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CREDIT POLICY AND LOAN PERFORMANCE OF SACCOs IN RWANDA A CASE OF UMWALIMU SACCO/RULINDO DISTRICT BRANCH

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ABSTRACT

The main purpose of this research is to examine the role of credit policy on loan performance of SACCOs in Rwanda focusing on a case of Umwalimu SACCO Rulindo Branch. The specific objectives to guide this study are to examine the effect of credit client appraisal on loan performance of SACCOs in Rwanda, to assess the effect of credit risk control on loan performance of SACCOs in Rwanda, and to evaluate the relationship between credit collection procedures and loan performance of SACCOs in Rwanda with a case of Umwalimu SACCO Rulindo Branch. Descriptive research design with a mixed approach of qualitative and quantitative data were used where the interview guide and questionnaire were used to collect data from 340 respondents from the 2624 members and staffs of Mwarimu SACCO where 5 are staffs and 2619 members. The questionnaire were distributed to 335 respondents from the members of SACCO and 5 respondents from the staffs of Rulindo SACCO. The descriptive statistics were analyzed with the use of mean and standard deviation while the inferential statistical analysis used Pearson correlation and regression analysis. The ethical principles were put into account during data collection, analysis procedure and presentation of findings. On the first objective, the findings showed that 53.2% of the participants strongly agreed that individual capacity is evaluated to see the degree of loan performance. On whether collaterals are also considered to evaluate capacity of loan performance, almost all the participants agreed to the statement. The overall mean score for all the statements concerned with credit client appraisal was 4.32(std=0.70) indicating that generally, the participants were in strong agreement, though with divergent views, that credit client appraisal is a key factor to consider in managing loan performance. The regression analysis provided a fairly good fit model with R^2=0.413. The regression model (F=234.097, p=0.000) showed that the regression was statistically significant since the p-value was less than 5%. Hence, the first null hypothesis which was formulated to test the significance of credit client appraisal as part of credit policy used by SACCO was rejected. The findings on the second objective indicated that a total of 89.3% of the participants agreed to the statement that credit decision is applied in order to enhance loan performance. On the statement that borrowers of big amount of money give mortgages to avoid loss, a total of 93.4% of the participants were in agreement. The regression analysis also provided a fairly good fit model with R^2=0.225. The regression model (F=96.486, p=0.000) showed that the regression was statistically significant since the p-value was less than 5%, hence the second null hypothesis which was formulated to test the significance of credit risk control as part of credit policy used by SACCO was rejected. The findings on the third objective showed that 95.5% of the participants were in strong agreement that Umwalimu SACCO monitors the payments of the debtors to ensure loan performance. The mean score of 4.5 and standard deviation of 0.58 attested to the high number of those participants in agreement. On whether Umwalimu SACCO offer effective payment parameters, a total of 76.4% of those in agreement. This level of agreement was confirmed by a high mean of 4.03 and standard deviation of 0.86. The regression analysis gave fit model with R^2=0.487. The regression model

(F=315.809, p=0.000) showed that the regression was statistically significant since the p-value was less than 5%, hence the third null hypothesis was also rejected. The researcher recommends that borrowers should be screened especially by SACCOs in form of credit assessment and client appraisal. The study also the recommends that the management of the SACCOs should continuously assess their risk management practices to see if they are still practical in the face of a continuously changing operating environment.

Keywords: Credit Policy, Loan, Loan performance, Saccos, Rwanda

1.0 Background of the study

The studies conducted on the global scale concerning credit policy and loan performance such as the research of Antoshin, *et al.,* (2017) conducted on credit growth, economic performance and bank profitability in Europe after global financial crisis showed that a 10% increase in bank credit to the private sector is associated with a rise of 0.6 to 1.0% in real gross domestic product and 2 tp 2.5% in real private investment. The same study of Antoshin, *et al.,* (2017) have also show that loan quality, customer deposits, bank equity price index, and bank capital appear to be closely linked to bank lending while bank profitability is positively and significantly influenced by credit growth but with a weakened relationship after global financial crisis. Hence, this is the reason this research seeks to assess the role of credit policy on loan performance.

In Africa, the concept of credit was largely appreciated in 50s when most banks stared operating the credit sections and department to give loans to while settlers (Ravi, 2012). The reports and studies conducted in Sub-Saharan countries show that over a decade, many SACCOs were never serious in efforts of recovering the credits on time and consequent reduction of non-performing assets (Migwi, 2013). Recovering loans is not an easy task because clients have their own way to prove inaccessible to the lender (Migwi, 2013). Thus, due severe hurt credit quality and raise non-performing loans this part of the world is facing an unprecedented health and economic crisis (Eyraud, *et al.,* 2021). He continued to state that banks have an important role to play by providing temporary relief to business and households during the crisis but also during the performance by supporting economic activities.

In East Africa, the SACCOs have intensified the credit performance strategies where much of them are drawn from concerned credit policies in order to reduced bad debts and improve their loan books (Central Bank of Kenya, 2013). Thus, the strategies first raise the importance of credit performance management which is known as the central part of non-performing assets management. This process of credit performance management has to start from the initiation stage of loan during credit client appraisal, to enhance the effectiveness of credit risk control and credit collection procedure. For instance, the recent data of Central Bank of Kenya have shown that over 76% of SACCOs in Kenya during the year 2013 have focused their credit monitoring and recovering strategies on household and personal loans while 56% focused on credit performance strategies on the trade sectors (CBK, 2013).

In Rwanda, access to financial institution like banks or SACCOs as well as credit was for the rich and big companies not the poor as it is in the current days (Mbarushimana, 2015). Hence, due to the increase of access to the credit the credit policy was designed to hold the procedures that lead to the success of lending out the credit depending on the procedures of evaluating and awarding a credit (Ndyagyenda, 2020). The credit policy which is too strict turns away potential customers, reduces sales and leads to decrease in the amount of cash inflows to business (Byusa & Nkusi, 201); whereas, the credit policy which is liberal attracts slower paying customers and increase collection period for accounts receivables and eventually leads to cash inflow problems (Byusa & Nkusi, 2012). Thus, the survival of the most SACCOs depend entirely on any successful lending program that resolves on funds and loan repayments made to them by the clients. The reports have also shown that more than 34,000 of Umwalimu SACCO members have got loans and paid back even in even the national average of uncovered and non-performing loans is higher at 35.2% in 2021 compared to the last 10 years (BNR, 2021). Thus, conducting this study to assess the role of credit policy and loan performance was very imperative in order to address this issue of uncovered and poor performing loans in SACCOs within Rwanda.

1.2 Statement of the Problem

The rate at which the non-performing loans have grown in the recent years in Rwanda reflects unhealthy banking system (Mulyungi & Mulyungi, 2019). The trend shows that SACCOs have difficulty collecting interest and principal on their credits (Kagoyire & Shukla, 2018). Thus, this has led to poor loan performance of SACCOs in Rwanda and, possibly, bank closures (GFS, 2018). The National Bank of Rwanda raised concerns over the level of non-performing loans which stood at 8.2% in 2019 and increased to 13.1% in 2020 and this non-performing loan was attributed to slowdown in economic activity as well as inadequate credit monitoring in some SACCOs during the crisis of Covid -19 pandemic (BNR, 2021).

Despite, the efforts of SACCOs to embark on different strategies applied in credit policy to reduce the unrecovered loans from their clients such as valuing collateral before giving out loans, and sending payment reminders among others (Byusa & Nkusi, 2012). There are still loan performance issues because the level of unrecovered loans from clients remained in the year 2021 at the average of 35.2% which is very higher compared to the last 10 years (BNR, 2021). Even if the reports and studies show that there are issues of unrecovered loans, there are no empirical researchers that attempted to link this relationship. The related researches such Byusa and Nkusi (2012) concentrated on credit policy and bank performance, Mbarushima (2015) focused on credit policy and loan portfolio performance, Karekezi and Butera (2018) emphasized on credit risk management and loan performance, Catherine (2020) concentrated on credit risk and financial performance and Mulindwa (2021) concentrated on credit risk management and financial performance. Thus, none of these previous researches conducted in Rwanda addressed this issue of non-performing loan because they gave less attention loan performance in terms of loan timely payment, reduction of loan defaults and repayment rate. It was in this reason the research conducted this study to examine the role of credit policy on loan performance of SACCOs in Rwanda with a case of Umwalimu SACCO Rulindo District Branch.

1.3 Research Objectives

i). To examine the effect of credit client appraisal on loan performance of SACCOs in Rwanda with a case of Umwalimu SACCO Rulindo District Branch.
ii). To assess the effect of credit risk control on loan performance of SACCOs in Rwanda with a case of Umwalimu SACCO Rulindo District Branch.
iii). To evaluate the effect of credit collection procedures on loan performance of SACCOs of Rwanda with a case of Umwalimu SACCO Rulindo District Branch.

2.1 Theoretical Framework

2.1.1 Theory of Asymmetry of Information

The theory of asymmetry of information was developed by three researchers who are George Akerlof, Michael Spence and Joseph Stiglitz in 1970 to suggest to the buyers to look for detailed information before buying the products. For the case of this study, the money lenders are advised to conduct investigative research to the loan borrowers in order to avoid unrecovered loans (Jackson & Tamuke, 2022). The theory of asymmetry of information stated that it rises while a debtor whom took the advance, has best info around his prospective market risk and its linked investments plans for that the resources are reserved, whereas, in other hand, creditor or moneylender did not possess satisfactory info relating to borrower (Antoshin, *et al.*, 2017).

2.1.2 The 5Cs credit model

The 5Cs credit model was first supported by the adverse selection model theory developed by Pagano and Jappelli in 1993 and these 5Cs credit model is a system used by lenders to gauge the creditworthiness of potential borrowers. The system weighs five characteristics of the borrower and conditions of the loan, attempting to estimate the chance of default and, consequently, the risk of a financial loss for the lender. The five C's of credit are character, capacity, capital, collateral, and conditions. The 5Cs highlights how information sharing improves the pool of borrowers, decreases defaults and reduces interest rates.

The 5Cs credit model can also lead to an expansion of lending. When banks are local monopolists, however, in some cases lending diminishes, because the exchange of information increases the banks' possibility of price discrimination between safe and risky borrowers and the increase in lending to safe borrowers does not fully compensate for the reduction in lending to the risky types. When credit markets are contestable, lending activity is more likely to increase: competition limits the banks' ability to extract rents from their customers, and information sharing increases banking competition (Kagoyire & Shukla, 2018).

This 5Cs credit model further implies that that information sharing should reduce default rates and interest rates and increase lending, either because credit bureaus foster competition by reducing informational rents or because they discipline borrowers. The 5 C's Model of Client Appraisal Microfinance Institutions uses the 5Cs model of credit to evaluate a customer as a potential borrower (Antoshin, *et al.*, 2017). The five C's of credit are used to convey the creditworthiness of potential borrowers in examining the first C as character investigated through the applicant's credit history, the second C as capacity which is shown by the applicant's debt-to-income ratio, the third C as capital is shown by the amount of money an applicant has; the fourth C as collateral is investigated by the help of asset that can back or act as security for the loan while the fifth C as conditions refers to purpose of the loan, the amount involved, and prevailing interest rates and if this 5Cs are well investigated by the help of credit policy affects loan performance of SACCOs.

2.2 Empirical Review

2.2.1 Credit client appraisal and loan performance of SACCOs

The research of Mulyungi and Mulyungi (2019) conducted on the effect of client appraisal on financial performance of SACCOs in Rwanda with a case of Guaranty Trust Bank Rwanda PLC used a descriptive research design embracing qualitative and quantitative approaches was conducted on 80 employees of Guaranty Trust Bank Rwanda Plc. The collected data were analyzed into descriptive and inferential statistics by the help of SPSS. Thus, the results of regression analysis confirmed a linear, positive and significant relationship between client appraisal and financial performance with coefficient R is.948 and statistic p value 0.00 less than 0.005 at 4 degrees of freedom. Further, the coefficient R squared.899 suggested that client appraisal as a predictor of financial performance could explain for approximately 90 % of the variations in financial performance of the banking sector in Rwanda.

Therefore, basing on the research results of the same study of Mulyungi and Mulyungi (2019), the research concludes that client appraisal, on the basis individuals and businesses financial and physical characteristics in credit scoring models and utilization of the credit reference bureau and client credit risk analysis on individuals is key in identifying appropriate and reliable clients for disbursement of bank loans. Hence, it is imperative that banks in Rwanda adopt appropriate appraisal strategies that enhance identification of suitable clients and borrowers to minimize on loan defaulters. Such strategies may include a combination of individual and businesses characteristics, financial and physical characteristics, and credit scoring models, utilization of the credit reference bureau.

The research conducted by Kagoyire and Shukla (2018) on the effect of credit management on performance of commercial banks in Rwanda with a case of equity bank Ltd adopted a descriptive survey design with a target population and sample size of 57 employees of Equity bank in credit department because the whole target population was used as sample size with a purposive sampling techniques. The collected data by the use of questionnaire and interview guide were analyzed into descriptive and inferential statistics and the results found that client appraisal, credit risk control and collection policy had effect on financial performance of Equity bank. The study established that there was strong relationship between financial performance of Equity bank and client appraisal, credit risk control and collection policy. The study also found that the p-values of client appraisal (0.029) Credit risk controls (0.032) and Collection policy (0.012) were less than 0.05 and indication that the influencing of client appraisal, Credit risk controls and Collection policy was enough to improve financial performance of commercial Banks in Rwanda. The study established that client appraisal, credit risk control and collection policy significantly influence financial performance of Equity bank. Collection policy was found to have a higher effect on financial performance and that a stringent policy is more effective in debt performance than a lenient policy. The study recommends that Equity bank should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt performance.

2.2.2 Credit risk control on loan performance of SACCOs

The empirical research conducted by Karekezi and Butera (2018) on credit risk management and loan performance with a case of Umurenge SACCOS in Kigali City, Rwanda adopted crosssectional design employing quantitative and qualitative approach with descriptive and analytical approach with a population of 35 Umurenge SACCOs and a census was used for all SACCOs. The study findings suggest that the level of credit management practices was high since the grand mean was 4.10 and Standard deviation of 0.60. Again, the finding suggest that the level of loan performance is very high since a half of the SACCOs scored 95% and above in term of loan repayment rate. The study findings show that there is a strong positive relationship between credit risk management and loan performance of Umurenge SACCOs (r=0.704, p=0.000). The study also reveal that credit risk management influences loan performance (R2 =0.548). Credit terms and collection policy are statistically significant whereas client appraisal is statistically insignificant. SACCOs should maintain high level of performance by applying all credit risk management practices.

The results of the same research of Mulindwa (2021) also did the analysis on the financial performance ratios implies in 2018 BK, Cogebanque, Ecobank, and Equity bank had 133.8%, 24.7%, 113.4%, and 31.2% respectively and this implies that their current assets for every cash of current liabilities. Therefore, if all the respective commercial institutions of BK, Cogebanque, Ecobank, and Equity bank current liabilities came due on January 1, 2019, they would be able to meet those obligations with cash. Based on the results of ANOVA implies the null hypothesis all hypothesis statements were rejected and other factors were accepts as sole contributors of financial performance in commercial banks of Rwanda. Basing on the results from the research it is clearly manifested that some respondents disagreed that their banking institutions periodically review and revise to accommodate changes in the bank's strategic direction. As solution, banks should periodically review and revised to accommodate changes in the bank's strategic direction and this will improve the financial performance of the banks. More to that, the researcher recommends that the banks should periodically review and revise to accommodate changes in the bank's strategic direction as this alone with other factors will improve the financial performance of the banks.

2.2.3 Credit collection procedures and loan performance of SACCOs

The empirical research of Migwi (2013) conducted on credit monitoring and performance strategies adopted by commercial banks in Kenya with descriptive research design. The data was collected from these banks and quantitative analysis was done. The findings indicated that all the banks monitor loans to ensure proper payment. This indicates that banks take keen interest of loan repayment to ensure that they undergo minimal losses. The study has established that the banks in Kenya do generate reports to monitor loans by their clients. The study has established that banks have various strategies of debt performance. The strategies indicated by the study include securing their loans, adequate training of the relationship officers, informing their customers and visiting their customers to convince them to pay the loans. The study has given the following recommendations; the policy makers in the banking institutions should use credit score card as a tool of monitoring of loan and recovering of such loans. The credit score card is a number that is based on a statistical analysis of a borrower's credit report, and is used to represent the creditworthiness of that person. The policy makers in the banking institutions should make good use of private collection agencies in which the creditor agency retains the final authority to resolve disputes, compromise debts, suspend or terminate collection action, and refer accounts to Credit Reference Bureaus in order to avoid long court cases. The policy makers in the banking institutions should build good customer relations to ensure that their customers do not change names and notify them in times of changing business names to avoid the rise of bad debts that lead to the loses made by the banking institutions as a result of high bad debts.

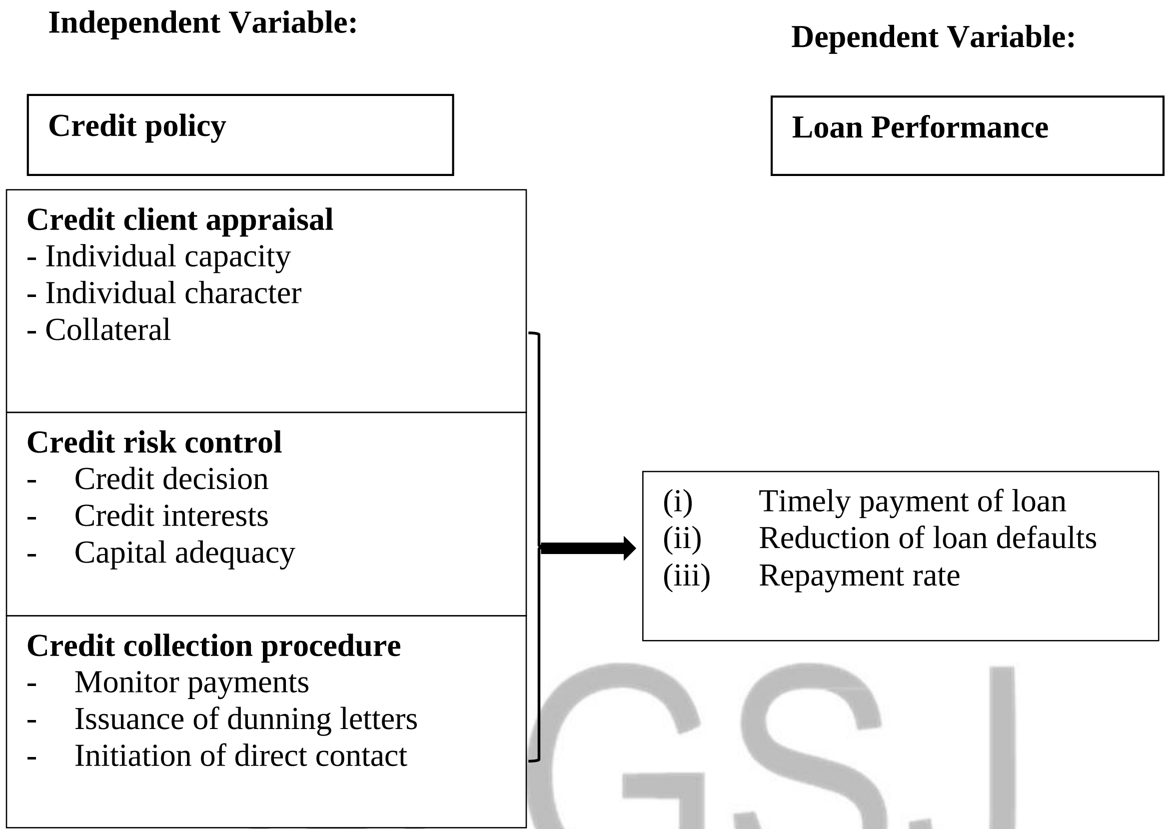

Figure 2.1: Conceptual Framework

Source: Researcher (2022)

3.0 Research Design

Descriptive research design refers to the type of research design that aims at obtaining the information of the research in a systematic manner that describes the situation considered by the researcher in deep while analyzing the phenomenon or population in a very detailed way (Creswell, 2014). On the other hand, use of the descriptive research design help to involve both qualitative and quantitative approaches in research (Eyesi, 2016). Thus, this research used descriptive research design with a mixed approach of qualitative and quantitative data. Thereafter, quantitative data were analyzed into descriptive and inferential statistics while the qualitative data were thematically along with the specific objectives in form of narratives.

The total target population of 2624 people of Umwalimu SACCO Rulindo District branch was considered in this study including 2619 members of Umwalimu SACCO Rulindo District Branch and 5 staff of Umwalimu SACCO Rulindo Branch. The sample size is categorized into 335 respondents who are the members of Umwalimu SACCO Rulindo Branch and 5 respondents who are the staff of Umwalimu SACCO Rulindo Branch. The research used simple random sampling and census methods to sample the 340 respondents of the study. The simple random sampling refers to the type of probability sampling in which the research randomly selects the subsets of the participants from the total target population whereas the census gives chances the whole targeted population to participate in the study (Kothari, 2011). The 340 respondents were drawn from the total population of 2634 which includes 5 respondents that were selected using census methods and 335 which was selected using simple random sampling technique.

The data was collected using questionnaire and interview guide. Thus, data collection instruments refer to the tools used while collecting data from the field (Fleming & Zegwaard, 2018). The questionnaire was formulated based on the specific objectives of the study and the Likert scale of five points was used to scale the responses from participants.

Data collection procedures refer to the procedure that are used to gather and measure the information on the variables of interest, in an established systematic way that enables the researchers to collect relevant information (Fleming & Zegwaard, 2018). Hence, the data was collected using questionnaire and interview guide; the questionnaire were distributed to selected 335 members of SACCO while 5 employees were interviewed. The researcher gave the respondents 2 weeks to fill the questionnaires. For the qualitative data, the researcher conducted the interview after having the quantitative data so that the issues that were not well addressed by the quantitative data can be focused on during the interviews in order to ensure that there is no information lost since the interview guide was semi-structured interview that allowed for adjustments. The collected data was analyzed by the use of IBM SPSS version 22.0 where the descriptive statistics were analyzed with the use of mean and standard deviation while the inferential statistical analysis used Pearson correlation and regression analysis with a model represented by

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3$$

where Y represents loan performance as dependent variable, β_0 represents constant coefficient, β_1 represents coefficient of determination of credit client appraisal, β_2 represents coefficient of determination of credit risk control, whereas β_3 represents coefficient of determination of credit collection procedures. Lastly, X_1, X_2, and X_3 represents predictors of credit policy as independent variable which included credit client appraisal, credit risk control and credit collection procedures, respectively

4.0 Findings and Discussion

Table 4.1 Regression Summary for Credit Client Appraisal

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.642[a]	.413	.411	.17792

a. Predictors: (Constant), Credit Client Appraisal

Source: Researcher, (2022)

The researcher used regression analysis to test the first null hypothesis. As stated earlier, the first null hypothesis was formulated to test the significance of credit client appraisal as part of credit policy used by SACCO. The first null hypothesis was formulated as follows

H_{o1}: Credit client appraisal has no significant effect on loan performance of SACCOs in Rwanda Rwanda with a case of Umwalimu SACCO Rulindo Branch

As the findings show in Table 4.1, the regression provided a fairly good fit model with R2=0.413. This indicated that credit client appraisal influences loan performance of SACCOs in Rwanda to a tune of 41.3%. This was interpretate to mean that when SACCO incorporate credit client appraisal within their credit policy, then they would improve their loan performance significantly.

Table 4.2 Analysis of Variance (ANOVA) for Credit Client Appraisal

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.411	1	7.411	234.097	.000[b]
	Residual	10.542	333	.032		
	Total	17.952	334			

a. Dependent Variable: Loan Performance
b. Predictors: (Constant), Client Appraisal
Source: Researcher, (2022)

The researcher further did other analysis to test the first null hypothesis. This involved the Analysis of Variance (ANOVA) whose results are shown in Table 4.2. As per the findings, the regression model (F=234.097, p=0.000) showed that the regression was statistically significant since the p-value was less than 5%. This means that the null hypothesis which stated that there is no significant effect was rejected. Therefore, credit client appraisal has a significant effect on loan performance for the savings and credit organizations in Rwanda. The key informants involved in the face-to-face interview were five employees of Umwalimu SACCO, Rulindo Branch. The informants indicated that credit client appraisal cannot be wished away in any credit provision. The informants were in agreement that not everyone who goes to request credit should be extended, giving indication that different factors have to be factored in. Among them, the informants said that applicant capacity, conditions and collateral are key items in provision of credit.

These findings are in agreement with previous findings from other researchers. For instance, Catherine (2020) in her research found that strong credit appraisal puts the milestones for an effective management of credit risk and gives the firms a competitive advantage. Further, she found that R^2 was 0.978 which was a sizeable influence on loan performance. Similarly, Mulyungi and Mulyungi (2019) found that client appraisal affect financial performance of SACCOs in Rwanda with an R^2 was 0.899 which suggested that client appraisal is a good predictor of financial performance. Kagoyire and Shukla (2018) also had earlier indicated similar results with the p-values of client appraisal (0.029) Credit risk controls (0.032) and Collection policy (0.012) less than 0.05 indicating that all these are significant enough to improve financial performance of commercial Banks in Rwanda.

4.1.2 Findings on the effect of credit risk control on loan performance of SACCOs in Rwanda

The second objective sought to assess the effect of credit risk control on loan performance of SACCOs in Rwanda with a case of Umwalimu SACCO Rulindo District Branch. The participants were given statements on the credit risk control that were rated based on 5-point Likert scale where 5=strongly agree, 4=agree, 3=not sure, 2=disagree and 1=strongly disagree. The findings for this objective are discussed in the tables that follow.

Table 4.3 Participants' views on Credit Risk Control

Statements	D		NS		A		SA			
	n	%	n	%	n	%	n	%	M	std
1.Credit decision is applied in order to enhance loan performance	0	0.0%	36	10.7%	150	44.8%	149	44.5%	4.34	.66
2.Credit interests are assessed in order to give loan	7	2.1%	43	12.8%	137	40.9%	148	44.2%	4.27	.76
3.Capital adequacy is analyzed to enhance loan performance	0	0.0%	47	14.0%	129	38.5%	159	47.5%	4.33	.71
4.Umwalimu SACCO holds minimum amounts to avoid risk of loan unrecovered	0	0.0%	30	9.0%	149	44.5%	156	46.6%	4.38	.64
5.Borrowers of big amount of money give mortgages to avoid loss	0	0.0%	22	6.6%	124	37.0%	189	56.4%	4.50	.62
Overall Mean									**4.36**	**.68**

D=disagree, NS=not sure, A=Agree, SA=Strongly agree, M=mean, std=standard deviation
Source: Researcher, (2022)

Table 4.3 shows the responses in regards to the statements provided to the participants with respect to credit risk control. According to the responses, 44.8% of the participants agreed and 44.5% strongly agreed to the statement that credit decision is applied in order to enhance loan performance. The remaining 10.7% of the participants said they were not sure. This showed that most of the participants were in agreement, which is also confirmed by a high mean of 4.34 and standard deviation of 0.66. On whether credit interests are assessed in order to give loan, 44.2% of the participants strongly agreed and 40.9% agreed to the statement. The total percentage of those in agreement was 85.1%. However, 2.1% of the participants disagreed and 12.8% were not sure. The mean score of 4.27 and standard deviation of 0.76 attested to the high number of those in agreement, though they gave divergent views on the same subject matter. On whether capital adequacy is analyzed to enhance loan performance, 47.5% of the participants strongly agreed and 38.5% agreed to the statement. Only 14% of the participants indicated they were not sure about this. The mean score was 4.33 with a standard deviation of 0.71. Asked to indicate their level of agreement on whether Umwalimu SACCO holds minimum amounts to avoid risk of loan unrecovered, 46.6% of the participants strongly agreed and 44.5% agreed to the statement. The remaining 9% of the participants were not sure, giving the mean to 4.38 with standard deviation of 0.64. On the statement that borrowers of big amount of money give mortgages to avoid loss, 56.4% of the participants strongly agreed and 37% agreed. This meant that a total of 93.4% of the participants were in agreement. The mean obtained in this case was also high at 4.5 with a standard deviation of 0.62. In overall, the mean score for all the statements used in finding more about credit risk control was 4.36 with standard deviation of 0.68. This implied that the participants in this study were majorly on agreement about the importance of credit risk control for the loan performance in SACCOs in Rwanda.

Table 4.4 Regression Summary on Credit Risk Control

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.474[a]	.225	.222	.25556

a. Predictors: (Constant), Credit Risk Control

Source: Researcher, (2022)

The researcher used regression analysis to test the second null hypothesis. As stated earlier, the second null hypothesis was formulated to test the significance of credit risk control as part of credit policy used by SACCO. The second null hypothesis was formulated as follows

H_{o2}: Credit risk control has no significant effect on loan performance of SACCOs in Rwanda with a case of Umwalimu SACCO Rulindo District Branch.

As the findings show in Table 4.8, the regression provided a fairly good fit model with R^2=0.225. This indicated that credit client appraisal influences loan performance of SACCOs in Rwanda to a tune of 22.5%. This was interpretate to mean that when SACCO incorporate credit risk control practices within their credit policy, then they would improve their loan performance significantly.

Table 4.5 Analysis of Variance (ANOVA) for Credit Risk Control

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.301	1	6.301	96.486	.000[b]
	Residual	21.748	333	.065		
	Total	28.049	334			

a. Dependent Variable: Loan Performance

b. Predictors: (Constant), Credit Risk Control

Source: Researcher, (2022)

The researcher further did other analysis to test the second null hypothesis. This involved the Analysis of Variance (ANOVA) whose results are shown in Table 4.9. As per the findings, the regression model (F=96.486, p=0.000) showed that the regression was statistically significant since the p-value was less than 5%. This means that the null hypothesis which stated that credit risk control has no significant effect was rejected. Therefore, the conclusion is that credit risk control has a significant effect on loan performance for the savings and credit organizations in Rwanda. The face-to-face interview with five employees of Umwalimu SACCO, Rulindo Branch supported these findings. The informants were categorical on the importance of credit risk control as an approach that can help the SACCOs to reduce the loan default rate while at the same time increasing the loan performance. Further, the informants indicated that credit risk should be incorporate in other risks in the risk management practices of the SACCOs while placing the credit risk among the first priority risks.

These findings are in agreement with earlier findings from authors like Karekezi and Butera (2018) whose research showed that there is a strong positive relationship between credit risk management and loan performance of Umurenge SACCOs (r=0.704, p=0.000). The findings also showed that that credit risk management influences loan performance (R^2 =0.548). Jackson and Tamuke (2022) on credit risk management and financial performance of domicile banks revealed the need for collaboration between the research arm of monetary policy and financial stability. Mulindwa (2021) on credit management and financial performance of commercial banks in Rwanda evidenced that credit policy tends to be strong as perceived by the respondents. Mulindwa (2021) further found that the R^2 was 0. 444, showing that all the credit risk management variables jointly have positive and significant effect on liquidity in commercial banks in Rwanda at all level of significance.

Table 4.6 Regression Summary for Credit Collection Procedures

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.698[a]	.487	.485	.16680

a. Predictors: (Constant), Credit Collection Procedures

Source: Researcher, (2022)

The researcher used regression analysis to test the third null hypothesis. As stated earlier, the third null hypothesis was formulated to test the significance of credit collection procedures as part of credit policy used by SACCO. The third null hypothesis was formulated as follows

H_{o3}: Credit collection procedures has no significant effect on loan performance of SACCOs of Rwanda with a case of Umwalimu SACCO Rulindo District Branch.

As the findings show in Table 4.6, the regression provided a fairly good fit model with R^2=0.487. This indicated that credit collection procedures influence loan performance of SACCOs in Rwanda to a tune of 48.7%. This was interpretate to mean that when SACCO incorporate credit collection procedures within their credit policy, then they would improve their loan performance significantly.

Table 4.7 Analysis of Variance (ANOVA) for Credit Collection Procedure

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.787	1	8.787	315.809	.000[b]
	Residual	9.265	333	.028		
	Total	18.052	334			

a. Dependent Variable: Loan Performance

b. Predictors: (Constant), Credit Collection Procedures

Source: Researcher, (2022)

The researcher further did other analysis to test the third null hypothesis. This involved the Analysis of Variance (ANOVA) whose results are shown in Table 4.7. As per the findings, the regression model (F=315.809, p=0.000) showed that the regression was statistically significant since the p-value was less than 5%. This means that the null hypothesis which stated that credit collection procedure has no significant effect was rejected. Therefore, the conclusion is that credit collection procedure has a significant effect on loan performance for the savings and credit organizations in Rwanda.

Table 4.8 Overall Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.443[a]	.196	.189	.17858

a. Predictors: (Constant), Client Appraisal, Risk Control, Collection Procedures

Source: Researcher, (2022)

Table 4.8 shows the overall regression analysis conducted between credit policy and loan performance. The main objective in this analysis was to capture the combined effect of the three indicator variables, namely, credit client appraisal, credit risk control and credit collection procedures and loan performance as the dependent variable. As shown in the table, the regression analysis provided a low model fit with R^2=0.196. This implied that only 19.6% of the loan performance can be attributed to the credit policy as used by SACCOs in Rwanda.

Table 4.9 Analysis of Variance (ANOVA) for Credit Policy

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.579	3	.860	26.959	.000[b]
	Residual	10.555	331	.032		
	Total	13.134	334			

a. Dependent Variable: Loan Performance

b. Predictors: (Constant), Client Appraisal, Risk Control, Collection Procedures

Source: Researcher, (2022)

Table 4.9 shows the results for the overall ANOVA which included the credit policy three sub-variables, namely, Credit client appraisal, Risk Control, credit collection Procedures. As shown in the regression model summary, the model (F=26.959, p=0.000) was found to be significant. This indicated that the credit policy plays a significant role in loan performance for the SACCOs in Rwanda. This implies that SACCOs should carefully use efficient credit policy to increase their loan performance.

Table 4.10 Regression Coefficient Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.238	.245		9.120	.000
	Client Appraisal	.082	.030	.136	2.729	.007
	Risk Control	.215	.034	.310	6.249	.000

Collection Procedures	.195	.036	.267	5.413	.000

a. Dependent Variable: Loan Performance

Source: Researcher, (2022)

Table 4.10 shows the analysis for the regression coefficients for each of the three sub-variables used for credit policy. As shown in the table, credit client appraisal ($\beta_1 = 0.082, p = 0.007$) was positive and significant. This showed that one unit change in credit client appraisal would increase loan performance by 0.082 units. Additionally, the credit risk control ($\beta_2 = 0.215, p = 0.000$) that the SACCO use would affect positively their loan performance. An increase by one unit of credit risk control would lead to an increase in loa performance by 0.215 units. Similarly, credit collection procedures ($\beta_3 = 0.195, p = 0.000$) showing that a one unit change in credit collection procedures leads to an increase in loan performance of savings and credit cooperatives in Rwanda. These findings were supported by the face-to-face interview with five employees of Umwalimu SACCO, Rulindo District Branch. The informants indicated that SACCOs must improve on their credit collection especially for cases where borrowers are defaulting. They also agreed that the collection procedures used can greatly influence the amount collected as well as give a general picture of the performance of the loans.

These findings concur with earlier findings from other researchers. For instance, Migwi (2013) on credit monitoring and performance strategies adopted by commercial banks in Kenya found that all the banks monitor loans to ensure proper payment. Byusa and Nkusi (2012) in their research on the effect of credit policy on bank performance found that bad debts still exist though declining and therefore banks should continue to improve their lending policies. Kassegn and Endris (2022) found that demographic factors (age and household size), socio-economic factors (educational level, land size, livestock size, nonfarm income, purpose of borrowing), and institutional factors (road distance, contact with development agents, training received on loan use) were among the factors that influenced loan repayment rate of smallholder borrowers in the study area. Table 4.16 shows the summary results for hypothesis testing.

Table 4.11 Summary results for Hypothesis testing

Hypotheses	Variable	Beta Coefficient	t-statistics	p-value	Decision	R^2
H_{01}	Project Scope Management	0.082	2.729	0.000	Rejected	
H_{02}	Project Communication management	0.215	6.249	0.007	Rejected	0.196
H_{03}	Project risk management	0.195	5.413	0.000	Rejected	

Source: Researcher, (2022)

5.0 Conclusions

This research was concerned on investigating how the credit policy affect the loan performance of SACCOs in Rwanda, taking a case of Umwalimu SACCO Rulindo Branch. To achieve this objective, the researcher identified three key concepts including credit client appraisal, credit risk control and credit collection procedures. These helped the researcher to formulate three specific objectives and corresponding hypotheses. The study therefore went ahead to investigate how each of this affect the loan performance in SACCOs in Rwanda as well as tested the hypothesis. The findings showed that the three indicators have positive effect on the loan performance. The results of the hypothesis testing indicated that there is positive and significant effect of credit client appraisal, credit risk control and credit collection policy with the loan performance of SACCOs in Rwanda. This implied that the performance of loan in SACCOs can be enhanced if the institutions formulate and adopt effective credit policies that include credit client appraisal, credit risk control and credit collection procedure. The study therefore concludes that collection of reliable information from prospective borrowers becomes critical in accomplishing effective screening as indicated by symmetric information theory. Qualitative and quantitative techniques can be used in assessing the borrowers.

Further, it is important for these organizations to adequately screen clients to ensure that they have the willingness and ability to repay a loan. The purpose of credit analysis is to assess the likelihood that a borrower will default on a given loan. Credit analysis consists of evaluating a borrower's needs and financial conditions. SACCOs should conduct credit analysis efficiently to ensure that borrowers are effectively screened and that loans are granted to credit-worth customers. This would improve the loan performance of SACCOs in Rwanda, and in the end, improve the financial performance of these organizations.

The study further concludes that credit policy which determines the retail or corporate clients to whom the SACCOs should approve for loans and which should be avoided. This decision should be informed and must be based on the institution's lending laws and regulations.

5.3 Recommendations

Based on the findings in this study, the researcher recommends that borrowers should be screened especially by SACCOs in form of credit assessment and client appraisal. This would help the institutions to prevent and reduce the possibilities of loan default. In addition, sound credit assessment practices will help the SACCOs to allocate the loanable amount efficiently to the credit worth clients. The researcher also recommends the use of sound credit collection procedures. There is need for individual institution to have effective credit policies of their own. However, the researcher also recommends that a template for credit policy for all SACCOs should be used to guide the entire industry.

The study also the recommends that the management of the SACCOs should continuously assess their risk management practices to see if they are still practical in the face of a continuously changing operating environment, for instance the new regulatory regimes. The researcher recommends that regulator, that is, the National Bank of Rwanda (BNR) should take more preventive measures that can help to improve the loan performance for SACCOs
successful.

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