mount Kenya University Supervisor.

Name: Mr, Osiemo Kengere Athanas

Sign __________________ Date _____________
DEDICATION

I Dedicate This Work To My Lovely Wife Uwayo Josette And My Son Gwiza Nikko Salvi,
My Mother Mukandoli Madeleine, My Brother And Sisters Namely Tegibanze Eric,
Murekatete Alphonsine And Kayitesi Josephine In Memory of My Father John Ndaruhutse,
May Your Soul Rest In Eternal Peace.
ACKNOWLEDGEMENT

First and for most I extend my deep thanks to Almighty God for all he has done for me both in life and in my education, I would like to extend my grateful thanks to my wife Uwayo Josette, my parents and relatives, for their love and care and advise, enabled me to reach this academic achievement.

Special thanks go to my supervisor Mr. Osiemo Kengere Athanas for his assistance and guidance. He read this dissertation and made numerous suggestions, collaboration and constructive suggestion and encouragement in completion of this work. Only those individuals fortunately enough to have been exposed to his special analytical reviews can appreciate the impact of his contribution. Dear Sir, I appreciate and recognize your kind support for my work. God Bless you.
This study aimed at examining the way Credit risk management practices affect the financial performance of Saving and Credit Cooperative Organizations (SACCOs), in Rwanda. This study intended to analyse the level of Credit risk Management practices of SACCOs, analyse the level of financial performance of SACCOs in Rwanda and finally to establish the relationship between credit risk management and the financial performance of SACCOs in Rwanda. The researcher used purposive and non-probability sampling techniques. Therefore the sample size was 52 respondents out of 52 population including 13 SACCOs managers and 39 chairpersons. In this research data were collected using questionnaires and interviews. This study employed the use of Chi-Square test method to establish the nature of relationship between variables. Furthermore, the study is significant to the management of SACCO's in Rwanda in putting into place Credit risk management practices that will improve the Financial Performance of their SACCOs. The outcome of the study will show the extent to the SACCO's are exposed to credit risk and what SACCO managers should do in order to reduce the credit risk in their loan portfolios. The study is significant for the government of Rwanda since the findings and recommendations can be used for developing the policies that are helpful for best practices of SACCOs. The study is significant to the members of the SACCO’s because improving the credit risk practices imply more returns on their shares in form of dividends. The research study is beneficial to future scholars and Academicians who would wish to use the materials for reference. Descriptive survey design, qualitative and quantitative research design were used. Data collected were analyzed with the aid of the Statistical Package for Social Sciences for descriptive statistics,(SPSS version16).The findings also revealed that there was a significant relationship between credit risk management practices and financial performance of SACCOs in Rwanda, since p-value was 0.000 (P-value) which was less than 0.05 (P-alpha) and lastly the findings of this study revealed that there was a significant level of Credit Risk management practices and financial performance of SACCOs in Rwanda respectively. On the basis of the findings, the researcher made the following conclusions; the credit risk management practices contribute much on financial performance of SACCOs in Rwanda. On the basis of the conclusions made, the researcher recommended that; Implementation of the credit risk management practices need to be emphasized and given enough awareness so as to enable Umurenge SACCOs Managers understands them. These will help to prescribe the standard of the expected financial performance. The SACCOs Managers and other concerned people are advised to manage the credit risks in terms of Credit policy formulation, Credit analysis and client appraisal, Credit risk monitoring and control, Credit insurance, and finally Consultation with CRB. The SACCOs managers and other concerned people are requested to look for financial performance in the side of Non-performing loans rate (NPLs ratio)/Delinquency rate, Return on equity, Return on assets and Solvency ratio.
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LIST OF ACRONYMS AND ABBREVIATIONS

BNR : *Banque Nationale du Rwanda* (National Bank of Rwanda)

CAMEL : Capital adequacy, Asset quality, Management capability/systems, Earnings ratios and Liquidity

EDPRS : Economic Development and Poverty Reduction Strategy

FIs : Financial institutions

FSDP : Financial Sector Development Plan

G.A : General assembly

ICA : International Cooperative Alliance

MENA : Middle East and North Africa

MFI : Micro-Finance Institutions

NPLs : Non-performing Loans (Delinquent loans)

PEARLS : Protection - Effective financial structure - Asset quality - Rate of return and cost, Liquidity, Signs of growth

RCA : Rwanda cooperative Agency

ROA : Return on Assets

ROE : Return on Equity

SACCOs : Saving and Credit Cooperative organizations

SMEs : Small and Medium Enterprises

UNDP : United Nations Development Programme

USACCO : Umurenge Saving and Credit Cooperatives

WOCCU : World Council of Credit Union
DEFINITIONS OF KEY TERMS

Credit: This is the money that is received from elsewhere; this enables the use of anticipated income for current investment or consumption. The credit is an act of confidence resulting in a loan in kind or in cash authorized against part of promise of refunding within a time generally agreed in advance. Credit is the trust which allows one party to provide resources to another party where that second party does not reimburse the first party immediately (thereby generating a debt). But instead arrange either to repay or return those resources (or other materials of equal value) at a later date. The resources provided may be financial (e.g. granting a loan), or they may consist of goods or services (e.g. Consumer credit). Credit encompasses any form of deferred payment. Credit is extended by a creditor, also known as a lender, to a debtor, also known as a borrower.

Credit risk: The risk of loss due to a debtor’s non-payment of a loan or other line of credits either the principal or interest. In other words, this risk arises as a result of the debtor's non-Financial Performance. This may arise either from the debtor's inability or unwillingness to perform in the pre-committed contract manner.

Credit risk management: Credit risk management encompasses identification, measurement, monitoring and control of the credit risk exposures. Credit risk management has a big impact on the life of a financial institution and if the right policies are chosen and are wrongly implemented, then objective achievement becomes a default task. As said, the way that a SACCO manages its credits affect its Financial Performance.

Financial Performance measurement is the process of identifying the strengths and weaknesses of the firm by using the financial statements. For savings and Credit cooperatives, to enhance interest income (profitability) and to reduce loan losses (bad debts) this results from credit default. It is expected that SaccoS with better credit risk management practice will have lower loan losses (non-performing loans).
The goal of credit risk management is to maximize a SACCO's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

**Savings and Credit Cooperative organization (SACCO)** is a form of cooperative society whose business is to provide financial services to its members. Its objective is to pool savings for the members and in turn provide them with credit facilities. Other objectives of SACCO are to encourage thrift amongst the members and also to encourage them on the proper management of the money and proper investments practices.
CHAPTER ONE: INTRODUCTION

1.0. Introduction

This study is set out to analyze the effect of credit risk management practices on the Financial Performance of SACCOs Organizations: A survey study of Rutsiro District based SACCOs. This chapter presents the background to the study, the problem statement, objectives of the study, research questions, the significance of the study, the limitations of the study, the scope of the study, and the organization of the study.

1.1. Background of the Study

Rwanda’s development policy is guided by Vision 2020. This vision statement describes the Government’s aim to transform Rwanda into a middle income country by the year 2020. It also sets the stage for the development of the financial sector Development Programme (FSDP) launched in 2006. The aim of the FSDP is to develop a stable and sound financial sector for Rwanda to enhance access to financial services and the development of financial institutions that would facilitate the entrenchment of a savings and long term investment culture amongst Rwandans, (Irma Grundling Yakini, 2012:15).

Rwanda leaders have been working hard to develop the culture of saving among the population with more emphasis applied to rural areas. Back then most people kept their money by traditional means such as digging a hole and burying their money, which proved to be dangerous because many were losing their money due to poor keeping.

The Government of Rwanda started to think of establishing Umurenge SACCO across all Districts; National Dialogue Meeting held in December 2008 recommended the creation of at least one SACCO at the level of each Administrative Sector, thus 416 SACCOs created in line of Umurenge SACCO program. Briefly, SACCOs is a Government
initiative aimed at increasing the accessibility of financial services to Rwandan citizens. The concept of Umurenge Savings and Credit Cooperatives (Umurenge SACCOs) was based on an understanding that banks and other financial institutions were more concentrated in urban areas whilst the majority of the Rwandan population lives in rural areas. And Banks and other financial institutions were also not able to provide financial services that were ideal to serve the poor. Establishing a SACCO in every Umurenge was aimed at bridging this gap. The objective was to encourage local citizens to use financial institutions to enable them to save and access loans. (Irma Grundling Yakini, 2012:15). This would, in turn, allow them to move out of chronic poverty and improve their livelihoods.

SACCOs are in the business of safeguarding money and other valuables for their Members besides providing loans and offering investment financial services. Credit creation is the main income generating activity for the SACCOs. But this activity involves huge risks to both the lender and the borrower. The risk of a member not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly jeopardize the smooth functioning of a SACCO's business. On the other hand, a SACCO with high credit risk has high bankruptcy risk that puts the members' funds in jeopardy. In the case of SACCOs, the issue of credit risk is of even greater concern because of the higher levels of perceived risks resulting from some of the characteristics of clients and business conditions that they find themselves in.

Among the risk that face SACCO's, credit risk is one of great concern to most SACCO authorities and government regulators. This is because credit risk is that risk that can easily and will most likely prompt SACCO failure. (Boateng, 2004). Credit risk management is a structured approach to managing uncertainties through risk assessment, developing strategies to manage it, and mitigation of risk using managerial
resources. The strategies include transferring to another party, avoiding the risk, reducing the negative effects of the risk, and accepting some or all of the consequences of a particular risk. Some traditional risk managements focused on risk stemming from physical or legal causes such as natural disasters or fires, accidents, deaths and lawsuits. (Huizinga & Demirgue, 1999)

However, according to annual report of Banque Nationale du Rwanda (2013), the Rwandan commercial banks have faced poor Financial Performance due to combination of both internal and external factors. Internal factors including ineffectiveness and inefficiency of credit portfolio as well as poor management etc, while external factors involve low purchasing power of the population and disasters affecting business activities like drought etc.

Contrary to the popular belief that default rate in SACCOs is negligible, the statistics from the National bank of Rwanda indicate a considerable increase in the amount defaulted by Sacco Members. Given this background, it is surprising to observe that not much is known about the extent by which SACCOs engage in the practice of credit risk management.

It is under this scenario that the researcher decided to research on the effect of credit risk management on the Financial Performance of SACCOs organizations: A Survey of in Rutsiro District, Rwanda in order to come up with necessary recommendation and conclusion towards the Rwandan SACCOs soundness.

1.2. Problem Statement

Increasing profitability is a priority for all managers in financial institutions. For Sacco managers, credit risk management is equally very important. On the one hand Sacco managers need to reduce the risk of loan default because the institutions financial viability is weakened by the loss of principal and interest, yet on the other hand Sacco’s
operate under objectives of maximizing benefits to members which include the financial role of providing loans to help members achieve their standard of living goals. This Financial roles conflict with financial viability of Sacco’s if managers become less stringent in the lending practices to assess and monitor the credit risk of member borrowers. Despite the Credit Risk management practices in place, the default rate in the SACCOs in Rwanda remains relatively high. For example the Amount of defaulted loans for Rwandan SACCOs rose from RWF 0.27 Billion in the year 2011 to over with RWF 1.6 Billion in 2013. (Banque Nationale du Rwanda, 2013). This calls for the need to conduct more research on credit risk management practices in Saccos. The study is an attempt to close this gap by providing further insights and information on the effect of credit risk management practices on Financial Performance of Saccos. The central question is how significant is the impact of credit risk management practices on the Financial Performance of SACCOs? This study is intended to find the answer.

1.3. Objectives of the Study

1.3.1. General Objective

The study expects to analyze the effect of credit risk management practices on the Financial Performance of SACCOs organizations in Rutsiro District, Rwanda.

1.3.2. Specific Objective

The following specific objectives have been used as a guide in the research

i. To analyze the level of credit risk management practices in SACCOs in Rutsiro District, Rwanda.

ii. To analyze the level of financial performance in SACCOs in Rutsiro District, Rwanda.
iii. To establish the relationship between credit risk management practices and Financial Performance of SACCOs in Rutsiro District, Rwanda.

1.4. Research Questions

i. What is the level of the credit risk Management practices in SACCOs in Rutsiro District, Rwanda?

ii. What is the level of the financial performance in SACCOs in Rutsiro District, Rwanda?

iii. Does a credit risk management practice have effect on the Financial Performance of SACCOs in Rutsiro District, Rwanda?

1.5. Significance of the Study

Studying on the effect of credit risk management practices on the Financial Performance of SACCOs in Rutsiro District, Rwanda, is significant to the researcher since apart from academic use as a requirement to complete a master’s degree in business administration with specialization in Accounting and Finance, this research will provide scientific knowledge and practical skills to be used in finance and accounting.

The study is significant to the management of SACCO's in Rwanda in putting into place Credit risk management practices that will improve the Financial Performance of their SACCOs. The outcome of the study will show the extent to the SACCO's are exposed to credit risk and what SACCO managers should do in order to reduce the credit risk in their loan portfolios.

The study is significant for the government of Rwanda since the findings and recommendations can be used for developing the policies that are helpful for best practices of SACCOs.

The study is significant to the members of the SACCO’s because improving the credit
risk practices imply more returns on their shares in form of dividends.
The research study is beneficial to future scholars and Academicians who would wish to use the materials for reference.

1.6. Limitation of the Study
The researcher met with the language problem, since most of documents in place are written in French therefore, and the researcher faced a problem of translating from French to English which is expensive. To overcome, researcher was obliged to spend some amount.
Another limitation is that all SACCOs are not computerized their accounting information and therefore it was difficult to get complete information for the data collection sheet. However, through the intervention of SACCO’ managers and Accountants, the researcher overcome such limitation.

1.7. Scope of the Study
The study focused on credit risk management in Umurenge SACCO in Rwanda. It was carried out in Rutsiro District based SACCO. The geographical coverage was Rutsiro District, and the time frame was from 2011 to 2014. The respondents to the question have been managers and chairpersons of committees in Rutsiro District based SACCOs.

1.8. Organization of the Study
This study is organized in three chapters; the first chapter is the introduction which includes introduction, background of the study, problem statement, objectives of the study, research questions, significance of the study, scope of the study, limitations of the study and organization of study. The second chapter is review of related literature. The third chapter is titled research methodology. The fourth chapter is titled Research
Findings and Discussions and last chapter is Summary Conclusion and Recommendations.
CHAPTER TWO: REVIEW OF RELATED LITERATURE

2.0 Introduction
This chapter deals with the review of the literature of credit risk management concept and the meaning of SACCO Financial Performance. In addition the researcher will discuss various empirical studies. Theories about credit risk management and SACCO Financial Performance will be developed in this chapter, critical review and research gap will be identified and finally, the summary of the literature review will be drawn.

2.1 Theoretical Literature
The theoretical review aims at giving the meaning of a word in terms of theories of a specific discipline. It will contribute to a better understanding of the concept and help in assuming both knowledge and acceptance of theories that relate to Credit Risk Management and SACCO Financial Performance.

2.1.1 Understanding Savings and Credit Cooperative Organizations
A savings and credit cooperative (SACCO) is a financial institution under the cooperative form. As such it is a cooperative which operates in the financial system; it is legal entity, in which individuals save their money and can get loans in order to invest in various activities. The basic structure of the SACOs and credit unions in what differentiates them from banks; they are user-owned financial intermediaries. Members typically have a “common bond” based on geographic area, employer, community, industry or other affiliation. Each member has equal rights regardless of their deposits amount or how many shares they own. (Umurenge SACCO, 2008).
There are two types of SACCOs in Rwanda, Umurenge SACCOs and non-Umurenge SACCOs. Non-Umurenge SACCOs are distinguished from other financial services providers in that they are owned by members and financial services are commonly
targeted towards this pool of members only. (Sacco’s sustainability, 2011).

While Umurenge SACCOs were initiated and formed with the support of the government, as component of the national savings mobilization strategy to promote financial access for an unbanked people at a low transaction costs.

### 2.1.2 Types of products offered by SACCOs

SACCOs have a challenge of identifying and responding appropriately to the different needs of their members through designing policies and reviewing existing ones with a focus of meeting those needs and sustaining the institutions. Most SACCOs offer savings and credit products to their members; some of them expand these services to include entrepreneur development. Within these categories, the products and services are further defined to fit the SACCOs’ mission and clients’ needs. They provide savings and credit and investment opportunities to individuals, institutions and groups members. (Magill, 1999).

Generally speaking, SACCOs offer the following products to their members:

**Shares:** Becoming a member of SACCOs every must pay his/her portion and for most cases it is done in installments. Additionally, share is equal for every member.

**Savings** refer to the member’s income that has not been spent and has been stored with the financial institution in their personal voluntary savings accounts for their future use when the need for the funds arises. The savings always form a big proportion of the SACCO’s total financing. This is done through various savings products offered in the SACCOs, namely

**Current accounts:** This is the basic account that is opened when becoming a member of the SACCO to enable every member to make deposits and withdrawals transactions. The savings in these accounts are kept available at all times for withdrawals. These savings accounts are voluntary.
**Saving accounts:** These accounts contain savings accumulated by the members for a certain purpose. They gain an interest and are withdraw able after an agreed period. These savings might be made for the purpose of loan application after an agreed period of time. The minimum amount to open a savings account is 5,000 RWF. There is no monthly service charge.

**Programmed savings account:** This is a type of service agreed upon by the member and the SACCO, based on specific terms and conditions.

**Term deposits:** Fixed Accounts (Short term deposits/ Long term deposits) these accounts contain savings that are remunerated with a certain period of time and withdraw able at maturity. When the member withdraws before the maturity, a fee will be charged (1% of the amount withdraw). The SACCO must sign a contract with the depositors for all term deposits. Such contract must specify the deposit period, interest rate remunerated and penalties.

**Security savings** this is a special savings product that member will hold during the entire duration of the loan. SACCO will issue to member a certificate of compulsory deposit on loan. This certificate of deposit will bear interest according to interest rates fixed by SACCO. Upon complete reimbursement of the loan, the borrower will be refunded his/her money plus interests. In case of default, these security savings can be used to compensate the outstanding amount at the loan maturity. After complete loan payment, the security savings must be reimbursed with interests according to agreed rate.

**Loans:** Loans are granted for productive and/or provident purposes only. The below table illustrate the types of loan products designed to meet the member’s needs:
<table>
<thead>
<tr>
<th>#</th>
<th>Loan Products</th>
<th>Membership period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Overdraft:</td>
<td>3Months</td>
</tr>
<tr>
<td>1.1</td>
<td>Salary Emergency Loan (Quinzaine):</td>
<td>3Months</td>
</tr>
<tr>
<td>1.2</td>
<td>Overdraft (No-salaried)</td>
<td>3Months</td>
</tr>
<tr>
<td>2</td>
<td>Salary Loan</td>
<td>3Months</td>
</tr>
<tr>
<td>3</td>
<td>Business Loan</td>
<td>3Months</td>
</tr>
<tr>
<td>4</td>
<td>Transport Loan</td>
<td>3Months</td>
</tr>
<tr>
<td>5</td>
<td>Handicraft Loan</td>
<td>3Months</td>
</tr>
<tr>
<td>6</td>
<td>Construction Loan</td>
<td>3Months</td>
</tr>
<tr>
<td>7</td>
<td>Social (Wedding and Death)</td>
<td>3Months</td>
</tr>
<tr>
<td>8</td>
<td>Education</td>
<td>3Months</td>
</tr>
<tr>
<td>9</td>
<td>Health</td>
<td>3Months</td>
</tr>
<tr>
<td>10</td>
<td>Group Loan</td>
<td>3Months</td>
</tr>
<tr>
<td>11</td>
<td>Legal entity Loan</td>
<td>3Months</td>
</tr>
<tr>
<td>12</td>
<td>Agriculture loan (cash crops)</td>
<td>3Months</td>
</tr>
<tr>
<td>13</td>
<td>Agriculture loan (marketable livestock)</td>
<td>3Months</td>
</tr>
<tr>
<td>14</td>
<td>Agriculture loan (equipment)</td>
<td>3Months</td>
</tr>
</tbody>
</table>

Source: Rwanda Cooperative Agency (2013)

2.1.3. Evolution of Umurenge SACCOs in Rwanda

The ultimate objective of Rwanda’s long term development plan is to transform the country into a middle-income country and an economic trade, communication and financial hub by the year 2020. Towards the achievement of this the Government of Rwanda has recently adopted an Economic Development and Poverty Reduction Strategy (EDPRS), with Financial Sector Development as one of its key components. (IRMA Grundling Yakini, 2012).

Fin Scope is a research tool which was developed by Fin Mark Trust2 in an effort to address the need for credible financial sector information to provide guidance in terms of how to respond to some of the challenges policy makers, regulators and financial service providers are faced with. It provides a holistic understanding of how individuals generate
an income and how they manage their financial lives. It also identifies the factors that drive financial behavior and those that prevent individuals from using financial products and services. The first Fin Scope Rwanda survey was implemented in 2008. This survey showed that 79% of Rwandans, 18 years or older, were not using formal financial institutions. This meant that a large amount of money remained in people’s pockets, which not only limited Rwandans’ ability to build financial security, but also financial institutions’ capacity to distribute credit because of a lack of liquidity.

This finding substantiated the need for an intervention such as the Government’s Umurenge SACCO initiative. (Irma Grundling Yakini, 2012:28), Thus, the National Dialogue Meeting held in December 2008 recommended the creation of at least one SACCO at the level of each Administrative Sector (UMURENGE) not later than the year 2009. Hence Umurenge SACCOs is a Government initiative aimed at increasing the accessibility of financial services to Rwandan citizens.

Umurenge SACCO is a government’s initiative elaborated in the Vision 2020 development agenda that aims to increase access of financial services to citizens. And it was also based on the encouraging local citizens to break the stigma of fearing financial institutions. Local citizens would thereafter be able to save access loans and credit for different business activities, thus allowing them to invest and graduate from chronic poverty.

Additionally, banks and other financial institutions were more concentrated in urban areas whilst the majority of the Rwandan population lives in rural areas. Banks and other financial institutions were also not able to provide financial services that were ideal to serve the poor. Establishing a SACCO in every Umurenge was aimed at bridging this gap. (Irma Grundling Yakini, 2012:29). The objective was to encourage local citizens to use
financial institutions to enable them to save and access loans. (Irma Grundling Yakini, 2012).

SACCOs are in the business of safeguarding money and other valuables for their Members besides providing loans and offering investment financial services. Credit creation is the main income generating activity for the SACCOs. But this activity involves huge risks to both the lender and the borrower. The risk of a member not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly jeopardize the smooth functioning of a SACCO’s business. On the other hand, a SACCO with high credit risk has high bankruptcy risk that puts the members’ funds in jeopardy. Among the risk that face SACCO’s, credit risk is one of great concern to most SACCO authorities and government regulators. This is because credit risk is that risk that can easily and will most likely prompt SACCO failure. (Boating, 2004).

Credit risk management is a structured approach to managing uncertainties through risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources. The strategies include transferring to another party, avoiding the risk, reducing the negative effects of the risk, and accepting some or all of the consequences of a particular risk. Some traditional risk managements focused on risk stemming from physical or legal causes such as natural disasters or fires, accidents, deaths and lawsuits. (Huizinga&Demirgue, 1999)

Contrary to the popular belief that default rate in SACCOs is negligible, the statistics from the national bank of Rwanda indicate a considerable increase in the amount defaulted by SACCO Members each year as shown below. Given this background, it is surprising to observe that not much is known about the extent by which SACCOs engage in the practice of credit risk management.
<table>
<thead>
<tr>
<th>No</th>
<th>Indicator</th>
<th>Year 2011</th>
<th>Year 2012</th>
<th>Year 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total Assets</td>
<td>29.12</td>
<td>40.99</td>
<td>57.4</td>
</tr>
<tr>
<td>2</td>
<td>Liquidity</td>
<td>23.14</td>
<td>22.24</td>
<td>26.8</td>
</tr>
<tr>
<td>3</td>
<td>Gross loans</td>
<td>4.75</td>
<td>13.85</td>
<td>21.5</td>
</tr>
<tr>
<td>4</td>
<td>NPLs</td>
<td>0.27</td>
<td>0.73</td>
<td>1.6</td>
</tr>
<tr>
<td>5</td>
<td>Net loans</td>
<td>4.64</td>
<td>13.57</td>
<td>20.8</td>
</tr>
<tr>
<td>6</td>
<td>Total deposits</td>
<td>22.44</td>
<td>28.17</td>
<td>36.9</td>
</tr>
<tr>
<td>7</td>
<td>Equity</td>
<td>4.75</td>
<td>10.63</td>
<td>17.7</td>
</tr>
<tr>
<td>8</td>
<td>NPL ratio (Max5%)</td>
<td>5.60%</td>
<td>5.30%</td>
<td>7.30%</td>
</tr>
<tr>
<td>9</td>
<td>Liquidity ratio (Min30%)</td>
<td>103%</td>
<td>79%</td>
<td>72.70%</td>
</tr>
<tr>
<td>10</td>
<td>CAR (Min20%)</td>
<td>16%</td>
<td>26%</td>
<td>30.90%</td>
</tr>
</tbody>
</table>

**Source:** National Bank of Rwanda (2013)

### 2.1.4. Challenges facing Umurenge SACCOs

The establishment of Umurenge SACCOs has significantly changed the landscape of access to formal financial services in Rwanda. This intervention has been successful in providing these services to Rwandans who would otherwise not use formal financial services in a manner that seems to address their needs. The challenge for Umurenge SACCOs to continue to be perceived as “the poor people’s bank” lies within their ability to ensure their sustainability and to harness the trust that currently exists amongst Rwandans – especially in rural areas – to build on the current membership base. Key challenges include: Strengthening SACCO management in terms of functions such as administration, governance and accountability, Ensuring that SACCOs have the facilities and equipment needed to facilitate their activities, Providing a broader base of products...
and services specifically designed to meet the needs of middle and lower income Rwandans, Putting in place measures aimed at consumer protection. (Irma Grundling Yakini, 2012:6).

### 2.1.5 Credit risk management

Credit risk is the current and prospective risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with the SACCO or otherwise to perform as agreed. Credit risk is found in all activities in which success depends on counterparty, issuer, or borrower Financial Performance. It arises any time SACCO funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. (Wanyama, 2008)

Credit risk is most simply defined as the potential that a SACCO borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a SACCO's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. SACCO's need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization. (Owango et al., 1998)

Credit risk can also be defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation (IFRS). It can also be defined as a possible loss if the issuer of an investment defaults. (This could result from imprudent investments in savings and loan associations in excess of insured limits, or investments in weak: financial institutions where deposits are not guaranteed.)
relation to loans, it refers to the probability that a borrower may not repay a loan. Credit risk is a significant concern for SACCOs. Decisions to grant loans are based on information about a borrower's ability and willingness to repay a loan at the time a loan is made. Thus, credit risk can be controlled to some extent by the establishment of sound investments and lending policies and procedures. The management of the SACCO should be able to ascertain that the investing and lending policies are adequate with an elaborate account on how the SACCO intends to mitigate on these risks, and ensure it is followed as well. However, since economic and other factors may vary over the life of the investment or loan and the credit risk fluctuates over time, there is need to continuously appraise these investments in relation to the apparent risks. Credit risk management in a Financial Institution therefore starts with the establishment of sound lending principles and an efficient framework for managing the risk. Policies, industry specific standards and guidelines, together with risk concentration limits are designed under the supervision of Risk Management Committee. (Manganelli & Engle, 2001)

Credit risk can be defined as the risk of losses caused by the default of borrowers. Default occurs when a borrower cannot meet his financial obligations. Credit risk can alternatively be defined as the risk that a borrower deteriorates in credit quality. This definition also includes the default of the borrower as the most extreme deterioration in credit quality. Credit risk is managed at both the transaction and portfolio levels. But, financial institutions increasingly measure and manage the credit risk on a portfolio basis instead of on a loan-by-loan. In credit risk management they use various methods such as credit limits, taking collateral, diversification, loan selling, syndicated loans, credit insurance, securitization and credit derivatives. (Colquitt, 2007).
It is the ability of an organization to accomplish an important goal, purpose or mission (Gregory & Neal, 1990). Credit risk management has a big impact on the life of every financial institution and if the right policies are chosen and are wrongly implemented, then objective achievement becomes a default task. As said, the way that a financial institution manages its credits affect its financial Performance.

To accomplish credit risk management duties and responsibilities the institution must understand its financial analysis, loan documentations, servicing, loan covenants and environmental analysis. It must also maintain sound records on the credit Financial Performance of its portfolios of risky assets because any change in underwriting; laws and regulations can significantly alter its loan loss experience (Kenneth & Thygerson, 1995).

When credit risk well managed therefore, it can finally lead the organization to the effective Financial Performance which is the goal of FIs and this must be achieved by applying credit management tools and techniques that are able to help in monitoring credits and evaluating returns from the risk bearded.

2.1.6 SACCOS Financial Performance

SACCO Loans and Financial Performance

A loan is a debt. Like all debt instruments, a loan entails the redistribution of financial assets over time, between the lender and the borrower. The borrower initially receives an amount of money from the lender, which he pays back, but sometimes not always in regular installments, to the lender. This service is generally provided at a cost, known as interest on the debt. The lender may subject the borrower to certain restrictions known as loan covenants. One of the principal duties of financial institutions is to provide loans, this is typically the source of income to SACCOS. SACCO loans and credit also constitute one of the ways of increasing money supply in the economy (Wanyama, 2008).
SACCOs earn financial revenue from loans and other financial services in the form of interest fees, penalties, and commissions. Financial revenue also includes income from other financial assets, such as investment income. A SACCO’s financial activities also generate various expenses, from general operating expenses and the cost of borrowing to provisioning for the potential loss from defaulted loans. Profitable institutions earn a positive net income (i.e., operating income exceeds total expenses (Grier, 2007)

**Credit Risks in Financial Institutions**

SACCO loan is a debt, which entails the redistribution of the financial assets between the lender and the borrower. The SACCO loan is commonly referred to the borrower who got an amount of money from the lender, and need to pay back, known as the principal. In addition, the SACCOs normally charge a fee from the borrower, which is the interest on the debt. The risk associated with loans is credit risk. (Lynnette, 2008)

Credit risk is perhaps the most significant of all risks in terms of size of potential losses. Credit risk can be divided into three risks: default risk, exposure risk and recovery risk. As the extension of credit has always been at the core of SACCO operation, the focus of these institutions' risk management has been credit risk management. It applied both to the SACCO loan and investment portfolio. Credit risk management incorporates decision making process; before the credit decision is made, follow up of credit commitments including all monitoring and reporting process (Joel Bessis, 1998). The credit decision is based on the financial data and judgmental assessment of the market outlook, borrower, management and shareholders. The follow-up is carried out through periodic reporting reviews of the SACCO commitments by customer. Additionally, "warning systems" signal the deterioration of the condition of the borrower before default, whenever possible. (Bessis, 1998)
Loans that are in default or close to being default become NPLs. The terms of the default rate in loans are defined by each SACCO. Usually, loan becomes non-performing after being default for three months but this can depend on contract terms. NPL shows the proportion of the default or near to default loans to the actual performing loans. It indicates the efficiency of the credit risk management employed in the SACCO. Therefore, the less the ratio the more effective the credit risk management. (Gorter & Bloem, 2001)

**Credit risk and Financial Performance Standards**

Financial Performance measurement is the process of identifying the strengths and weaknesses of the firm. (Pandey, 2004). Financial Performance measurement is vital part of the control process because what gets measured gets done as observed. (Coulthurst, 2001)

Financial Performance standards give a benchmark indicator of risky behavior or good Financial Performance, thereby helping in setting up credit rating systems for savings and Credit co-operatives. Financial institutions already have Financial Performance standards and are currently rated in the credit markets by private rating agencies. Credit rating will be of particular interest to commercial lenders and clients who want to evaluate the financial standing and Financial Performance of savings and credit cooperatives. Without a commonly accepted and implemented set of industry Financial Performance standards, it becomes fairly difficult to gauge the financial standing and Financial Performance of savings and credit cooperatives and make informed decisions on their quality as financial intermediaries. (Ibid, 2001)

While there are those savings and credit cooperatives with adequate capitalization and substantial deposits, there are also those at the other extreme, characterized by inadequate
capitalization, poor organizational and operational structures, weak internal control systems and inappropriate financial technologies and systems. Financial Performance standards are important because they supplement prudential regulation and they can be a good guide for prudent behavior. They can, however, only go so far since their utility may be limited by the fact that adherence to a set of Financial Performance standards may be difficult to achieve without an external disciplining body. (Gilberto & Cresente, 2000)

In the Credit Union industry, a commonly-cited set of Financial Performance standards is that based on the World Council of Credit Union's (WOCCU) PEARLS system, a set of financial ratios or indicators. The PEARLS system is used as a monitoring tool to compare credit unions and has 39 ratios that are grouped to measure the following: P - Protection - Effective financial structure, A - Asset quality - Rate of return and cost, L - Liquidity, S - Signs of growth (Gilberto & Cresente, 2000)

Financial Performance Indicators

According to the National bank of Rwanda, SACCOs should comply with BNR’s regulation no 02/2009 stating the best practice for microfinance institutions. The table below illustrates some key financial indicators.

Table 2.2: Financial Performance indicator

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delinquency/Total loans</td>
<td>5%</td>
</tr>
<tr>
<td>Total liquid asset/Total deposits</td>
<td>30%</td>
</tr>
<tr>
<td>Total Equity/Total Asset</td>
<td>15%</td>
</tr>
<tr>
<td>Total loans/Total deposit</td>
<td>70%</td>
</tr>
<tr>
<td>Total loans/Total Equity&amp; Liabilities</td>
<td>80%</td>
</tr>
<tr>
<td>Fixed asset(Net)/Total Equity</td>
<td>75%</td>
</tr>
<tr>
<td>Insider lending/Total Equity</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: BNR, (2014)
Financial Health Indicators

Health of an individual financial institution is a function of multiple factors such as quality of its assets, liquidity position, capital base, management quality, market sensitivity, growth, financial structure and earnings. All these factors affect the different types of risk to an individual Financial Institution. Different types of risks: credit, interest rate, liquidity, market, off-balance sheet, foreign exchange, sovereign, technology, operational, insolvency, affect the health of an individual Financial institution adversely if they are not managed in sustainable manner (Saunders & Cornett, 2004).

A number of factors such as quality of assets, financial market condition, foreign exchange market, composition of assets, financial health of its clients, profitability, capital adequacy, affect the degree of these risks. Financial health check-up of an individual institution should be made regularly to detect the adverse effect of these risks on its health. Micro-prudential indicators such as capital adequacy, asset quality, management soundness, earning and profitability, liquidity, sensitivity to market risk, and market based indicators like market price of financial instruments, credit ratings are used as indicators of the sound health of individual financial institutions (Evans et al, 2000).

In addition, sound financial structure, and sustainable growth rate also are considered as good indicators of any FIs. Financial health check-up is required, particularly for a saving and credit cooperative to find out the severe financial problems and attract the attention of management to resolve such problems. Poor financial health may threaten the safety and soundness of a cooperative. It may cause the financial loss to the members and adversely affect the member confidence in the saving credit cooperative and system as a whole. Therefore, regular financial health check-up of such a cooperative should be conducted to find out the severe problems and solve them before they threaten its safety and soundness,
cause the financial loss to the members, and adversely affect the member confidence in it, and a cooperative system as a whole.

There are many sets of financial ratios that can be employed to evaluate the Financial Performance and checkup the financial health of FIs. Among them, CAMELS framework-developed by regulatory authority of the U.S banks, is the common method used for evaluating the soundness of FIs.

WOCCU and its member countries are using this to monitor, supervise and checkup the financial health credit unions and cooperatives. In addition, SACCOs also are using PEARLS as a managerial tool to monitor and improve their Financial Performance. (Porvali, 1993)

**Governance theory and Credit risk**

Governance is the process through which an organization is directed and controlled to achieve its intended objectives. Although governance is a collective responsibility of all the organs of an organization, the main responsibility for the good governance in the case of the Umurenge SACCOs falls mainly on the Administrative Committee. The different organs like the supervisory and credit committees, management and the members’ General Meetings also take responsibility and are accountable for achievement of their respective objectives.

The governance stricture contribute much to achievement of sated goals for all elected organs, and According to Rwanda cooperative agency (RCA), A governance structure refers to the number and types of various organs that a SACCO puts in place to ensure that the activities and functions are well directed, and the interrelationships among these organs. Good governance is the single most important success factor for any SACCO. As a principle, therefore, every SACCO should ensure that it has a governance structure that
will ensure effective and efficient operations, transparency, accountability, good reputation, profitability and growth.

The principal governance organ in the Umurenge SACCO is the Administrative Committee, which reports to and is elected by the members in a General Assembly (GA). In addition to the administrative committees, the Umurenge SACCOs have also formed other committees to improve on their governance. These committees are the Credit/Loans and the Supervisory/Audit Committee.

Below are briefs of the different governance organs of the Umurenge SACCO:

**General Assembly (GA)**

**Constitution:** All fully paid up members of the SACCO. These are the true “owners” of the institution.

**Responsibilities:** Approves mission/vision and strategic objectives of the SACCO (unless they delegate this to the administrative committee); Protects rights of members or shareholders; Provides overall direction of the SACCO’s operations; Elects the administrative, supervisory and credit committees; Approves accounts of the SACCO; Approves business plan, annual plans, and budgets (unless delegated to the administrative committee); Approves operating and lending policies; Approves interest rates policies proposed by the administrative committee; Approves appointment of auditors and their pay; Undertakes any other general business deemed necessary; Approves any amendments in the constitution.

**Administrative Committee**

As already stated, the administrative committee is the principal governance organ of the SACCO. As it is not practical for all the members or shareholders of the Umurenge
SACCO to keep oversight, this committee directs the affairs of the SACCO on behalf of its general membership.

**Constitution:** The committee’s composition is determined by the General Assembly which elects its members.

**Responsibilities:** Defines and upholds mission /vision and objectives, and policies of SACCO, and ensures that plans conform to them. Reviews and approvals business plans & budgets before presenting them to the General Assembly (or sometimes before approving them). Supervises management in the execution of approved plans; Mobilizes resources for the SACCO on behalf of the members. Appoints, appraises and disciplines management; Approves rate of interest and other product costing; Monitors the activities of committees; Reports to the GA on institutional Financial Performance – financial, operational etc.

**Supervisory/ Audit Committee**

The Supervisory/ Audit Committee’s key role is to check on the consistency of the actual operations of the Umurenge SACCO and the stated policies, and to ensure this supports the vision, mission and strategic objectives. The Audit committee is also usually charged with ensuring that the financial affairs of the SACCO are handled with prudence, due care and transparency. In a nutshell they enforce compliance with the SACCO rules, procedures, policies and regulations as a whole.

**Constitution:** Three to Five members of the SACCO but with strong financial skills and one or two others with a deeper understanding of the SACCO and its business.

**Responsibilities:** Checks for consistencies in the SACCO’s financial and operating records; Authenticates the SACCO’s financial reports; Ensures that operating, loan
policies and procedures, and expenditure controls are followed; Ensures prudent Asset and Liquidity controls; Regularly inspects books, records and transaction documents of the SACCO; Monitors lending operations and loan recovery, especially the related financial documents and records; Checks operations of all SACCO’s departments, managers and officers to compliance with the set rules and standards; Liaises with internal and external auditors.

**Loan/Credit Committee**

Savings mobilization and provision of credit are the major products of the Umurenge SACCOs. It is, therefore, proper that there should be a committee to look into the lending operations. For this reason, the Loans or Credit Committee is usually a vital governance organ in any SACCO.

**Constitution** Appointed by the Administrative Committee out of the Administrative Committee members but may co-opt other technical persons from outside the Administrative Committee as deemed necessary.

**Responsibilities:** Approving loans (or those above a certain limit); Reviewing the lending policies and guidelines before approval by the administrative committee; Monitoring all lending operations and the portfolio quality – from a strategic standpoint; Helping management to enforce loan recovery in case of stubborn and overdue borrowers; Approving the plans for and monitoring portfolio growth; Monitoring product development and improvement

Savings and credit cooperatives are usually governed by a volunteer board of directors elected by and from the membership. As they grow, more sophisticated and risky operations require professional managers. Problems occur when volunteer board members continue to make operational decisions, after professional managers have been recruited,
instead of focusing on monitoring operations. It is difficult for board members to balance the contradictory interests of net borrowers and savers. (Tufano & Perold, 1999)

According to the UK code (the Cadbury code), corporate governance consists of "the system whereby companies are directed and controlled." The Italian Preda Code proposes a similar definition: "Corporate governance is the set of rules by which companies are managed and controlled". So the concept of governance refers to the way of managing, the way of controlling the operations of an organization. This definition can be enriched by saying that "corporate governance involves a set of relationships among the company's management, its board, its shareholders and other stakeholders." (Wahlstrom, 2009)

With respect to the ultimate goals of corporate governance, the Preda Code states that "the main aim of a corporate governance system is creating shareholder value." However, it doesn't specify which shareholders. The French Vienot report claims that "the ultimate mission of a firm is the common interest of the country rather than the interests of its shareholders or stakeholders."

The general definition in this context can therefore be put as the systems put in place to achieve good governance in credit risk management policies, procedures, and controls. Good governance enables a citizen-friendly, citizen-caring and responsive SACCO administration, and in the process, results in the exercise of public authority for the common good. (Desrocher & Fischer, 2007)
Reporting on loan operations

Key:

- Reporting relationship
- Checking relationship

**Figure 2.1: Sacco Governance Organs/Structure**

**Source:** Rwanda Cooperative Agency (2011)

**Supervision / Regulation and credit risk management**

Regulation and supervision can protect members' deposits by ensuring good Financial Performance by the SACCOs. Efficient and effective regulation and supervision can grant incentives for good Financial Performance of savings and credit cooperatives and sanctions or penalties for nonfinancial Performance. External sanctions effectively applied can be very critical in instilling financial discipline that leads to good behavior and Financial Performance. In this regard, self-regulation can only be effective to a certain extent to motivate good Financial Performance. As such, efficient and effective regulation and supervision by an external body will be necessary to have stable and
financially strong SACCOs, henceforth leading to the protection of members' deposits. (Bessis, 1998)

Since the SACCO is both cooperative and microfinance, its Regulatory and supervision are assured by the National Bank of Rwanda (NBR) and Rwanda cooperative Agency(RCA). As cooperative in Rwanda, The SACCO is governed, Regulated and supervised under the principles stipulated in law n° 50/2007 of 18/09/2007 determining the establishment, organization and functioning of cooperative organizations in Rwanda, as were adopted from the International Cooperative Alliance (ICA) that has revised principles which any genuine Cooperative Society must strictly adhere to, are: Voluntary and open membership; Democratic administration and members leadership; Member Economic Participation: -Service and Surplus return to members ; Continuous education to members and leaders ; Autonomous and self-help ; Concern for the community; Cooperation among cooperatives, (ICA, 1995).

For other hand as microfinance, SACCOs are supervised under Microfinance Law No 40/2008 of August 26, 2008 and the implementing regulation No 02/2009, which govern the organization of microfinance activities. There is no specific regulation for SACCOs as a microfinance institution, but there are specific provisions for SACCOs in the Microfinance Law and implementing regulation. The National Bank of Rwanda has a dedicated department for the supervision of microfinance institutions housed within the Financial Stability Directorate, parallel to the Department of Banking Supervision and the Department of Non-Bank Financial Institutions Supervision, which includes insurance and pension companies. For the period under review, the Microfinance Supervision Department has 49 inspectors, 32 of which are newly recruited by NBR and stationed in Branches near the SACCOs.
Regulation and supervision in SACCO by both institutions do not replace the responsibilities of the committees, The Board of Directors which meets to review the progress of the institution and its strategic planning. It also establishes good business, financial, and risk management policies and procedures, and holds management accountable for the effective implementation of those policies. The audit committee which operate to ensure that policies and procedures are implemented promptly and effectively. The audit committee members should be knowledgeable and competent in Finance as an objective check on institution's policies, procedures and systems of control and audit to protect against fraud and mismanagement; and to ensure that management does not misuse its power to use depositors funds for its benefit and maintains industry standards (usually in terms of "CAMEL", Capital adequacy, Asset quality, Management capability/systems, Earnings ratios and Liquidity. (Owango&Kinyanjui, 1998).

2.2. Empirical Literature

Ahmed, Takeda and Shawn (1998) in their study found that loan loss provision has a significant positive influence on non-performing loans. Therefore, an increase in loan loss provision indicates an increase in credit risk and deterioration in the quality of loans consequently affecting bank Financial Performance adversely.

Ahmad and Ariff (2007) examined the key determinants of credit risk of commercial banks on emerging economy banking systems compared with the developed economies. The study found that regulation is important for banking systems that offer multi-products and services; management quality is critical in the cases of loan-dominant banks in emerging economies. An increase in loan loss provision is also considered to be a significant determinant of potential credit risk. The study further highlighted that credit risk in emerging economy banks is higher than that in developed economies.
Ben-Naceur and Omran (2008) in attempt to examine the influence of bank regulations, concentration, financial and institutional development on commercial banks’ margin and profitability in Middle East and North Africa (MENA) countries from 1989-2005 found that bank capitalization and credit risk have positive and significant impact on banks’ net interest margin, cost efficiency and profitability.

Ugirase (2011) conducted a survey of Credit Risk Management Practices by commercial banks in Rwanda. The specific area of research were geared forward identifying the source of credit risk exposures in banks and strategies that the banks have adopted to monitor and mitigate against the credit risk exposures inherent in the operations of their business. To facilitate the attainment of the objectives of this study, questions were administered to credit risk managers and credit managers. From the study it was found that most banks use qualitative loan assessment methods to make credit granting decisions while liquidity runs on the borrowers’ credit concentration and adverse trading by the borrowers were the main sources of credit risk among the banks in Rwanda.

In addition, most banks were found to use loan diversification, banks guarantees and bank covenants to militate against credit risk.

Felix and Claudine (2008) investigated the relationship between bank Financial Performance and credit risk management. It could be inferred from their findings that return on equity (ROE) and return on assets (ROA) both measuring profitability were inversely related to the ratio of non-performing loan to total loan of financial institutions thereby leading to a decline in profitability.

In their study ‘Credit Risk management and Profitability in Commercial Banks in Sweden’ Juanjuann & et al (2009) highlighted that credit risk management has effect on Financial Performance of the institution in order words on the profitability. The analysis
further indicated that the impact of credit risk management on the financial Performance is not the same on all (4) commercial banks sampled. Further the results of the study were limited to banks sampled and were not generalized for all the commercial banks in Sweden. The researchers used regression model to do the empirical analysis. The data was collected from the sample banks annual report (2000-2008).

Kithinji (2010) assessed the effect of credit risk management on the profitability of commercial banks in Kenya. Data on the amount of credit, level of non-performing loans and profits were collected for the period 2004 to 2008. The findings revealed that the bulk of the profits of commercial banks are not influenced by the amount of credit and non-performing loans, therefore suggesting that other variables other than credit and non-performing loans impact on profits. Chen and Pan (2012) examined the credit risk efficiency of 34 Taiwanese commercial banks over the period 2005-2008. Their study used financial ratio to assess the credit risk and was analyzed using Data Envelopment Analysis (DEA). The credit risk parameters were credit risk technical efficiency (CR-TE), credit risk allocative efficiency (CR-AE), and credit risk cost efficiency (CR-CE). The results indicated that only one bank is efficient in all types of efficiencies over the evaluated periods. Overall, the DEA results show relatively low average efficiency levels in CR-TE, CR-AE and CR-CE in 2008.

Kargi (2011) evaluated the impact of credit risk on the profitability of Nigerian banks. Financial ratios as measures of bank Financial Performance and credit risk were collected from the annual reports and accounts of sampled banks from 2004-2008 and analyzed using descriptive, correlation and regression techniques. The findings revealed that credit risk management has a significant impact on the profitability of Nigerian banks. It concluded that banks’ profitability is inversely influenced by the levels of loans and
advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress.

Epure and Lafuente (2012) examined bank Financial Performance in the presence of risk for Costa-Rican banking industry during 1998-2007. The results showed that Financial Performance improvements follow regulatory changes and that risk explains differences in banks and non-performing loans negatively affect efficiency and return on assets while the capital adequacy ratio has a positive impact on the net interest margin.

Al-Khouri 2011) (assessed the impact of bank’s specific risk characteristics, and the overall banking environment on the Financial Performance of 43 commercial banks operating in 6 of the Gulf Cooperation Council (GCC) countries over the period 1998-2008. Using fixed effect regression analysis, results showed that credit risk, liquidity risk and capital risk are the major factors that affect bank Financial Performance when profitability is measured by return on assets while the only risk that affects profitability when measured by return on equity is liquidity risk.

2.3. Critical Review and Research Gap Identification

The empirical study presented above shows that extensive research has been done on the credit risk management practices by the banks. However, much of the studies on the SACCOs have been on Governance, regulation and supervision. No empirical studies have been done on the credit risk management practices employed by the SACCOs.

This study has used both primary and secondary data to fill up this gap in the area of research. The extent to which SACCOs are exposed to credit risk is therefore not well documented in any area of research. The assumption was that since SACCO loans are given on the basis of the members that known each other and known guarantor, the risk is negligible or nonexistent.
Also there was no documented standard method of measuring, assessing and controlling the credit risk in SACCOs. The current trend on the most common methods of credit risk management practices employed by the SACCOS has clearly been known through this study. This study has therefore endeavored to fill these gaps.

2.4. Theoretical Framework

This study was informed by David H. Pyle, The Bank Risk Management Theory.

Why is Risk Management Needed?

Recent financial disasters in financial and non-financial firms and in governmental agencies point up the need for various forms of risk management. Financial misadventures are hardly a new phenomenon, but the rapidity with which economic entities can get into trouble is. The savings and loan (S&L) crisis in the United States took two decades plus serious regulatory ineptness and legislative cupidity to develop into the debacle it became. The manager of the Orange County Investment Pool (OCIP) took less than three years to increase that quasi-bank's potential one-month loss from a significant but perhaps manageable 1.8% to a disastrous 5% of its investors' In writing this paper, I have benefited from a set of notes on risk management by Hayne Leland. Deposit-like claims. Anyone who is aware of the leverage inherent in various interest rate derivatives knows he could have done this faster and even more ruinously had he set his mind to it. To their credit, most regulatory authorities appear to recognize that the core of the problem is not derivatives per se but inadequate risk management. Banks and similar financial institutions need to meet forthcoming regulatory requirements for risk measurement and capital. However, it is a serious error to think that meeting regulatory requirements is the sole or even the most important reason for establishing a sound, scientific risk management system. Managers need reliable risk measures to direct capital
to activities with the best risk/reward ratios. They need estimates of the size of potential losses to stay within limits imposed by readily available liquidity, by creditors, customers, and regulators. They need mechanisms to monitor positions and create incentives for prudent risk-taking by divisions and individuals. Risk management is the process by which managers satisfy these needs by identifying key risks, obtaining consistent, understandable, operational risk measures, choosing which risks to reduce and which to increase and by what means, and establishing procedures to monitor the resulting risk position. Potential one-month losses estimated at a 5% probability of occurrence. See Jorion (1995) for a thorough and entertaining discussion of the Orange County fiasco.

Regulatory capital requirements result from the need to control the moral hazard inherent in the bank/depositor relationship when there are governmental deposit guarantees (explicit or implicit). Merton (1977) provided the classic theoretical demonstration of this moral hazard and its determinants.

**What Are The Key Risks?**

Risk, in this context, may be defined as reductions in firm value due to changes in the business Environment. Typically, the major sources of value loss are identified as:

Market risk is the change in net asset value due to changes in underlying economic factors such as interest rates, exchange rates, and equity and commodity prices. Credit risk is the change in net asset value due to changes the perceived ability of counter-parties to meet their contractual obligations. Operational risk results from costs incurred through mistakes made in carrying out transactions such as settlement failures, failures to meet regulatory requirements, and untimely collections. Performance risk encompasses losses resulting from the failure to properly monitor employees or to use appropriate methods (including "model risk"). With the exception of model risk, financial theory does not have
a lot to say about the latter two Types of risk, though as the managers of various firms have discovered to their regret they can be highly important.

Consequently, in what follows, I focus on the theoretical underpinnings of market risk management with a few comments on credit risk.

**Measuring Market Risk**

There are significant differences in the internal and external views of what is a satisfactory market risk measure. Internally, bank managers need a measure that allows active, efficient management of the bank's risk position. Bank regulators want to be sure a bank's potential for catastrophic net worth loss is accurately measured and that the bank's capital is sufficient to survive such a loss.

**Timeliness and Scope**

Both managers and regulators want up-to-date measures of risk. For banks active in trading, this may mean selective intraday risk measurement as well as a daily measurement of the total risk of the bank. Note, however, that the intraday measures that are relevant for asset allocation and hedging decisions are measures of the marginal effect of a trade on total bank risk and not the Stand-alone riskiness of the trade. Regulators, on the other hand, are concerned with the overall Riskiness of a bank and have less concern with the risk of individual portfolio components. Nonetheless, given the ability of a sophisticated manager to "window dress" a bank's position on short notice, regulators might also like to monitor the intraday total risk. As a practical matter, they probably must be satisfied with a daily measure of total bank risk. The need for a total risk measure implies that risk measurement cannot be decentralized. Finally, given costly regulatory capital requirements, choices among alternative assets require managers to consider
risk/return or risk/cost trade-offs where risk is measured as the change in portfolio risk resulting from a given change in portfolio composition. The appropriate risk scaling measure depends on the type of change being made.

**Efficiency**

Risk measurement is costly and time consuming. Consequently, bank managers’ compromise between measurement precision on the one hand and the cost and timeliness of reporting on the other. This trade-off will have a profound effect on the risk measurement method a bank will adopt. Bank regulators have their own problem with the cost of accurate risk measurement which is probably one reason they have chosen to monitor and stress test bank risk measurement systems rather than undertaking their own risk measurements.

**Information Content**

Bank regulators have a singular risk measurement goal. They want to know, to a high degree of precision, the maximum loss a bank is likely to experience over a given horizon. They then can set the bank’s required capital (i.e. its economic net worth) to be greater than the estimated maximum loss and be almost sure that the bank will not fail over that horizon. In other words, regulators should focus on the extreme tail of the bank’s return distribution and on the size of that tail in adverse circumstances. Bank managers have a more complex set of risk information needs. In addition to shared concerns over sustainable losses, they must consider risk/return trade-offs.

**Measuring Credit Risk**

To be consistent with market risk measurement, credit risks are defined as changes in portfolio value due to the failure of counter-parties to meet their obligations or due to
changes in the Market’s perception of their ability to continue to do so. Ideally, a bank
risk management system would integrate this source of risk with the market risks
discussed above to produce an overall Measure of the bank's loss potential. Traditionally,
banks have used a number of methods...credit scoring, ratings, credit committees...to
assess the creditworthiness of counter-parties. At first glance, these approaches do not
appear to be compatible with the market risk methods. However, some banks are aware of
the need for parallel treatment of all measurable risks and are doing something about it.
Unfortunately, current bank regulations treat these two sources of risk quite differently
subjecting credit risk to arbitrary capital requirements that have no scientific validity.
There is danger in this since it can lead to capital misallocation and imprudent risk-taking.

If banks can "score" loans, they can determine how loan values change as scores change.
If codified, these changes would produce over time a probability distribution of value
changes due to credit risk. With such a distribution, the time series of credit risk changes
could be related to the market risk and we would be able to integrating market risk and
credit risk into a single estimate of value change over a given horizon. This is not a "pipe
dream". Considerable research on the credit risk of derivatives, including paper at this
conference, is available. Obviously, banks themselves are in the best position to produce
the data series necessary for broader application of this approach. If it is reasonable to
require banks to produce and justify market risk measurement systems, why can't they be
required to do the same for credit risk and to integrate the two?

After defining those different types of risks regarding the Banks in this theory, the
researcher was focusing on the credit risk Management in SACCOs in Rwanda.
2.5 Conceptual Framework

The conceptual framework interlinks the independent variable and dependent variable as stated below:

**Independent variable**

**Credit Risk Management Practices**
- Credit policy formulation
- Credit analysis and client appraisal
- Credit risk monitoring and control
- Credit insurance
- Consultation with CRB

**Dependent variable**

**Financial Performance**
- Non-performing loans rate/Delinquency rate.
- Return on equity
- Return on assets
- Solvency ratio

**INTERVENING VARIABLES**
- Governance
- Regulation and supervision

**Source: Researcher**

**Figure 2.2: Conceptual Framework**

The credit risk management practice is the Independent Variable and is employed by SACCOs to explain variation or changes in the Financial Performance of SACCOs (Dependent Variable). The application or use of these practices will determine the level of Financial Performance of the SACCOs.

SACCO Financial Performance as the dependent variable will be measured by Financial Performance (parameter is ROA, ROE and NPL Ratios), Loan Recovery, good or bad governance, regulation and Supervision.
For SACCOs, loans are the largest and most obvious source of credit risk and therefore the Financial Performance of the SACCO will be determined by the Systems and procedures in place for identification, measurement, monitoring and control of credit risk. Conceptually, financial institutions manage credit risk for two main purposes: to enhance interest income (profitability) and to reduce loan losses (bad debts) which results from credit default (Sim, 2006). It is expected that SACCOs with better credit risk management practice will have lower loan losses (non-performing loans).

2.6 Summary

The theoretical and empirical analysis found Credit Risk Management as vital in Management of Banks. In a study carried out on four Sweden banks, it was found that better credit risk management results in better bank Financial Performance. The summary of the findings was as follows "Thus, it is of crucial importance that banks practice prudent credit risk management and safeguarding the assets of the banks and protect the investors' interests. The study summarizes that banks used different credit risk management tools, techniques and assessment models to manage their credit risk, and that they all have one main objective, i.e. to reduce the amount of loan default which is a principal cause of bank failure. The study also reveals that banks with good or sound credit risk management policies have lower loan default ratios (bad loans) and higher interest income (profitability). The study also reveals banks with higher profit potentials can better absorb credit losses whenever they crop up and therefore record better Financial Performances. Furthermore, the study shows that there is a direct but inverse relationship between profitability (ROE, ROA) and the ratio of non-performing loans to capital (NPL\C)” (Takang&Ntui, 2008)
The theory analyzed has introduced a very important element in Banks. i.e. Risk and Return, and Holding portfolio of Assets to diversify risk. Additionally, the theorists have much interested on credit risk management tools and practices for the banks and they are silent about the credit risk management practices for the SACCOs. So from the literature review there are gaps identified and thus necessitating the Study.
CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter deals with how the research was conducted in order to achieve the stated objectives and it presents the research design and methodology that has to be used to carry out the research. It presents the research design, the population, and sample design, data collection methods, data analysis procedures and ethical consideration.

3.1 Research Design

The research design used in this study was descriptive survey method. Which involved the uses of questionnaires to find out why things are the way they are. The SACCOs selected were surveyed mainly to establish the relationship between credit risk management practices and financial performance from year 2011 to 2014. Relevant questions were administered to the sample population and answers were recorded on the questionnaire sheet.

3.2 Target Population

The target population in the study was drawn from the thirteen (13) SACCOs in Rutsiro District which are registered by Rwanda Cooperative agency (RCA). The manager and the three chairpersons of board (Board of directors, audit committee and credit committee) in each SACCO were targeted, giving a population of fifty two.

3.3 Sample Design

The study adopted a complete census of a thirteen (13) SACCOs operating in in Rutsiro District. This was because the number of SACCOs was small, making it possible for the researcher to reach the whole population within a reasonable time. As provided in the Cooperative Societies Act, each cooperative society should have a minimum of three and a maximum of five board members elected by the general assembly members.
The respondents in this study were three chairpersons of board (Board of directors, audit committee and credit committee) and the manager in each SACCO, as they were in a position to give valuable information necessary for successful completion of this study. This gives fifty two (52) respondents as shown in the below table, a number considered appropriate going by the one widely used rule of the thumb that require a sample size of thirty (30) or more (Daniel & Terrel, 1975).

Table 3.3: Table of Targeted Respondents

<table>
<thead>
<tr>
<th>POSITION</th>
<th>Number In each SACCO</th>
<th>Total number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairperson</td>
<td>3</td>
<td>39</td>
</tr>
<tr>
<td>Manager</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>52</td>
</tr>
</tbody>
</table>

Source: Researcher

3.3.1 Sample Size

The sample size in this research was thirteen SACCOs base in Rutsiro district. This was because the number of SACCOs was small, making it possible for the researcher to reach the whole population within a reasonable time and come up with the real result with the relationship between the credit risk management and financial performance of SACCOs.

3.3.2 Sampling Technique

This study based on non-probability techniques, using the purposive sampling technique. Purposive sampling technique is to be used especially where and when the respondents are able to provide the researcher adequate information and experience in the area of credit risk management practices and Financial Performance of SACCOs to provide the credibility to the data gathered. The information from such respondents helped the researcher to understand the credit risk management practices used by SACCOs and how were affecting the Financial Performance of SACCOs.
3.4 Data collection Methods

3.4.1 Data Collection Instruments

Data was collected by use of a questionnaire, containing open ended and closed ended questions, filled by the three chairpersons (board of directors, audit committee and credit committee) and the manager of each SACCO. Permission to collect data from SACCOs was obtained from the District Cooperative Officer in the respective district. The questionnaires were delivered to the respondent by the researcher in person and were collected at an agreed later date.

3.4.2 Administration of Data Collection Instruments

The questionnaire was supplemented by a data collection sheet to collect information for a period of 4 years (2011-2014). The questionnaire was formulated with both open ended and close ended questions based on the objectives of the study. Both the questionnaires and the Data collection sheet were administered to the SACCO’ managers through drop and pick method while the chairperson would only fill the questionnaire.

Observation method: This had to provide the means of verifying information answered in the questionnaires and a detailed understanding of values, motives and practices of the respondents. With the aid of this method, the researcher was able to draw comparisons among respondents from the 13 SACCOs that were used in the study.

The structured interview schedule used to provide a framework of key Point on the topic around which investigative discussion is built. The researcher conducted an interview with Managers and Chairpersons of the committees of the 13 SACCOs each.

Documentation technique: These consists of reading textbooks providing several related literature, various reports and journals with information related to financial statement and financial statements analysis. Financial documents like the balance sheet, Employee records and other relevant documents concerning Rutsiro SACCOs were also consulted.
3.4.3 Reliability and Viability

Validity as noted by Kothari (2004) is the degree to which result obtained from the analysis of the data actually represents the phenomenon under study. Content validity was employed in this study and it was a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. To establish the validity of the research instrument the researcher would seek the opinions of experts in the field of study especially the supervisor from the national bank of Rwanda and Rwanda cooperative agency. This helped to improve the content validity of the data that being collected.

Reliability on the other hand refers to a measure of the degree to which research instruments yield consistent results (Mugenda & Mugenda, 2003). The researcher would select a pilot group of 5 individuals from the target population to test the reliability of the research instruments. From this pilot study the researcher was able to detect questions that need editing and those that are ambiguous. The final questionnaire was then printed out and used to collect data for analysis.

3.5 Data analysis Procedures

The entry and analysis of data were done by using SPSS (Statistical Package for Social Sciences version 16) program. The data was presented in form of tabulations, charts, graphs and percentages. These formed the basis of interpretation of the data and presentation techniques. This enabled the researcher to determine the degree of significance or insignificance and nature of the relationship among the variables under investigation on the dependent variable. Other criterion based on the frequencies and various percentage levels and bar graphs to decide on the opinions.
3.6 Ethical Considerations

The work was conducted with the understanding that no advanced harm or injury is caused to the respondents or the responding business organization in any form. This was guarded against by seeking the consent, anonymity of the respondents, and soliciting their voluntary participation. The literature used were duly credited to respective authors and this project work was not copied from existing academic work, rather the ideas and philosophies of scholars are synthesized into a comprehensive document to deepen researcher and readers’ understanding of effect of credit risk management practices on Financial Performance of SACCO.

The research project was also carried in accordance with Mount Kenya University’s policies and procedures. And all with the respect of ethical principles such as Honesty, Objectivity, Integrity, Carefulness, Openness, Respect for Intellectual Property, Confidentiality, Responsible Publication, Responsible Mentoring, Respect for colleagues, Social Responsibility, Non-Discrimination, Competence and Legality.
CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.0 Introduction

This chapter focuses on analyzing and interpreting data against the originally established research questions. The analyzed and interpreted data were gathered through documentation, questionnaires and interview. The presentation of results was done by tabulation format whereby the tables show frequency and percentage. Data analysis was done by using cross tabulation tables which show relationship between dependent variable and independent variable. The existences of relationship between variables were done by using chi-square statistical test. Chi-square test is statistical technique which is used to test the relationship between qualitative variables especially those which assume ordinal measurement. To perform the chi-square test the P alpha of 0.05 was used to approve or disapprove whether there is relationship between independent and dependent variables. If the tabulated P value is less than P alpha it means that the relationship between variables is statistically significant if not the relationship between variables is not statistically significant. The researcher was guided by the following objectives around which data are presented, analyzed and interpreted:

Objective one: To analyze the level of credit risk Management practices in SACCOs in Rutsiro District, Rwanda.

Objective two: To analyze the level of Financial performance in SACCOs in Rutsiro District, Rwanda.

Objective Three: To establish the relationship between the credit risk Management and Financial performance in SACCOs in Rutsiro District, Rwanda.
4.1 Demographic characteristics of the respondents.

This section shows the background of the respondents according to their positions, gender, age, Qualifications, and the name of the SACCOs in which they are coming from.

4.1.1 Respondents by Positions

This section presents the categories in which the respondents were found. As shown in the Table 4.4 the respondents were categorized into two categories: SACCO Managers and Chairpersons

<table>
<thead>
<tr>
<th>Table 4.4: Distribution of the respondents by their positions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>SACCO Manager</td>
</tr>
<tr>
<td>Chairpersons</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: primary data

The respondents of this study were included SACCO Managers (13) 25 % and Chairpersons 39(75%)

4.1.2 The respondents by Gender

In this study, gender was respected. Male and female people were both involved in this study.
Table 4.5: Distribution of the respondents by their gender

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>23</td>
<td>44.2</td>
<td>44.2</td>
<td>44.2</td>
</tr>
<tr>
<td>Male</td>
<td>29</td>
<td>55.8</td>
<td>55.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: primary data

Out of the 52 respondents as shown from Table 4.5, 23 (44.2\%) were females while 29 (55.8\%) were males. This was an indication that Male respondents dominated relatively in the study.

4.1.3 Respondents by Age

This section illustrates the age group in which respondents were found. As shown by Table 4.6, respondents were categories into three age groups

Table 4.6: Distribution of the respondents by their age

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 40</td>
<td>6</td>
<td>11.5</td>
<td>11.5</td>
<td>11.5</td>
</tr>
<tr>
<td>Between 21-30</td>
<td>19</td>
<td>36.5</td>
<td>36.5</td>
<td>48.1</td>
</tr>
<tr>
<td>Between 31-40</td>
<td>27</td>
<td>51.9</td>
<td>51.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data

Table 4.6 illustrates that the highest percentage of respondents 27 (51.9\%) were aged between 31 and 40 and the least number of respondents 6 (11.5\%) were above 40 years. The respondents aged between 21 and 30 were 19 respondents (36.5\%)
4.1.4 Respondents by their Qualifications

The respondent’s views on the qualifications as it is indicated in the Table 4.7:

Table 4.7: Distribution of the respondents by their qualifications

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Masters and Above</td>
<td>2</td>
<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
</tr>
<tr>
<td>Primary Certificate</td>
<td>12</td>
<td>23.1</td>
<td>23.1</td>
<td>26.9</td>
</tr>
<tr>
<td>Secondary Certificate</td>
<td>14</td>
<td>26.9</td>
<td>26.9</td>
<td>53.8</td>
</tr>
<tr>
<td>University Degree</td>
<td>24</td>
<td>46.2</td>
<td>46.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data

Out of 52 Respondents of this Study 2(3.8%) were graduated at masters level, 24(46.2%) were university degree holders, 12(23%) were primary certificate holders and finally 14 (26.9%) were secondary certificates holders. As it is indicated in Table 4.7 above.
4.1.5 Respondents by Umurenge SACCOs working in

As it is indicated in the table 4.8 below, the respondents came from different 13 SACCOs

Table 4.8: Distribution of the respondents by SACCOs working in

<table>
<thead>
<tr>
<th>SACCO</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boneza</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Gihango</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>15.4</td>
</tr>
<tr>
<td>Kigeyo</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>23.1</td>
</tr>
<tr>
<td>Kivumu</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>30.8</td>
</tr>
<tr>
<td>Manihira</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>38.5</td>
</tr>
<tr>
<td>Mukura</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>46.2</td>
</tr>
<tr>
<td>Murunda</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>53.8</td>
</tr>
<tr>
<td>Musasa</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>61.5</td>
</tr>
<tr>
<td>Mushonyi</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>69.2</td>
</tr>
<tr>
<td>Mushubati</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>76.9</td>
</tr>
<tr>
<td>Nyabirasi</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>84.6</td>
</tr>
<tr>
<td>Ruhango</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>92.3</td>
</tr>
<tr>
<td>Rusebeya</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: primary data
4.2 Presentation of Findings

This study assessed the way The Credit risk Management Practices affect the financial Performance in SACCOs Rutsiro District, Rwanda. Before examining the themes channeling this research, the researcher anticipated on the Level of Credit Risk Management practices, the level of financial performance and finally the relationship between Credit risk Management and financial performance of SACCOs in Rutsiro District, Rwanda. The researcher used cross tabulation table and Chi Square test to measure the nature of relationship between variables.

4.2.1 Level of Credit risk Management practices

This section presents the views given by respondents about the level of credit risk Management practices. Respondents were asked to provide information by agreeing or by disagreeing on the credit risk Management practices. The responses given were therefore;

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>18</td>
<td>34.6</td>
<td>34.6</td>
<td>34.6</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>3.8</td>
<td>3.8</td>
<td>38.5</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>30</td>
<td>57.7</td>
<td>57.7</td>
<td>96.2</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>2</td>
<td>3.8</td>
<td>3.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data

Table 4.9 shows that 30 respondents representing 57.7% strongly agreed there are the credit risk management practices in their respective SACCOs. 18 respondents (34.6%) had agreed on the credit risk management and procedures. Moreover, 2 respondents representing 3.8% disagreed that there was no credit risk management practices in their respective SACCOs and finally The small number of respondents 2 (3.8%) was strongly
disagreed on the implementation of credit risk Management practices in their SaccoS.

Considering the information provided by the highest percentage of respondents as it is indicated in table 4.9 above, the researcher confirmed that there was high level of putting into practice the credit risk management practices in SaccoS of Rwanda.

The researcher wanted to know about the requirements for the member to get loan when he asked the respondents they said “having repayment capacity, not having credit in the other bank, Being in Sacco at least during three months, his/her account in Sacco should be active (deposit and withdraws, must have the collateral which is matching with the requesting amount and finally having the security savings.

“The researcher also wanted to know whether the credit risk management practices help to improve the financial performance in SaccoS, therefore, he interviewed the respondents ” they agreed that the credit risk management affect the financial performance because, credit risk management involve credit policy formulation, credit analysis and client appraisal credit risk monitoring and control, and they said that they mitigate the credit risk by , Credit policy formulation, Credit insurance, Consultation with CRB which are really the factors of improving the financial performance.

The researcher also wanted to know the factors which causes the loan defaulting and then the researcher interviewed the respondents those causes and said that these are the external factors and internal factors the external factors they listed were the following; Death, Disasters and the change of the loan policy and the internal factors they listed were the following; poor loan management, and the deviation of the project.

The researcher asked the respondents the measures and practices they use to mitigate the credit risk and said” Strong client appraisal, ensure CRB Report, reminder for loan repayment, and strong recovery plan for loan in arrears. The researcher asked the
respondents if they consult the C R B in their SACCOs before granting loans” about 75% of the respondents agreed and other 25% disagreed that. And finally the researcher wanted to know the extent at which the credit risk management affects the financial performance of SACCOs in Rwanda. Therefore, He interviewed the respondents and said “we excellently agreed that the credit risk management have the positive effect on the financial performance of SACCOs in Rwanda.

Table 4.10 Respondents views on the credit policy as part of SACCO management strategy

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>47</td>
<td>92.3</td>
<td>93.3</td>
<td>91.3</td>
</tr>
<tr>
<td>No</td>
<td>5</td>
<td>7.7</td>
<td>7.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: primary data

The research found that 47 respondents representing 92.3% agreed that the credit policy is part of Sacco management strategy; while 5 respondents representing 7.7% of respondents did not agree that the credit policy is part of Sacco management strategy.
Table 4.11: The views of the respondents about the credit rating worthiness parameters in use by the SACCOs to give new loans.

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delinquencies</td>
<td>13</td>
<td>25</td>
<td>25</td>
<td>25.0</td>
</tr>
<tr>
<td>Bankruptcies</td>
<td>26</td>
<td>50</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>Outstanding debts</td>
<td>6</td>
<td>12</td>
<td>87</td>
<td>87</td>
</tr>
<tr>
<td>New application for Credit</td>
<td>2</td>
<td>3.8</td>
<td>90.8</td>
<td>98.5</td>
</tr>
<tr>
<td>Credit</td>
<td>4</td>
<td>7.7</td>
<td>98.5</td>
<td>98.5</td>
</tr>
<tr>
<td>Length of Credit History</td>
<td>1</td>
<td>1.9</td>
<td>98.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Types of credit in Use</td>
<td>52</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: primary data

It was found that out of 52 respondents, 26 respondents representing 50% rated Bankruptcies as the most worthiness parameter used by the SACCO to give new Loans; 13 Respondents Representing 25% rated Delinquencies; 6 Respondents Representing 12% rated Outstanding debts; 4 Respondents representing 7.7% rated Length of credit history; 2 respondents representing 3.8% rated new application for credit and lastly 1 respondent representing 1.9% rated types of credit in use.
Table 4.12: The views of the respondents about the credit criteria used by SACCOs to determine credit worthiness of a member

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>5</td>
<td>9.6</td>
<td>9.6</td>
<td>9.60</td>
</tr>
<tr>
<td>Character, Reputation and history</td>
<td>22</td>
<td>42.34</td>
<td>51.94</td>
<td>51.94</td>
</tr>
<tr>
<td>Existing personal debt</td>
<td>4</td>
<td>7.7</td>
<td>59.64</td>
<td>59.64</td>
</tr>
<tr>
<td>accounts from other credit sources</td>
<td>2</td>
<td>3.84</td>
<td>63.48</td>
<td>63.48</td>
</tr>
<tr>
<td>Employment History</td>
<td>1</td>
<td>1.92</td>
<td>69.24</td>
<td>69.24</td>
</tr>
<tr>
<td>Potential for long-term success</td>
<td>10</td>
<td>19.23</td>
<td>88.47</td>
<td>88.47</td>
</tr>
<tr>
<td>Ability to repay the loan</td>
<td>6</td>
<td>11.53</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Past earning and future prospects</td>
<td>52</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: primary data
The research found that out of 52 respondents, 22 representing 42.34% agreed that the most credit criteria used by SACCOs to determine credit worthiness of a member was the Character, Reputation and credit history; 10 respondents representing 19.23% agreed with ability to repay the loan with earnings from other investments; 6 respondents representing 11.53% agreed with Past earnings ,Projected cash flow and future prospectus; 5 respondents representing 9.6% agreed with Income; 4 respondents representing 7.7% agreed with Existing Personnel Debts; 2 respondents representing 3.84% agreed with employment history; 2 respondents representing 3.84% agreed with 3.84 and lastly 1 respondent representing 1.92% agreed with Potential for long term success.

4.2.2 Level of financial performance in SACCOs of Rwanda

This section presents the views given by respondents about the level of financial performance in SACCOs of Rwanda. Respondents were asked to provide information by agreeing or by disagreeing on the financial performance. The responses given were;

Table 4.13: The Views of the respondents about the level of Financial Performance in SACCOs

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>11.5</td>
<td>11.5</td>
<td>11.5</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>7.7</td>
<td>7.7</td>
<td>19.2</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>40</td>
<td>76.9</td>
<td>76.9</td>
<td>96.2</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>2</td>
<td>3.8</td>
<td>3.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: primary data

Table 4.13 shows that 40 respondents representing 76.9% strongly agreed there is the financial performance of SACCOs. 6 respondents (11.5%) had agreed on the financial performance in SACCOs in Rwanda. Moreover, 4 respondents representing 7.7%
disagreed that there was no financial performance in their respective SACCOs and finally the small number of respondents 2 (3.8%) were strongly disagreed on the financial performance in their SACCOs. Considering the information provided by the highest percentage of respondents as it is indicated in table 4.13 above, the researcher confirmed that there was high level of financial performance in SACCOs of Rwanda. And apart from that the researcher wanted to know if the SACCOs managers ensure that there is non-performing loan in Their SACCOs and then he interviewed the respondents and said that they always do that in order to put in place the financial performance in their SACCOs.

Finally the researcher interviewed the measures they put in place in ensuring regular loan repayment, recovery of loans in arrears they said” before giving loan they ensure that the member has capacity of paying loan, Strong client appraisal, ensure the C R B report, ensure loan insurance, reminder the loan repayment. And finally the researcher wanted to know whether the SACCO managers ensure the return on equity and assets and then interviewed the respondents and said “we totally agree that we ensure that return on equity and assets in order to promote the financial sustainability of The SACCOs.

4.2.3 Relationship between Credit risk Management practices and financial performance of SACCOs in Rwanda

In this research credit risk management procedures was looked for the Credit policy formulation, Credit analysis and client appraisal, Credit risk monitoring and control, Credit insurance and Consultation with CRB. The financial performance of SACCOs was measured by looking at the assumptions of respondents on how they judge the financial success of SACCOs in Rwanda in terms of Non-performing loans rate (NPLs ratio)/Delinquency rate, Return on equity, Return on assets and the solvency ratio. The chi-square test was used to test whether the relationship between Credit risk Management
Practices and Financial performance of SACCOs is statistically significant. If the tabulated p value is less than the p alpha of 0.05 the relationship is statistically significant if not the relationship is not statistically significant.

Table 4.14: The Relationship between Credit risk Management practices and the financial performance of SACCOs in Rwanda

<table>
<thead>
<tr>
<th>Level of Financial Performance in SACCOs in Rwanda</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-performing loans rate</td>
<td>Return on equity</td>
</tr>
<tr>
<td>Strongly Agree Count</td>
<td>29</td>
</tr>
<tr>
<td>% of Total</td>
<td>55.8%</td>
</tr>
<tr>
<td>Agree Count</td>
<td>11</td>
</tr>
<tr>
<td>% of Total</td>
<td>21.2%</td>
</tr>
<tr>
<td>Disagree Count</td>
<td>0</td>
</tr>
<tr>
<td>% of Total</td>
<td>.0%</td>
</tr>
<tr>
<td>Strongly Disagree Count</td>
<td>0</td>
</tr>
<tr>
<td>% of Total</td>
<td>.0%</td>
</tr>
<tr>
<td>Total Count</td>
<td>40</td>
</tr>
<tr>
<td>% of Total</td>
<td>76.9%</td>
</tr>
</tbody>
</table>

Source: primary data

As it is indicated in the Table 4.14 above 29 (55.8%) respondents out of 52 respondents strongly agreed that the credit risk management contribute to much the financial performance of SACCOs in Rwanda, 19 (36.5%) respondents out of 52 respondents
agreed that the credit risk management practices affect positively the financial performance of SACCOs in Rwanda, 2(3.8%) and 2(3.8%) strongly disagreed and disagreed respectively that the credit risk management practices affect the financial performance of SACCOs in Rwanda. Therefore from the findings indicated in the table 4.8, the researcher confirmed that the credit risk management practices contribute much to the financial performance of SACCOs in Rwanda and finally the researcher wanted to know the extent at which the credit risk management practices affect the financial performance in SACCOs in Rwanda, and He interviewed the respondents, they said the credit risk Management excellently affect the financial performance of SACCOs in Rwanda.

Table 4.15: Chi-Square Test between Credit risk Management practices and financial performance of SACCOs in Rwanda

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>91.137a</td>
<td>9</td>
<td>.000</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>45.594</td>
<td>9</td>
<td>.000</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>33.805</td>
<td>1</td>
<td>.000</td>
</tr>
</tbody>
</table>

N of Valid Cases 52

Source: primary data

This test is done through the row of Pearson Chi-square. Returning to the relation rule here the relationship between credit risk management practices and financial performance of SACCOs of Rwanda is statistically significant due to the P value (Asymp. Sig.) Of 0.000, which is less than 0.05(P-Alpha).
CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMMENDATIONS

5.0 Introduction
This chapter discusses the findings of the study as presented in chapter four. It also presents the conclusions arising from the study and recommendations, which could improve the financial performance of SACCOs, summary of findings, and suggestions for further study.

5.1 Summary of findings
This study entitled’’ Credit risk Management practices and financial performance of SACCOs in Rutsiro District, Rwanda.’’ The study was comprehensively guided by the following objectives as it indicated in chapter one.

i) To analyze the level of Credit risk Management practices in SACCOs in Rutsiro District, Rwanda

ii) To analyze the level of financial performance of SACCOs in Rutsiro District, Rwanda

iii) To establish the relationship between the Credit risk Management practices and the financial performance of SACCOs in Rutsiro District, Rwanda.

In this research, a great number of the respondents as indicated in chapter four, who participated in this study, revealed that Credit risk Management practices affects positively the financial performance of SACCOs in Rutsiro District, Rwanda.
5.1.1 Level of Credit risk management practices in SACCOs in Rutsiro District, Rwanda

The first research question as indicated in chapter one, intended to analyze the level of Credit risk Management practices. According to the great number of the respondents 30(57.6%) strongly agreed and 18(34.6%) agreed that the level of Credit risk management practices is high as indicated in table 4.9.

5.1.2 Level of financial performance of SACCOs in Rutsiro District, Rwanda.

The second research question as indicated in chapter one, intended to analyze the level of financial performance of SACCOs in Rutsiro District, Rwanda. According to the great number of the respondents 40(76.9%) strongly agreed and 6(11.5%) agreed that the level of financial performance is statistically significant as indicated in table 4.13 in chapter four

5.1.3 Relationship between credit risk management practices and financial performance of SACCOs in Rutsiro District, Rwanda.

The third research question as indicated in chapter one, intended to analyze the effect of the credit risk Management practices and financial performance of SACCOs in Rutsiro District, Rwanda. As it is indicated in table 4.15. The calculated P- value was 0.000 which is less than 0.05.

Therefore, the credit risk management practice enhances the financial performance, because the relationship between the credit risk management practices and financial performance is statistically significant.

5.2 Conclusion

The following conclusions drawn as a result of the research work carried out in the area of Credit risk Management practices and financial performance of SACCOs in Rutsiro
District, Rwanda. And also reflect both theoretical and practical lessons which can be drawn from the study.

For the research question one the researcher confirmed that there is high level of credit risk management practices in SACCOs in Rutsiro District, Rwanda. The researcher also confirmed that there is high financial performance of SACCOs in Rwanda. And finally the researcher confirmed that there is the positive relationship between Credit risk Management practices and financial performance of SACCOs in Rutsiro District, Rwanda. Moreover, the researcher confirmed that Credit risk management practices contribute much to the financial performance in SACCOs in Rwanda.

5.3 Recommendations

From the drawn conclusions the following recommendations were made.

Implementation of the credit risk management practices need to be emphasized and given enough awareness so as to enable SACCOs Managers understands them. These will help to prescribe the standard of the expected financial performance.

The SACCO Managers and other concerned people are advised to manage the credit risks in terms of Credit policy formulation, Credit analysis and client appraisal, Credit risk monitoring and control, Credit insurance, and finally Consultation with CRB.

The SACCO managers and other concerned people are requested to look for financial performance in the side of Non-performing loans rate (NPLs ratio)/Delinquency rate, Return on equity, Return on assets and Solvency ratio.
5.4 Suggestions for further study

This study was specifically carried out in Rutsiro District. However there are many other Districts in Rwanda where the same research can be carried out. The same research can be carried out in other districts or the whole country for comparative analysis.

This study was focusing on Umurenge SACCOs. However there are many other types of financial institutions. Further research can be carried out by focusing on those types of Institutions.

The extent to which external regulation, internal supervision and governance contribute to the employment of credit risk management practices and to the eventual performance of the SACCOs need to be explored.
REFERENCES


Rwanda.


University.


APPENDIX 1: AUTHORIZATION LETTER

Mount Kenya University
KIGALI CAMPUS
SCHOOL OF POST GRADUATE STUDIES
RESEARCH AUTHORIZATION

7th October, 2015

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

MR. NDARUHUTSE ALPHONSE MBA/0568/13

This is to confirm that the above named person is a bona fide student of Mount Kenya University (Kigali Campus). He is currently carrying out research work to enable him complete his Master of Business Administration (Finance & Accounting Option) degree program. The title of his research is:

CREDIT RISK MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF SACCOS IN RWANDA: A SURVEY OF RUTSIRO DISTRICT BASED SACCOS

The information received will be confidential and for academic purpose only.

Any assistance accorded him to complete this study will be highly appreciated.

Thank you.

[Signature]

Tomi Mulegi, PhD
COORDINATOR SCHOOL OF POST GRADUATE STUDIES
APPENDIX 2: PERMISSION LETTER FROM RUTSIRO DISTRICT

NDARUHUTSE Alphonse
Mount Kenya University
Kigali -Campus

Dear Sir/Madam

Re: Authorization of Conducting a Research project

I am a student at Mount University pursuing MBA degree in Accounting and finance. In Partial Fulfillment of the requirement for the degree, am supposed to carry out a research project on “Credit risk management practices and Financial Performance of SACCO in Rutsiro District, Rwanda. A survey of Rutsiro district”.

The information collected will be used for academic purposes only and will be treated in strict confidence. Please your authorization will help researcher to Dispatch questionnaires and interviews to the Respondents.

Attached herewith is the authority letter from the University.

Thank you.

NDARUHUTSE Alphonse
MBA student, Mount Kenya University
Dear respondent

Re: Research project

I am a student at Mount University pursuing MBA degree in Accounting and finance. In Partial Fulfillment of the requirement for the degree, am supposed to carry out a research project on ‘Credit risk management practices and Financial Performance of Saving and Credit Cooperative Organizations: A survey of Rutsiro district, Rwanda ’. The information collected will be used for academic purposes only and will be treated in strict confidence. Please feel free, be frank, Honest and objective as you respond to the Questionnaire.

Attached herewith is the authority letter from the University.

Thank you.

NDARUHUTSE Alphonse

MBA student, Mount Kenya University
B: BACKGROUND INFORMATION AND QUESTIONS ABOUT INDEPENDENT VARIABLE

B 1: BACKGROUND INFORMATION

In this section you are requested to tick the alternative about your background that is most appropriate

I Sex: Igitsina

a) Male
b) Female

II Age in Years

a) Under 20
b) Between 21-30
c) Between 31-40
d) Above 40

III: SACCO Managers

<table>
<thead>
<tr>
<th>No</th>
<th>Name of SACCO</th>
<th>Tick the name of SACCO you are belonging in</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BONEZA</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>GIHANGO</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>KIGEYO</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>KIVUMU</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>MANIHIRA</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>MUKURA</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>MURUNDA</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>MUSASA</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>MUSHONYI</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>MUSHUBATI</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>NYABIRASI</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>RUHANGO</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>RUSEBEYA</td>
<td></td>
</tr>
</tbody>
</table>
VI: POSITION

SACCO Manager

Chairperson

V: ACADEMIC QUALIFICATION(S)

a) Primary Certificate

b) Secondary Certificate

c) University Degree/License

d) Masters and above

PART ONE: QUESTIONNAIRES TO BE FILLED

C: QUESTIONS ABOUT INDEPENDENT VARIABLE: CREDIT RISK MANAGEMENT PRACTICES

C₁: Using the key given, choose or tick the right alternative that fits your opinion on the credit risk management practices as follows:

SA=Strongly Agree, A=Agree, D=Disagree, SD= Strongly Disagree.

<table>
<thead>
<tr>
<th>No</th>
<th>Aspects of the credit risk Management practices</th>
<th>SA</th>
<th>A</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Credit policy formulation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Credit analysis and client appraisal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Credit risk monitoring and control</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Credit insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Consultation with C R B</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Collaterization</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Guarantee</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Shareholding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Loan default reports</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>System defaulters follow up</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Creating loans in installment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Internal credit rate System</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2. Is credit risk policy part of the SACCO Management strategy?
   a) Yes ☐
   b) No ☐

3. Tick the credit rating worthiness parameters in use by the SACCO to give new Loans.
   a) Delinquencies ☐
   b) Bankruptcies ☐
   c) Outstanding debts ☐
   d) Length of credit history ☐
   e) New applications for credit ☐
   f) Types of credits in use ☐

4. Which of the following (or combination) is the credit criteria used by the SACCO to determine credit worthiness of a member?
   a) Income ☐
   b) The character, reputation and credit History. ☐
   c) Existing personal debt ☐
   d) No. of accounts from other credit sources ☐
   e) Employment History ☐
   f) Potential for long term success ☐
   g) Ability to repay the loan with earnings from other investments ☐
   h) Past earnings, projected cash flow and future prospects ☐

D: QUESTIONS ABOUT DEPENDENT VARIABLE: FANANCIAL PERFORMANCE
Using the key given, choose or tick the right alternative that fits your opinion on the financial performance of SACCOs as follows
SA=Strongly Agree, A=Agree, D=Disagree, SD= Strongly Disagree.

<table>
<thead>
<tr>
<th>No</th>
<th>Aspects of Financial performance</th>
<th>SA</th>
<th>A</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Non-performing loans rate (NPLs ratio)</td>
<td></td>
<td></td>
<td></td>
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<td>2</td>
<td>Return on equity</td>
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<td>3</td>
<td>Return on assets</td>
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<td>4</td>
<td>Solvency Ratio</td>
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PART TWO: INTERVIEW GUIDE WITH MANAGERS AND CHAIRPERSONS OF THE BOARD OF DIRECTORS

A: INTERVIEW ABOUT INDEPENDENT VARIABLE: CREDIT RISK MANAGEMENT PRACTICES

1. What are the requirements for a member to get a loan from your SACCO?

2. Do you think credit risk management Practices help to improve on Financial Performance of your SACCO?

3. Yes ☐

4. No ☐

5. If yes explain briefly how

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6. What are the causes of loan defaulting?

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7. What are the measures and procedures in place to mitigate credit risk?

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8. Does your SACCO consult regularly credit reference bureau (CRB) before granting the loans Yes ☐

Or Not ☐

9. In your own observation, do you see the effect of credit risk management practices on the Financial Performance of SACCOs in Rwanda?

Yes ☐

Not ☐
Support your answer by giving explanation……………………………………

10. According to your view, to which extent do you think that there is the effect of credit risk management practices on the Financial Performance of SACCO in Rwanda?

   a) To excellent extent  
   b) To a great extent  
   c) To a good extent  
   d) To a little extent  
   e) Not at all
APPENDIX 4: INTERVIEW GUIDE FOR SACCO MANAGERS

1. As SACCO Manager, do you ensure that within your SACCO there is non-performing Loan?
   Yes [ ]
   Not [ ]
   If Yes, explain the measures in place for ensuring regular loan repayment, Recovery of loan in arrears
   ………………………………………………………………………………………………………………………………
   ………………………………………………………………………………………………………………………………

2) As SACCO Manager, do you ensure that within your SACCO there is return on equity and assets??
   If yes or not, Provide your explanations………………………………………………………………………..

   Thank you for your time for responding this questionnaire
APPENDIX 5: TABLE OF FINANCIAL DATA OF RUTSIRO DISTRICT BASED SACCOS