# Effect of Loan Repayment on Financial Performance of SACCOs in Rwanda A Case of Umwalimu SACCO Head Office,

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## ABSTRACT

Consequently, Poor loan repayments have a negative effect on an institution's capital, earnings, and ability to achieve its goals, and they may even cause a financial institution to fail. For instance, poor loan repayment management results in losses and expensive delinquent management expenses. Such expenses have a negative impact on the income earned and, generally, the operations of the lending institution; as a result, the institution becomes financially unsustainable. The main objective of this study was to analyze the effect of loan repayment on financial performance of SACCOs in Rwanda and specific was to assess the effect of loan period on the financial performance of UMWALIMU SACCO for the period under study, to analyses the effect of loan follow-up policy on the financial performance of UMWALIMU SACCO for the period under study and to examine the effect of loan recovery policy on the financial performance of UMWALIMU SACCO for the period under study. Descriptive research design was used for this study, while Regression analysis was also employed. It provides empirical evidence suggesting two or more variables are or are not related and the researcher use a sample of 33 employees of UMWALIMU SACCO, therefore: financial performance of UMWALIMU SACCO main Branch = 16.631+ .361 loan period + .712 follow up policy +.584 loan recovery policy. At 5% level of significance all three variables which are Loan Period, Loan Follow-up Policy, and Loan Recovery Policy were positively and statistically significance since their p-values was below the acceptable threshold of 0.05. From the research findings, positive effect was found on three the variable i.e. is Loan Period, Loan Follow-up Policy, and Loan Recovery Policy with regression coefficients of 0.361, 0.712 and 0.584 respectively. These findings suggest that a unit increase in loan period, taking all the other variables constant at zero would result to a 0.361 increase in financial performance in UMWALIMU SACCO. Similarly, a unit increase in loan follow up policy would result to 0.712 increases in financial performance of UMWALIMU SACCO. A unit increase in loan recovery policy would result to 0.584 increases in financial performance of UMWALIMU SACCO main branch. Therefore, this study recommends that credit officers and credit committees should go beyond customer character before approving loans but assess other factors such as job security and the amount borrowed by the prospect.

**Key words:** Loan repayment, Financial performance, SACCO

## Introduction

A cooperative (also known as co-operative, co-op, or coop) is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned enterprise. Cooperatives are democratically owned by their members, with each member having one vote in electing the board of directors. Cooperatives may include: businesses owned and managed by the people who use their services (a consumer cooperative) organizations managed by the people who work there (worker cooperatives) multi-stakeholder or hybrid cooperatives that share ownership between different stakeholder groups. For example, care cooperatives where ownership is shared between both care-givers and receivers. Stakeholders might also include non-profits or investors. Second- and third-tier cooperatives whose members are other cooperatives platform cooperatives that use a cooperatively owned and governed website, mobile app or a protocol to facilitate the sale of goods and services.

According to the 2014 International Co-operative Alliance's World Cooperative Monitor, the turnover of the largest 300 cooperatives in the world grew by 11.6% to reach $2.2 trillion in2012, equivalent to the gross domestic product (GDP) of Brazil (Kiptoo, 2015). The overall turnover of nearly 2,000 cooperatives in the 65 countries surveyed by the Monitor totals $2.6 billion. The World Council of Credit Unions (WOCCU) statistical report for 2014, recorded a total of 57,000 Credit Unions (SACCO‟S), spread across 105 countries and 6 continents. The worlds Credit Union system has a combined savings of $ 1.5 trillion (US dollars), and an asset base of $ 1.8 trillion (US dollars) out of which $ 1.2 trillion (US dollars) constituted the loan portfolio. The average worldwide penetration rate of the Credit Union system stood at 8.2 percent (Kimenchu, 2014). Chen and Pan (2012) acknowledge that SACCO's have remained to drivers of economic, social and environmental sustainability; the business model preferred by people; and the fastest growing form of enterprise by Year 2020. According to Cobia (2008), cooperative efforts have occurred throughout history. Since the early days, man cooperated with others to help kill large animals for survival and so as to achieve the objectives that they could not reach if they acted individually. Cooperation has occurred throughout the world. Ancient records show that the Babylonians practiced cooperative farming and that the Chinese developed savings and loan associations similar to those in use today (Baliwen, 2012).

In today's society, cooperative financial institutions hold a considerable market share, with the IMF estimates that across all banking sector assets in developing countries, the market share of co-operative finance was equivalent to 14 percent in 2004 (Hesse & Cihak, 2007).

Performance of SACCO's is very important because managers need to know how well the SACCO's are performing. There are two major reasons as to why SACCO's should have financial performance measurement (Johnson & Mark, 1997). The first one is to produce financial statements at the right time. Secondly, financial statements should be analyzed to produce information about the performance of the scheme, which must be used to improve that performance. Based on WOCCU's standards of measuring performance, the factors which determine the performance of SACCO's include; asset base, Liabilities, Performance of the loan book, corporate governance and the quality of staff and regulations in the industry.

Nkuru (2015) defines performance measurement as a way of ensuring that resources available are used in the most efficient and effective way. The essence is to provide for the organization the maximum return on the capital employed in the business.

Organization performance can be measured from financial and non-financial. Parameter of non-financial performance can range from customer satisfaction, new product development, increased market share, employee motivation while financial performance parameters can range from profits, liquidity, return on investment, costs of operation among others (Betru, 2010).

Munyiri (2006) argues that financial performance of SACCO's has continued to be measured through non- conventional models such as social/cultural changes on members and extent of financial outreach. Through government intervention by legislation, SACCO's have become more structured and hence adoption of more conventional ways of measuring their performance such as profitability, Return on Assets and Return on Equity.

In addressing challenges of deteriorating financial performance among SACCO's operating in developing countries and more specifically in Kenya, SACCO's are embarking on embracing strategies such as loan appraisal, interest on loans, loan follow-up procedures and customer characteristics in order to enhance their financial competitiveness (Sasra, 2013). Loan appraisal interventions that may help SACCO's minimize cases of non-performing loans involves financial systems in place, internal procedures followed before approving loans, and assessment of business opportunities before loan approval (Mungai, Maingi, Muathe, 2014).

Sasra (2013) concurs that liquidity risk needs to be monitored as part of an integrated institution wide risk management process taking into account market and credit risk to ensure stability and improvement of loan portfolio in the balance sheet. This helps a SACCO to identify its future funding requirements and any potential risks (Fiedler, Brown, & Moloney, 2002).

Further, loan repayment period, interest earned and interest rate regulations to a larger extent can direct or indirect roles in financial performance of SACCO's in Kenya (Warue, 2012). By extension, loan follow-up procedures such as knowledge of staff, policies and credit history of borrowers can influence financial performance of SACCO's. Similarly, customer characteristics such as income levels, age, collaterals and credit history can facilitate financial performance of SACCO's from context to context (Laga, 2011).

Previous research on cooperative finance during crisis indicates that they tended to fare better than investor-owned savings and loans institutions, as they pursue more conservative investment policies (Chaddad & Cook, 2004). For instance, analysis from the IMF indicates that co-operative banks in developed countries tend to be more stable than commercial banks, especiallyduring financial crisis, as their investment patterns tend to be less speculative and returns aretherefore less volatile.

While there have been several reform initiatives in SACCO's subsector in the past, the introduction of a SACCO's specific law is recognition of the unique financial intermediation function that SACCO's play in an economy. Thus the operational regulations and performance standards are specific and prescriptive; not to make SACCO"S non-competitive and stifle their growth but to ensure that they operate and grow within a framework that promotes sound financial and business management practices (Mungai, Maingi & Muathe, 2014).

According to SASRA, the SACCO's society regulations are meant to improve the competitiveness of SACCO by setting financial and operating standards commensurate to the deposit taking business conducted by SACCO"S. This is ultimately expected to drive efficiency and improve the level of savings in the SACCO"S societies as envisaged in the financial sector strategy in vision 2030. SACCO's Regulations and performance relate in that the regulations are meant to set specific requirements on the tools used to measure performance (PEARLS) leading to a direct relationship (Financial Sector Deepening, 2009).

The establishment of the SACCO in Rwanda was the initiative of His Excellence the president ofthe Republic of Rwanda Paul Kagame. Mobilizing a pool of savings and later be offered loans at competitive interest rate are the core activities of the cooperative. The UMWALIMU SACCO was created in 2006 and accepted by the Central Bank of Rwanda (BNR) to operate as Financial Institution on 22nd February 2008 (USACCO, 2012)

UMWALIMU SACCO is teachers" cooperative grants loans to teachers to enable them to set up small income generating projects to supplement to their regular professional income. One of the sector strategies of the TDM (Teacher Development and Management) policy is to develop and install a framework for motivation that will enhance the socioeconomic and professional statusof teachers. Through the cooperative and out of their meager earnings, teachers save up to 5 per cent of their monthly net salary; this would automatically qualify them to access loan as UMWALIMU SACCO members (UMWALIMU SACCO Report, 2013). This study sought to assess the effect of loan repayment to financial performance of SACCO in Rwanda.

**Statement of the Problem**

For all lending institutions, and Sacco's in particular, loan repayment performance is a crucial concept. It is a gauge of whether or not loans are fully repaid in accordance with the loan arrangement. Higher loan repayment performance increases a lending institution's likelihood of collecting interest payments and reduces loan losses. (Nsengiyumva and Harelimana, 2020).

According to the NBR Annual report 2020-2021 the Non-Performing Loans (NPLs) stood at 6.6% in the Microfinance sector whereas the compliance prudential requirements for Banks and MFIs benchmark are at 5% (NBR, 2021). Furthermore, considering Umwalimu Sacco Balance Sheet as of 31$^{st}$ December 2020, a total of 2,879,348656 Rwf is yet to be recovered besides writing off cumulative loans to a total tune of Rwf. 3,520,476,193in the same year. (Umwalimu Sacco, 2021). This stems out to be the existing problem in Umwalimu Sacco and the picture will not be far from the same in the MFIs ecosystem.

Consequently, Poor loan repayments have a negative effect on an institution's capital, earnings, and ability to achieve its goals, and they may even cause a financial institution to fail. For instance, poor loan repayment management results in losses and expensive delinquent management expenses. Such expenses have a negative impact on the income earned and, generally, the operations of the lending institution; as a result, the institution becomes financially unsustainable. (Ledgerwood, 1999)

In view of the above analyzed problem, this study aimed to investigate effects of loan repayment and financial performance of SACCO's in Rwanda.

### Objective of the Study

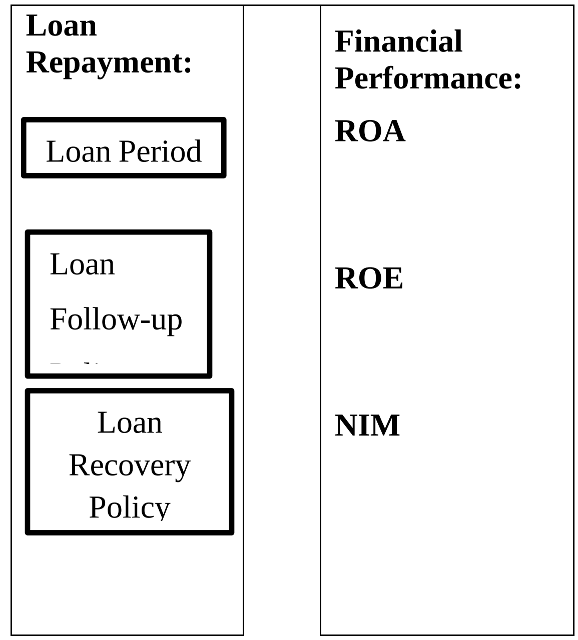
The main objective of this study was to analyze the effect of loan repayment on financial performance of SACCOs in Rwanda

### Specific Objectives

i. To assess the effect of loan period on the financial performance of UMWALIMU SACCO for the period under study
ii. To analyse the effect of loan follow-up policy on the financial performance of UMWALIMU SACCO for the period under study
iii. To examine the effect of loan recovery policy on the financial performance of UMWALIMU SACCO for the period under study.

### Conceptual Framework

**Figure 1: Conceptual framework**


### Empirical Review

In study carried out by (Padilla &. Pagano , 2015), "Loan portfolio management and Performance in microfinance institutions in Sweden" The microfinance sector has become more complex over the last decades due to the development of financial security market. As a result, banks are getting involved in compound transactions without fully realizing the risk level. Consequently, the risk bearing side gets blurred and risk exposure splits on everybody. This causes systemic failure - the economic system of the countries breaks down. Government influences the situation and tries to stabilize economy through the regulatory mechanisms. (Rajedom, R., 2010) Examined the key determinants of credit risk of microfinance institutions on emerging economy microfinance systems compared with the developed economies. The study highlighted that credit risk in emerging economy banks is higher than that in developed economies. It is evident from empirical literature that, the results of studies on credit risk and profitability is still mixed and only limited number has been conducted in African microfinance institutions.

Gaige Wilson, (2012) in his study on bank loan management held that banks and similar financial institutions need to meet forthcoming regulatory requirements for performance 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. It was held, managers need reliable risk measures to direct capital to activities with the best risk/reward ratios. They need estimate 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. (Riach, 2010)

(Sarawan & Frank ., 2019) also conducted research on bank performance and credit risk management found that there is a significant relationship between financial institutions performance (in terms of profitability) and credit risk management (in terms of loan performance). Better credit risk management results in better performance. Thus, it is of crucial importance that financial institutions practice prudent credit risk management and safeguarding the assets of the institutions and protect the investors' interests. This is also true for micro finance institutions. Method used by the researchers is mixed research method. in their study on Loan portfolio management strategies of selected financial institutions in Malaysia the majority of financial institutions and banks losses stem from outright default due to inability of customers to meet obligations in relation to lending, trading, settlement and other financial transactions. Credit risk emanates from a bank dealing with individuals, corporate, financial institutions or sovereign entities. A bad portfolio may attract liquidity as well as credit risk. The aim of credit risk management is to maximize a bank risk-adjusted rate of return by maintaining credit risk exposure within acceptable boundary. The efficient management of credit risk is a vital part of the overall risk management system and is crucial to each bank bottom and eventually the survival of all microfinance establishments. It is therefore important that credit decisions are made by sound analyses of risks involved to avoid harms to bank profitability. They held effective management of credit risk is an essential component of a comprehensive technique to risk management and critical to the long-term success of all microfinance institutions. Loan controls adopted by microfinance institutions have an effect on performance, credit insurance, signing of covenants with customers, diversification of loans, credit rating of customers, reports on financial conditions, and refrain from further borrowing had an effect on loan performance. Although several previous studies have been conducted regarding loan management, but this has rarely been covered by researchers from the perspective of Rwandan context. No empirical study shown the implementation of portfolio management through loan risk analysis; risk monitoring and risk diversification in relationship with financial performance of microfinance institutions. No empirical study showed the percentages of correlation between Loan portfolio management and financial performance of microfinance institutions. There is therefore a gap in the empirical evidence available. This study seeks to bridge the gap by studying the Loan portfolio management and performance of microfinance institutions. The study identifies the percentages of correlation between Loan portfolio management and financial performance of SACCO's.

**Target Population**

Target population refers to the entire group of individuals or objects to which researchers are interested in generalizing the conclusions. The target population usually has varying characteristics and it is also known as the theoretical population. The target population is "the entire aggregation of respondents that meet the designated set of criteria. Target population is also the main group of people from which we choose a sample and use this population for our research. The target populations in this study were 33 staff working in different department of UMWALIMU SACCO (UMWALIMU SACCO Report, 2020)

**Sample Size**

The sample size is a term used in market research for defining the number of subjects included in a sample size. By sample size, we understand a group of subjects that are selected from the general population and are considered a representative of the real population for that specific study and in this study sample size was not calculate because the population is less than 100.

**Sampling Techniques**

Universal sampling refers to the selection of sample where not all the people in the population have the same profitability of being included in the sample and each one of them, the probability of being selected is unknown.

**Data Collection Instruments**

In carrying out this study, data was collected through observation and self-administered questionnaire. In designing questionnaires addressed to the UMWALIMU SACCO staff in the specified departments, researcher based on the research purpose. To complement, the information provided by employees.

**Description of Regression Analysis**

To measure the effect of loan repayment of financial performance Regression analysis was used to establish the effect of loan repayment of financial performance of UMWALIMU SACCO. In doing so, the following regression model was used: $y = \beta_0 + \beta_1 x_1 + \beta 2x2 + \beta_{3X3} + \varepsilon$. where y represents the independent variable means loan repayment such as loan period, Loan Follow-up Policy and Loan Recovery Policy and $\beta_0$ = Constant term $\beta_{(1\text{-}4)}$ = represent the model parameters or coefficients; $x_1$ = ROA, $x_2$ =ROE, $x_3$ = NIM, $\varepsilon$ = error terms

$$y = \beta_0 + \beta_1 x_1 + \beta 2x2 + \beta_{3X3} + \varepsilon$$

**Results and Discussion**

The analysis of the data was aimed to assess effect loans repayment and financial performance UMWALIMU SACCO in Rwanda during the period of 2019-2020. Data to be analyzed was gathered by use of questionnaires and interpreted according to the objectives of the study. Descriptive and inferential statistics have been used to discuss the findings of the study. The study targeted a sample size of 33 respondents from which filled in and returned the questionnaires making a response rate of 100%. This response rate was satisfactory to make conclusions for the study as it acted as a representative.

**Profile Presentation of Respondents**

At the beginning of data collection, we were interested in knowing the identification of respondents for ensuring the readers that the information provided in this thesis comes from the true and reliable source. The actual research participants included 33 respondents, and in the course of data collection, the researcher succeeded to collect all the questionnaires, that is; there was no questionnaire which represented an error of omission. Descriptive statistics, mainly frequency and percentages, were used to analyze profile of the respondents in terms sex, age, level of education, and education. The frequency and percentage were meant to establish the most frequently occurring responses and the least frequently occurring responses.

**Table 4. 1: Gender of Respondents**

| | Frequency | Percent |
|---|---|---|
| Males | 20 | 60.6 |
| Females | 13 | 39.3 |
| Total | 33 | 100.0 |

**Source: Primary data, 2023**

Table 4.1 shows the gender of the respondents in this study where the great portion of the respondents that is 60.6% of all respondents (20 respondents) were males while the remaining part of respondents corresponding to 13 respondents (39.3% of all respondents) were females.

**Table 4. 2: Education level of respondents**

| | Frequency | Percent |
|---|---|---|
| Secondary | 1 | 3.0 |
| Bachelor's degree | 29 | 87.8 |
| Master's degree | 3 | 9.0 |
| Total | 33 | 100.0 |

**Source: Primary data, 2023**

The prime reason as why the study examined the educational level of the respondents was that in one way or the other, Table 4.2 shows the highest education attainment of respondents. The level of education attained by a person affects his potential to acquire gainful employment. It can be noted that 87.8% of all questioned staffs had bachelors' degree, 9.0% of all questioned had Master's degree and the remaining 3.0% of all questioned respondents hold a diploma. This finding shows that most of the respondents had education that could place them in the category of the people in a need of improvement of their job.

**Table 4. 3: Age group of respondents**

| | Frequency | Percent |
|---|---|---|
| 18 and 25 years | 3 | 9.0 |
| 26 and 35 years | 15 | 45.4 |
| 36 and 45 years | 10 | 30.0 |
| 45 years and above | 5 | 15.1 |
| Total | 33 | 100.0 |

**Source: Primary data, 2023**

Concerning the age of respondents, the majority of respondents 15 out of 33 equals to 45.4% were in the age group of 26-35 years. The reason is that this age category is composed of the people who are mature to provide the reliable information to the present study experienced and who may find collateral as the main condition to get credit/ loan from UMWALIMU SACCO main Branch and also it is obvious because people of that very age are mature and have a lot of responsibilities which require them to take a lot of money therefore, they often work with banks for them to fulfil their duties as mature and responsible people. The second group consisted of the respondents ranged between 36 and 45 equals to 10 out of 33 with percentage of 30.0%, followed by the third age group, made of 3 out of 33 respondents whose age is counted between 18 and 25 years old with the percentage of 9.0% composed of young people who are many in our country.

**Table 4. 4: Experience of respondents**

| | Frequency | Percent |
|---|---|---|
| Below 4 years | 3 | 9.0 |
| Between 4 and 8 years | 10 | 30.0 |
| Above 8 years | 20 | 60.6 |
| Total | 33 | 100.0 |

**Source: Primary data, 2023**

The results presented in the table 4.4 indicated that majority of respondents around 20(60.6%) of respondents have above 8 years of experience, the second category 10(30.0% of respondents had between 4 and 8 years as experience while the remaining 3(9%) of respondents had below 4 years of experience. The statistical results presented above, testifies that people concerned with this study have a considerable working experience.

**Assessment of Loan Repayment UMWALIMU SACCO**

Repayment is the act of paying back money previously borrowed from a lender. Typically, the return of funds happens through periodic payments, which include both principal and interest. The principal refers to the original sum of money borrowed in a loan.

**Table 4. 5: Loan Recovery Policy in UMWALIMU SACCO**

| Statement | N | Mean | St.dev |
|---|---|---|---|
| UMWALIMU SACCO main branch has an appropriate Loan Recovery Policy | 33 | 4.32 | .784 |
| UMWALIMU SACCO main branch document the efforts made for the recovery of dues and the copies of communication sent to customers, if any, are kept on record | 33 | 4.56 | .875 |
| The customers are regularly contacted at the place of their residence / business / occupation or at the address places | 33 | 4.62 | .789 |
| UMWALIMU SACCO main branch use regularly written communications, telephonic reminders or visits as loan follow up measures | 33 | 4.36 | .856 |
| **Overall mean** | | **4.455** | |

**Source:** Primary data, 2023

Table 4.5 represents the perception of respondents on loan recovery policy in UMWALIMU SACCO and all statements on loan recovery policy provide a mean of 4.455 which is in a range of 4.20-5.00: Very high mean (i.e, strong evidence of the existence of the fact). And this shows that those statements on loan recovery policy exist in UMWALIMU SACCO. Normally loan amount will be recovered on installment basis. The manager can fix installment period on the basis of nature of their business, Installment fixes on salaried person on a monthly basis, In the agriculture sector, installment fixes on biannual basis and Business person normally 1 year per installment. (Hodzic & Migdat, 2015).

**Table 4. 6: Loan Period in UMWALIMU SACCO**

| Statement | N | Mean | St.dev |
|---|---|---|---|
| The loan period is clear and in writing | 33 | 4.55 | .789 |
| loan period is clear to the borrower before any issue | 33 | 4.39 | .741 |
| Repayment dates and deadlines are clear and known to the borrower | 33 | 3.98 | .852 |
| The borrower know loan period before signs the terms and conditions of each issue of loan is released | 33 | 4.78 | .963 |
| **Overall mean** | | **4.425** | |

**Source: Primary data, 2023**

Table 4.6 represents the perception of respondents on loan period in UMWALIMU SACCO and all statements on loan period provide a mean of 4.425 which is in a range of 4.20-5.00: Very high mean (i.e, strong evidence of the existence of the fact). And this shows that those statements on loan period exist in UMWALIMU SACCO and After the loan repayment period, the next loan terms to focus on are the interest rate and fees.

**Table 4. 7: Loan Follow- up policy in UMWALIMU SACCO**

| Statement | N | Mean | St.dev |
|---|---|---|---|
| UMWALIMU SACCO main branch advised borrowers before giving loan | 33 | 4.74 | .745 |
| UMWALIMU SACCO main branch supervised borrowers after getting loan | 33 | 4.58 | .821 |
| UMWALIMU SACCO main branch advised borrowers after giving them loan | 33 | 4.35 | .752 |
| UMWALIMU SACCO main branch manage loans in accordance with the standards from NBR policy. | 33 | 4.75 | .897 |
| **Overall mean** | | **4.605** | |

**Source: Primary data, 2023**

Table 4.7 represents the perception of respondents on loan follow up policy in UMWALIMU SACCO and all statements on loan follow up policy provide a mean of 4.605 which is in a range of 4.20-5.00: Very high mean (i.e, strong evidence of the existence of the fact). And this shows that those statements on loan follow up policy exist in UMWALIMU SACCO and If it is noticed that the results are going contrary, readjustment should be done immediately. Risk monitoring is very important and it goes hand in hand with risk control. Risks in

SACCOs need to be monitored just like any project in progress. The risk manager needs to constantly do assessment and make updates where there is need so as to be sure to handle any unforeseen risks at the right time before it. This is because any neglected or minimized risk can have very long term big and negative consequences since the microfinance activities are so interrelated (Assenga, 2014)

**Table 4. 8: Return on Assets (ROA) in UMWALIMU SACCO**

| Statement | N | Mean | St.dev |
|---|---|---|---|
| Loan repayment have helped UMWALIMU SACCO main branch to increase its return on assets. | 33 | 4.44 | .768 |
| On your own view, returns on assets of UMWALIMU SACCO main branch is at high level | 33 | 4.75 | .841 |
| Returns on assets have been increased in the last three years in UMWALIMU SACCO main branch. | 33 | 4.63 | .753 |
| **Overall mean** | | **4.606** | |

**Source: Primary data, 2023**

Table 4.8 represents the perception of respondents on return on assets in UMWALIMU SACCO and all statements on return on assets provide a mean of 4.606 which is in a range of 4.20-5.00: Very high mean (i.e, strong evidence of the existence of the fact). And this shows that those statements on return on assets exist in UMWALIMU SACCO and Return on assets is the simplest of such corporate bang-for-the-buck measures. It tells you what earnings are generated from invested capital or assets. ROA for companies can vary substantially and are highly dependent on the industry in which they function so the ROA for a tech company won't necessarily correspond to that of a food and beverage company. This is why when using ROA as a comparative measure, it is best to compare it against a company's previous ROA numbers or a similar company's ROA (Obisesan, 2013).

**Table 4. 9: Return on Equity (ROE) in UMWALIMU SACCO**

| Statement | N | Mean | St.dev |
|---|---|---|---|
| UMWALIMU SACCO main branch has a positive return on equity. | 33 | 4.68 | .852 |
| Loan repayment have helped UMWALIMU SACCO main branch to increase its returns on equity. | 33 | 4.75 | .987 |
| Return on equity has been increased in the last three years in UMWALIMU SACCO main branch. | 33 | 4.31 | .741 |
| **Overall mean** | | **4.58** | |

**Source: Primary data, 2023**

Table 4.9 represents the perception of respondents on return on equity in UMWALIMU SACCO and all statements on return on equity provide a mean of 4.58 which is in a range of 4.20-5.00: Very high mean (i.e, strong evidence of the existence of the fact). And this shows that those statements on return on equity exist in UMWALIMU SACCO and financial leverage benefits diminish as the risk of defaulting on interest payments increases. If the firm takes on too much debt, the cost of debt rises as creditors demand a higher risk premium, and ROE decreases. Increased debt will make a positive contribution to a firm's

ROE only if the matching return on assets (ROA) of that debt exceeds the interest rate on the deb (Sarfoh, 2015).

**Table 4. 10: Net Interest Margin (NIM) in UMWALIMU SACCO**

| Statement | N | Mean | St.dev |
|---|---|---|---|
| Net interest margin of UMWALIMU SACCO main branch has been increase in the last three years. | 33 | 4.78 | .753 |
| Net interest margin has been increased in the last three years in UMWALIMU SACCO main branch. | 33 | 4.12 | .841 |
| On your own view, Net interest margin of UMWALIMU SACCO main branch is at high level | 33 | 4.35 | .741 |
| Overall mean | | 4.416 | |

**Source: Primary data, 2023**

Table 4.10 represents the perception of respondents on net interest margin in UMWALIMU SACCO and all statements on net interest margin provide a mean of 4.416 which is in a range of 4.20-5.00: Very high mean (i.e, strong evidence of the existence of the fact). And this shows that those statements on net interest margin exist in UMWALIMU SACCO and Net interest margin can be influenced by one-off items such as the sale of an asset, which would temporarily boost profits. Net interest margin doesn't hone in on sales or revenue growth, nor does it provide insight as to whether management is managing its production costs. It's best to utilize several ratios and financial metrics when analyzing a company. Net interest margin is typically used in financial analysis along with gross profit margin and operating profit margin (Kibert, 2013).

**Regression analysis**

**Table 4. 11**: **Model summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .883[a] | .779 | .757 | .65272 | 2.579 |

a. Predictors: (Constant), Loan Period, Loan Follow-up Policy, Loan Recovery Policy

b. Dependent variables: Financial performance

From this table 4.16, the results indicate that R2 is .77.9 representing 77, 9% indicating that loan repayment components contribute to the financial performance in UMWALIMU SACCO main branch.

**Table 4. 12**: **Summary of One-Way ANOVA results**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 152.342 | 5 | 30.468 | 201.414 | .000[b] |
| | Residual | 57.090 | 134 | .426 | | |
| | Total | 209.432 | 139 | | | |

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Loan Period, Loan Follow-up Policy, Loan Recovery Policy
From the ANOVA results are presented in table 4.17. The F-test is 201.717 and is significant at 0.05 therefore it means that all loan repayment variables have positive and significant effect on financial performance in UMWALIMU SACCO main branch.

**Table 4. 13: Regression coefficients**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 16.631 | 3.016 | | 5.514 | .000 |
| | Loan Period | .361 | .112 | .339 | 3.227 | .002 |
| | Follow-up Policy, | .712 | .079 | .149 | 1.422 | .029 |
| | Loan Recovery Policy | .584 | .143 | .314 | 4.071 | .000 |

**a. Dependent Variable:** Financial performance

From the research findings, the following values were obtained; 0 =16.631, 1=0.361, 2=.712, 3=0.584 the regression model can therefore be expressed as follows:

$$Y = 16.631 + .361x1 + .712x2 + .584x3$$

Therefore: financial performance of UMWALIMU SACCO main Branch = 16.631+ .361 loan period + .712 follow up policy +.584 loan recovery policy. At 5% level of significance all three variables which are Loan Period, Loan Follow-up Policy, and Loan Recovery Policy were positively and statistically significance since their p-values was below the acceptable threshold of 0.05.

From the research findings, positive effect was found on three the variable i.e. is Loan Period, Loan Follow-up Policy, and Loan Recovery Policy with regression coefficients of 0.361, 0.712 and 0.584 respectively. These findings suggest that a unit increase in loan period, taking all the other variables constant at zero would result to a 0.361 increase in financial performance in UMWALIMU SACCO. Similarly, a unit increase in loan follow up policy would result to 0.712 increases in financial performance of UMWALIMU SACCO. A unit increase in loan recovery policy would result to 0.584 increases in financial performance of UMWALIMU SACCO main branch.

## Conclusions

It can be concluded that for SACCO's taking UMWALIMU SACCO main branch to maximize profits they should embrace practices that enhance loan repayment behavior from beneficiaries such as establishing loan appraisal policies that are customer friendly such as assessing customer economic stability before approving loans. Further, the SACCO's should not only focus on maximizing profits but also to consider Central Bank of Rwanda policies that determine interest rates charged. Loan follow- up procedures should not only reviewed but also emphasize on adequate training of credit officers on financial risk management. In addition, SACCO's should go beyond the concept of assessing customer character but also seek to understand the economic stability of the individual through evidence of job security and collateral security provided.

**Recommendations**

The study revealed that to some extent, SACCO's was finding it difficult to determine viability of business and their sustainability in the long-term period. Therefore, this study recommends that management of SACCO should seek to evaluate sustainability of business enterprises of loan beneficiaries by establishing the period the business has operated and also establish criteria of determining ownership of properties presented as collateral security. The study established that interest rates on loans were largely influenced by policies of Central Bank of Rwanda. Therefore, this study recommends that top management of UMWALIMU SACCO should seek to anticipate changing trends of interest rates in relation to Central Bank of Rwanda regulation. Aspects that influence change of interest rates should be considered internally by the management before incorporated in loan policies. The study found that to some extent some loan beneficiaries violated loan regulations. Therefore, this study recommends that credit committees of UMWALIMU SACCO should always seek to review some policies such loan repayment period, legal procedure, and employee skill development in order to maximize profits. The study found that it was difficult to measure prospect ability of repaying the loan by assessing his or her character alone. Therefore, this study recommends that credit officers and credit committees should go beyond customer character before approving loans but assess other factors such as job security and the amount borrowed by the prospect.

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