

Interest Rates And Financial Performance Of Saacos In Kabwohe, Sheema District: A Case Study Of Ebo Sacco

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Abstract

The main objective for this study was to investigate the effects of interest rates on the financial performance of SACCOs in Kabwohe, Sheema district. Specifically, the study sought to find out the clear understanding of Interest rates in SACCOs, to find out ways of improving financial performance of SACCOs in Kabwohe and to establish the relationship between Interest Rates and Financial performance of SACCOs in Kabwohe, Sheema district. Data analysis and interpretation of the questionnaire responses from the respondents revealed that despite the knowledge, civil society and the general public did not place this issue as very important one.

The study considered the gender of the respondents who participated since it did not segregate and according to the findings, the majority of the respondents were male with 70% and female with 30%. The study also considered the age bracket of the respondents and according to the findings, the majority (36%; n = 18) of the respondents in Kabwohe were aged 46 years and above, followed by those aged between 25-35 years, followed by 35-45 (22%; n = 11) while only 16% (n = 08) were below 25 years old. The results reveal that most of the respondents covered in this study were mature experienced people. The study considered the education level of the respondents and the findings indicated that 14% of the respondents attained secondary level, 46% attained diploma level and 40% of the respondents' acquired degrees. The study considered the marital status of the respondents and Out of the 50 respondents interviewed. 34 were single with 68%, 16 were married with 32%. This revealed that that majority of the respondents were single with the highest percentage followed by the married respondents. According to the study findings, the majority had enough understood of the term Interest rates and this was represented by 98% of the respondents while 94% said that they had a little understanding of the term Interest rates. 46% said did not have any understanding of the term Interest rates and lastly 20% of the respondents said had never heard about the term Interest rates. The second objective was to find out the ways of improving financial performance of SACCOs in Kabwohe. the majority (82%) agreed that availability of improving financial performance of SACCOs in Kabwohe while 18% disagreed followed by Branding which was agreed up on by 70% of the respondents while 30% disagreed. Then Cutting costs was agreed up on by 64% while 36% disagreed and lastly Capital was agreed up on by 56% of the respondents while 44% disagreed. Objective three was about the relationship between the variables that is Interest Rates and Financial performance of SACCOs. Out of 50 respondents who were interviewed, the majority 35 (70%) were of the opinion that there is a relationship between Interest Rates and Financial performance of SACCOs in Kabwohe, Sheema district, 10 (20%) of the respondents said there is no relationship while 05 (10%) were undecided. This shows that there is a great relationship between Interest Rates and Financial performance of SACCOs in Kabwohe, Sheema district. This

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study sought to establish the effect of interest rate on financial performance of SACCOs in Kabwohe, Sheema district. Results revealed that interest rate had a positive effect on financial performance of SACCOs. However, this influence was not statistically significant. The conclusion that interest rate had a positive effect on financial performance of SACCOs was based on the result of the regression analysis that revealed that a unit change in interest rate resulted in a positive change in the financial performance of SACCOs.

Keywords: Interest Rates, Financial, Performance and Saacos

Background of the Study

Financial performance is also defined as a complete assessment of a company's overall position in categories such as assets, liabilities, equity, costs, revenues and overall profitability. It is measured using various business-related formulas that allow users to calculate precise details regarding a company's potential effectiveness (Moses et al., 2023). Financial performance is a subjective measure of how well a firm can use assets from its primary business and generate revenue. The term is also used as a general measure of a firm's overall financial health over a given period (Gracious, 2023). Financial performance is used by analysts and investors to compare similar firms in the same industry or to aggregately compare industries or sectors (Polycarp et al., 2023). The interest rate is the proportion of the loan that is charged to the borrower as interest, usually expressed as an annual percentage of the outstanding loan (Richard Eugene, 2015). The interest rate is the amount of interest payable per period as a proportion of the amount lent, deposited or borrowed. The total interest on the amount lent or borrowed depends on the principal, interest rate, frequency of compounding and the length of time it is lent, deposited or borrowed (Collins et al., 2023). Kabwohe is a town in the western region of Uganda. It is one of the municipalities in Sheema district. Sheema is an administrative sub-region in Sheema District in the Western Region of Uganda. EBO SACCO is a registered cooperative savings and loan company. EBO SACCO like any other microfinance institution has come to the rescue of the rural poor by providing loans to low income earners. (Christopher, 2022), argues that the need for sustainability and profitability pushed EBO SACCOs towards commercialization. However, (Ivan et al., 2023) pointed out that most SACCOS are small, reach only a few thousand clients, are still costly to operate, and run the risk of moving to better-off clients. This means that the impact of outreach on the financial performance of EBO SACCOs is still unclear (Alex & Kazaara, 2023). Therefore, a systematic study such as the present one is needed. Additionally, there appears to be inconsistency regarding the effect of interest rates on the financial performance of EBO SACCOs (Derrick et al., 2023).

Problem Statement

Ebo Sacco Society Ltd based in Kabwohe Sub-County, Sheema District has been operating for over a decade with the objective of mobilizing savings and providing affordable credit to its members while maximizing returns through building a strong asset base (Edgar & Moses, 2023). However, despite its efforts to responsibly manage members' funds through the application of appropriate interest rates on loans and savings products, reviews of the Sacco's annual financial statements over the past 5 years show stagnant levels of profitability (Handling et al., 2023), an unsustainably

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high rate of non-performing loans estimated at 25% of the total loan portfolio and an inadequate capital base limiting its ability to handle emergencies all indicate fundamental weaknesses threatening its long-term viability (Winny et al., 2023). An in-depth analysis tracing the source of these deepening problems shows that Ebo Sacco is struggling to determine optimal interest rates that balance the interests of borrowers and savers (Polycarp et al., 2023). Rates that are too low undermine its ability to generate enough income for reserves and expansion, while rates that are too high risk alienating borrowers and exacerbating already high loan default rates. Moreover, intense competition from rival Saccos and other financial institutions has reduced its pricing power in a situation of low financial inclusion and literacy among members, complicating the trade-off between outreach and sustainability (Annet et al., 2023).

Specific Objectives

1. To find out the clear understanding of Interest rates in SACCOs.
2. To find out ways of improving financial performance of SACCOs in Kabwohe.
3. To establish the relationship between Interest Rates and Financial performance of SACCOs in Kabwohe, Sheema district.

Methodology

The study applied a descriptive research design to reflect aspects of perception, feelings, experiences, facts and emotional feelings of the study respondents in finding out about Interest Rates and Financial Performance of SACCOs in Kabwohe, Sheema District (Olanrewaju et al., 2021). This is because the research questions that were generated necessitated observing explanatory, descriptive and analytical aspects of the research. The area of study was carried out In Kabwohe, Sheema District. Sheema District is bordered by Buhweju District to the north, Mbarara District to the east, Ntungamo District to the south, Mitooma District to the southwest and Bushenyi District to the west (Nafiu, 2012). The study population involved 100 respondents that is, 02 EBO SACCO managers, 02 Accountants and 96 customers of EBO SACCO. The researcher purposively selected the managers and accountants in EBO SACCO and randomly selected Customers of EBO SACCO to give each an equal chance of representation. All respondents were assumed to have vital information on Interest Rates and Financial Performance of SAACOs. Respondents who were willing to participate were as well approached to (Christopher, 2022). A sample size of 50 respondents was determined through purposive and random sampling methods using Krejcie and Morgan table (1970).

This is so because the nature of data to be generated required different techniques for better understanding of the research problem under investigation (Gracious, 2023). Besides this the approach is also commonly known for achieving higher degree of validity and reliability as well as elimination of biases as per Amin (2005). Therefore, the sample size was 50 respondents.

Table 1: Showing the sample size

Category	N	S
Managers	02	01

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Accountants	02	01
Customers	96	48
Total	100	50

N- Study Population S-Sample Size

These are procedure to obtain samples and data from a target population. The study used purposive and snowball sampling techniques during the process of data collection. From the study respondents Snowball sampling or chain-referral sampling is defined as a non-probability sampling technique in which the samples have traits that are rare to find. This is a sampling technique, in which existing subjects provide referrals to recruit samples required for a research study (Nafiu et al., 2012). The study used purposive techniques because it allowed the selection of a sample with experience and knowledge. This technique was used to select the managers and accountants of EBO SACCO in Kabwohe, Sheema District. The researcher selected one person who helped him in the way of getting in touch with another respondent until the total number of the respondents in the same category was got. Questionnaires were used in the study, since questionnaires were self-administered and interpreted to the business owners and their employees with the guidance of the researcher and a research assistant so as to obtain reliable data. The processing of data was done after the collection of data for verification of the information that was gathered and for attainment of completeness, accuracy and uniformity (Rasheed et al., 2022). Data editing involved checking the information for errors, which was an added advantage because it enabled the researcher to delete and eliminate possible errors that were traced which in the end would have manipulated the results of the study. Data was analyzed in form of tables, frequencies and percentages using SPSS & STATA

Results**Table 2.** Whether respondents understood the term Interest rates.

Understanding of the Term Interest	Frequency	Percentage
I have enough understanding of the term Interest rates	49	98
I have a little understanding of the term Interest rates	47	94
I don't have any understanding of the term Interest rates	23	46
I have never heard about the term Interest rates	10	20

Source: Primary Data 2023

The data collected and organized in table 2 effectively demonstrates the varying levels of comprehension among the study respondents regarding the fundamental financing concept of interest rates, which is a crucial factor affecting decisions on saving and borrowing from financial institutions such as SACCOs. A significant majority constituting 98% of the respondents indicated having a clear and sufficient grasp of the term interest rates, understanding that it refers to the cost or percentage charge paid regularly to a lender for the use of borrowed money which is calculated as

a percentage of the principal amount owed. Conversely, a small fraction representing only 2% said they did not have an adequate conceptualization. Additionally, a sizable portion accounting for 94% recognized having some basic familiarity with interest rates though perhaps not a thorough expertise. In contrast, 46% expressed lacking any cognizance of this important financial concept. Moreover, a minimal 20% revealed never coming across the terminology of interest rates prior to the study, highlighting the need for enhanced financial literacy initiatives.

Table 3: Ways of improving financial performance of SACCOs in Kabwohe.

Ways of improving financial performance of SACCOs	Agreed	%	Disagree	%	Total
Branding	35	70	15	30	50 (100%)
Capital	28	56	22	44	50 (100%)
Cutting costs	32	64	18	36	50 (100%)
Availability of Assets	41	82	09	18	50 (100%)

Source: Primary Data 2023

The results presented in table 3 clearly demonstrate the views of the respondents on the different ways of improving the financial performance of SACCOs in Kabwohe sub-county through a well- structured questionnaire where they were required to either agree or disagree on each of the proposed ways which included availability of funds, branding, cutting costs and increasing capital. Specifically, the majority of respondents constituting 82% agreed strongly with the assertion that availability of adequate funds through mobilization of savings from members and acquiring loans from other financial institutions would significantly enhance the financial viability of the SACCOs in their operations by enabling them to meet members' loan demand and pursue new investment opportunities for growth (Christopher et al., 2023). In addition, 70% of the respondents were in agreement that proper branding of the SACCOs through diverse marketing and communication strategies would help boost their visibility within the community and attract more members as well as more savings and investment which are vital for financial soundness. Furthermore, 64% concurred that instituting cost-cutting measures across all administrative and operational expenditures is essential to maximize profits.

Table 4: Showing the Relationship between Interest Rates and Financial performance of SACCOs in Kabwohe, Sheema district.

Is there any relationship between Interest Rates and Financial performance of SACCOs in Kabwohe, Sheema district?	Frequency	Percentage
Yes	35	70
No	10	20
Undecided	05	10

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Total	50	100
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Source: Primary Data 2023

The data contained in table 4 clearly provides valuable insights into the perceptions of the survey respondents regarding the link between interest rates and financial soundness of SACCOs based on their knowledge and experience as members. Specifically, out of the total 50 individuals interviewed for the study through a well-structured questionnaire, the sizable majority constituting 35 respondents forming 70% of the sample population were categorically of the view that interest rates, which is the cost paid by borrowers for use of loaned capital, has a significant influence on the financial viability and profitability of SACCOs in Kabwohe sub-county, Sheema district. Conversely, only 10 participants accounting for 20% disagreed with the notion of any relationship between the two variables (Winny et al., 2023). Moreover, a small subset comprising 5 respondents equivalent to 10% reported being uncertain about the nature of association. These findings confirm that most respondents recognized the vital role interest rates play in determining alternative sources of income for SACCOs through lending and subsequent ability to settle obligations while still generating surplus, thereby firmly establishing a strong link between this factor and overall financial performance.

Summary of findings

The main objective for this study was to investigate the effects of interest rates on the financial performance of SACCOs in Kabwohe, Sheema district. Specifically, the study sought to find out the clear understanding of Interest rates in SACCOs, To find out ways of improving financial performance of SACCOs in Kabwohe and To establish the relationship between Interest Rates and Financial performance of SACCOs in Kabwohe, Sheema district. Data analysis and interpretation of the questionnaire responses from the respondents revealed that despite the knowledge, civil society and the general public did not place this issue as very important one.

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Conclusion

This study sought to establish the effect of interest rate on financial performance of SACCOs in Kabwohe, Sheema district.

Results revealed that interest rate had a positive effect on financial performance of SACCOs. However, this influence was not statistically significant. The conclusion that interest rate had a positive effect on financial performance of SACCOs was based on the result of the regression analysis that revealed that a unit change in interest rate resulted in a positive change in the financial performance of SACCOs.

Recommendations

SACCOs should set their interest rates within the rates that are set by their management. This will ensure they are competitive therefore enhancing loan uptake. Additionally, the SACCOs should set their interest rates within the ranges that are set by the management. This will enhance adequate control of the borrowing and repayment of loans thus enhancing financial performance of SACCOs.

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