CORPORATE GOVERNANCE, LIQUIDITY AND FINANCIAL SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN UGANDA.

A CASE STUDY OF SACCOS IN KAMPALA.

BY

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2014/HD10/172U

A DISSERTATION SUBMITTED TO THE FACULTY OF GRADUATE STUDIES AND RESEARCH, IN PARTIAL FULLFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF MAKERERE UNIVERSITY

PLAN A

DECEMBER, 2018
DECLARATION

I KIGOZI HENRY LWANGA, declare that this dissertation report is my original work and to the best of my knowledge, it has not been submitted to any other institution of higher learning for any academic award.

Signature........................................ Date........................................

KIGOZI HENRY LWANGA
APPROVAL

This is to certify that this Dissertation has been submitted with our approval as University Supervisors.

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MR. BENARD MUSEKESE WABUKALA

[Signature and date]
DEDICATION

I dedicate this dissertation to my mother (RIP) and father. From an early age they instilled in me a desire to learn and made sacrifices so that I would have access to a high quality education. Without their support and guidance, I would not be where I am today. This work is also dedicated to my wife Ester she has always believed with me and has offered reassurance throughout the process. I could not have accomplished as much as I have without her support and understanding.
ACKNOWLEDGEMENT

I thank the Almighty God who has given me the knowledge and wisdom to complete this research. I would also like to convey my heartfelt thanks to the school (MUBS) for offering me the fellowship to pursue a master’s in Business Administration. I would also like to extend my sincere gratitude to my supervisors DR. SUSAN WATUNDU and MR. BENARD WABUKALA for their time, advice and guidance rendered to me. Thank you very much and may God bless you.

I will forever be grateful to my research respondents for their time and willingness to give all the necessary information that was vital for this study given their busy schedules.
ABSTRACT

Financially sustainable MFIs that include SACCOs have been identified as a prime source of capital for economic development in countries. They also offer other instrumental social benefits. This study aimed at assessing the relationship between Corporate Governance, Liquidity and Financial sustainability of SACCOs in Uganda. A cross sectional research design and quantitative approaches were employed. Self-administered questionnaires were used for the data collection from a sample of 48 SACCOs with a total of 288 respondents.

Correlation and Regression analysis were conducted and results reveal that there was a positive significant association between corporate governance and liquidity, corporate governance and financial sustainability and liquidity and financial sustainability. Results further indicate that corporate governance and liquidity were statistically significant predictors of financial sustainability.

Thus, SACCOs need to observe the corporate governance principles which include; having a diversified board with vast knowledge that can formulate sound policies, a board that is transparent and with different roles for different officials to provide the checks and balances, aboard with education competences and continuously undertake refresher courses and seminars to improve the expertise of members in the SACCOs.

In addition, SACCOs should set limits on savings withdrawals and the use of customers’ savings as a source of funding to avoid liquidity risks so as to improve their financial sustainability.
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# ACRONYMS AND ABBREVIATIONS

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<tr>
<td>BOD</td>
<td>Board of Director</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<tr>
<td>MFI</td>
<td>Microfinance Institution</td>
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<tr>
<td>SACCO</td>
<td>Savings and Credit Co-operative</td>
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<tr>
<td>UCSCU</td>
<td>Uganda cooperative Savings and Credit Union Ltd</td>
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<td>UCA</td>
<td>Uganda Cooperative Alliance.</td>
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<td>WOCCU</td>
<td>World Council of Credit Unions</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background to the Study
The concept of microfinance is widely advanced as the provision of basic financial services to impoverished clients who otherwise lack access to financial institutions (Microfinance Equity Funds, 2012). The main activity of microfinance institutions is microcredit, which refers to the extension of very small, uncollateralized loans; usually of less than $100 (Micro Banking Bulletin, 2006). Microfinance institutions are institutions that offer microfinance services to the poor.

In order to succeed, thrive and last long, MFIs largely rely on their financial sustainability which entails the viability of an organization to continuously operate as a result of generating revenue that exceeds cost and accumulating resources that can be utilized to counter some losses that may occur as short term shocks (Bayai & Ikhide, 2016). Financially sustainable MFIs have therefore been instrumental in achieving the social and the financial obligation (Kumar, 2012).

As to how financial sustainability within the MFI’s can be achieved, both agency (Bathula, 2008) and liquidity risk theory (Cantor & Frank, 1996) may be informative. The agency theory identifies an agency problem that is likely to arise as a result of the relationships between shareholders and managers. The managers who are the agents employed by the shareholders to run institutions on their behalf, may instead take advantage and advance their own interests. In this respect the agency theory suggests another independent body needs to be formed to act as a monitor of the performance of the agents. In MFIs, corporate governance headed by the board as a body that sets policies and monitors the performance of the organization in a bid of ensuring that the managers serve the objectives of the
organization. Corporate governance is thus concerned with maintaining a balance between economic and social goals, and between individual and collective aims, while encouraging efficient use of resources and higher levels of accountability (Kansiime 2009) enhancing the achievement of financial sustainability of the organizations.

In regard to the contribution of credit risks theory towards financial sustainability of MFIs, it should be noted that the theory requires organizations to develop methodologies to quantify credit risk and develop systems that can effectively address the challenges related with the risk (Cantor & Frank, 1996). An organization is therefore urged to maintain optimum liquidity levels in order to meet its immediate financial obligations. Many MFIs that fail, usually suffer from liquidity risk resulting from corporate governance failure, such as lending in excess of single borrower limit, ineffective management information system, inability to plan and respond to changing business circumstances, ignorance of non-compliance with rules, as well as laws and regulations guiding Microfinance institutions. On a positive note however, MFIs that have adequate liquidity levels have been found to boost their chances of being financially sustainable (Njeri, 2014).

In the Ugandan context, there has been a decline in financial sustainability of Microfinance institutions most significantly SACCOs. Empirical evidence has shown the existence of poor corporate governance and liquidity risk problems. Nakitende (2017) established that in Uganda, employees of different SACCOs have exploited loopholes in the law to mismanage or steal members’ money either by lending it to their relatives, or exaggerating the costs of different activities. Similarly, Distler and Schmidt (2016) show that although the financial results of most of the SACCOs surveyed did not seem very alarming, several issues were highlighted that might put their financial sustainability at risk in the future and many SACCOs, especially smaller ones, were over-dependent on subsidization. The quality of the SACCOs’ loan portfolio, a main indicator for the capability of lending institutions, was
another critical point that threatened the viability of many SACCOs. Due to the enormous demand for financial products in rural areas (in particular loan products), the SACCO sector as a whole is growing considerably (UCSCU, 2017).

However, the growth pattern of many smaller SACCOs seems uneven since they have difficulties to attract savings deposits from their members. Member deposits contribute to increased liquidity and financial sustainability of many SACCOs. But it was noted that, lack of savings was a major bottleneck to growth for SACCOs. In almost all the SACCOs Distler and Schmidt (2016) visited, the organisations were not able to attract sufficient savings from their members to meet the high demand for loans and to grow fast. It has also emerged that between 2005 and 2015, less than 50% of the Ugandan SACCOs that have performed well, mainly from Ankole, Kigezi and West Nile regions while Kampala has not been consistent (Adea, 2015).

In poorly performing SACCOs, corporate governance has also been identified as weak. This has been attributed to organisations which either have under qualified personnel or lack financial management competences, or authorities concerned doing multiple roles that compromise the spirit of checks and balances leading to poor performance and collapse of these organisations (UCSCU, 2017).

SACCOs in Uganda have traditionally suffered from opaque governance and as a result there has been mismanagement in some SACCOs (Mugisha, 2010). Management of Lira Women SACCOs for instance, reportedly, misappropriated about UGX 217 million with several groups in the SACCO receiving less money than the loans approved by the authorities (Oketch, 2010). In addition, Kiryansaka SACCO in Masaka obtained a capacity building grant which was diverted to purchase land that was fraudulently registered under the name of the SACCO Treasurer. An annual audit revealed the fraud which led to the arrest of the
Treasurer and the use of SACCO funds for litigation. The Treasurer was never convicted, resources diminished to a trifle and members lost morale in the SACCO leading to its collapse (Kawanguzi and Kasoma, 2010)

1.2 Statement of the Problem
The success of Microfinance Institutions (SACCOs) in financial performance and sustainability is largely accredited to good corporate governance and liquidity. However, despite the effort by the various stakeholders including government and international bodies like United Nations to promote SACCOs in Uganda as a means of fighting poverty, a review of the period between 2005 and 2015 indicates that less than 50% of the registered SACCOs have been successful, a rate attributed to low levels of financial sustainability, and liquidity risks among other related factors (Adea, 2015). A few studies carried out in Uganda have raised issues concerning poor corporate governance of SACCOs by Staff and the Board of Directors (Nakitende, 2017; Mugisha, 2010; Oketch, 2010).

It is against these gaps and background that this study seeks to examine the relationship between Corporate Governance, Liquidity and Financial Sustainability of SACCOs in Uganda.

1.3 Purpose of the Study
The purpose of this study was to examine the relationship between corporate governance, liquidity and financial sustainability of SACCOs in Kampala, Uganda.

1.4 Research Objectives
This study was guided by the following research objectives.

i. To find out if corporate governance is associated with liquidity of SACCOs in Kampala.
ii. To examine the relationship between liquidity and financial sustainability of SACCOs in Kampala.

iii. To examine the relationship between corporate governance and financial sustainability of SACCOs in Kampala

iv. To assess the predictive power of corporate governance and liquidity on financial sustainability of SACCOs in Uganda

1.5 Research Questions
This study was based on the following research questions;

i. What is the relationship between corporate governance and liquidity in SACCOs?

ii. What is the relationship between liquidity and financial sustainability of SACCOs?

iii. What is the relationship between corporate governance and financial sustainability of SACCOs?

iv. What is the relationship between corporate governance, liquidity and financial sustainability of SACCOs?

1.6 Scope of Study
This section presents the scope of the study. In particular, it provides both conceptual and geographical scope.

Conceptual Scope
The study focused on the relationship between corporate governance, liquidity and financial sustainability of SACCOs.
Geographical Scope

The study was confined to SACCOS within Kampala given the large number of SACCOS reportedly to be struggling with financial sustainability (Adea, 2015).

1.7 Significance of the Study

This study highlights the importance of corporate governance and liquidity management. It is hoped that the findings of this report informs practitioners as they design institutional models and regulators in their efforts to boost the effectiveness of SACCOS provision in Uganda. The study findings guide practitioners, regulators and management of SACCOS to appreciate how corporate governance and liquidity contribute to sustainable SACCO performance and thus provide stimuli for them to take necessary actions. This study forms an additional reference point for further researchers hence contributing to the existing knowledge.

1.8 Conceptual Framework

In today’s competitive and regulatory environment, good corporate governance practice provides a way to realize the vision of mitigating risk of liquidity and optimizing financial sustainability simultaneously (Vrajlal, 2006). According to Tandelilin (2007) implementation of good corporate governance is not only concerned about better expected return but is also concerned about better managing of risk. Institutions can incur financial losses when risks are poorly managed, and may fail to meet objectives of providing services to the poor and quickly go out of business (Microfinance Network Report, 2000).
Figure 1: The Conceptual Framework


From Figure 1, corporate governance is hypothesized in terms of Board of Director structure and Chief Executive Duality. The way these factors are handled by microfinance institutions is likely to affect the financial sustainability. For instance, it has been noted from the previous studies that board capacity to function effectively partly depends on its size (Rock et al., 1998). Although there is no optimum number of board members, the number should not be too small or too big. According to Kyereboah-Coleman and Biekpe (2005), executive directors are more familiar with Microfinance Institutions’ activities and therefore are in a better position to act as monitors with regard to the top management. On the other hand, it is contested that non-executive (external) directors may act as professional referees to ensure that competition among insiders stimulates action consistent with shareholder value maximization.
Liquidity is conceptualized in terms of savings mobilization and asset/liability management. When there are liquidity problems for instance with little funds accessible, the microfinance institutions (SACCOs) may not have enough cash with it, and with poor governance, profits may be eroded by financing interest on borrowed funds. Financial sustainability of Microfinance Institutions (SACCOs) is abstracted in terms of financial self-sufficiency and operational self-sufficiency. Whether these variables are related and how exactly are is discussed in the literature section below.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter presents the literature review. It has the theoretical review that analyses the theories that guided this study. Also in the chapter are the key definitions for the variables that were used. Finally, the chapter presents an analytical review of the various empirical studies done that are related to the variables under review.

2.2 Theoretical Review
This section presents the theories that provide a lens for this study. Two theories including agency theory and credit risk theory.

2.2.1 Agency Theory
The agency theory advanced by Jensen and Macklin (1976) assumes that owners of an organization (principals) and those that manage the organization (agents) have different interests. Hence owners will face the problem that managers are likely to act according to their own interests rather than the owners’ interests (Fama & Jensen., 1983). In this regard, boards are required to monitor managers on behalf of the owners. In performing this role, members are expected to be independent and monitor the actions of managers as agents of the owners to ensure they are acting in accordance with the owners’ interests (Jensen & Meckling, 1976). The theory suggests that board composition is important for effectively monitoring top management. Boards have to be diverse in terms of skills, experience, and gender balance. This creates a balance on boards and leads to effective monitoring and subsequently to the successful financial performance of the organization.

The concept of corporate governance presumes a fundamental tension between shareholders and corporate managers (Jensen & Meckling, 1976). While the objective of a corporation’s
shareholders is a return on their investment, managers are likely to have other goals, such as the power and prestige of running a large and powerful organization, or entertainment and other perquisites of their position. Managers’ superior access to inside information and the relatively powerless position of the numerous and dispersed shareholders, mean that managers are likely to have the upper hand (Fama & Jensen, 1983).

Therefore, shareholders monitor and controls managers through their representatives such as board of directors. Boards of directors are considered as an important device to protect shareholders from being exploited by managers and help to effectively control managers when they try to maximize their self-interest at the expense of the company’s profitability.

Fama and Jensen (1983) argues that in order to minimize agency problem that emanates from the separation of ownership and control the corporations need to have a mechanisms that enables to separate the authority of decision management from decision control. This would reduce agency costs and ensures maximization of shareholders wealth by effectively controlling the power and self-centered decisions of management.

From agency theory view point, corporate governance improves corporate performance by resolving agency problems through monitoring management activities, controlling self-centred behaviours of management and inspecting the financial reporting process (Habbash, 2010). Moreover, corporate governance is able to alleviate agency costs by aligning the conflicting interests of management and shareholders through monitoring management and using different corporate governance mechanisms. Therefore, corporate governance mechanism such as boards of directors and audit committees enables shareholders to closely monitor the activities of managers. Ineffective board and audit committee may give confidence for managers to pursue their own interests but effective board and audit
committees can reduce deceptive behaviour of managers by detecting fraudulent financial report and actively monitoring.

According to the assumptions of agency theory corporate governance mechanisms affect financial performance. As a consequence, enhancing corporate governance mechanisms should result in improved financial performance. Taking agency theory into consideration, the study variables were identified with the aim of examining the relationships between corporate governance mechanisms and financial performance. Board structure has relied heavily on the concepts of agency theory, focusing on the controlling function of the board (Habbash, 2010). The corporate governance mechanisms considered in this research include Board Size, Board Composition, Board competency, Board experience in the sector, Meeting frequency of Board, Audit committee size, CEO duality and CEO gender.

2.2.2 Credit Risk Theory
The theory proposed by Cantor and Frank (1996) posit that, a firm needs to develop a means of quantifying credit risk across a the various items that can lead to risk such as, traditional loans, commitments and letters of credit, fixed income instruments, commercial contracts like account payables and accounts receivables.

A firm is then expected to develop an integrated credit risk management system for assessing portfolio risk due to changes in the value of a debt that may be caused by changes in obligor credit quality (Njeri, 2014). Such a model would incorporate the changes in value caused by possible default events, and upgrades and downgrades.
2.3 Empirical Review
This section presents the literature that shows the studies that have previously been conducted in different contexts in relation to the variables under review.

2.3.1 Liquidity
Liquidity is a term used to refer to an organization’s capacity to readily meet its cash and collateral obligations at a reasonable cost. This is an important requirement in financial and MFI’s. As a requirement, it is expected that organizations maintain an adequate level of liquidity that can enable them to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the financial condition of the institution (Thrikawala, Locke, & Reddy, 2015)

In financial institutions, liquidity is mainly represented by the assets that can be readily converted to cash, net operating cash flows, and the ability to acquire funding through deposits, borrowings, and capital injections (Microsave, 2015). This means that in order to efficiently operate, financial institutions ought to have an adequate level of liquidity at a given period of time.

The challenge of liquidity risk is a major reason as to why the concept of liquidity is key in the survival, progress and thriving of MFIs. The risk can affect an institution’s financial condition or overall safety and soundness resulting from the inability to meet its obligations. In essence, an institution is expected to have a maintain a given level of liquidity which enables it to meet its obligations and this can be achieved through a balance of its business mix, balance sheet structure, and the cash flow profiles (Comptroller’s Handbook, 2012).

Natacha, Beatrice and Tiesset (2008) further explained that there are two criteria are involved in liquidity management within a financial institution. First, the institution must be sure that appropriate, low-cost funding is available at short notice. This may involve holding a
portfolio of assets that can easily be sold, holding significant volumes of stable liabilities, or maintaining credit lines with other financial institutions. Second, liquidity management must meet profitability requirements.

For the purpose of this study, Liquidity will be viewed as the amount of capital that is available to meet the MFIs immediate obligations as the fall due, and amount that can be available for immediate investment and spending and entails cash, and near cash assets (Njeri, 2014).

2.3.2 Financial Sustainability
An attempt to define financial sustainability posit that it entails the development of products and delivery systems that meet client needs, at a price that cover all costs of providing these financial services that is independent of external subsidies (Rosengard, 2001). Thus a financial institution can be said to be viable if it can serve its clients well without running the risk of losses.

Another perspective view financial sustainability as the ability of an organization to maintain or expand its services and at the same time developing resilience to occasional economic shocks in the short term (Sontag, 2012). What this means is that a financially sustainable MFIs can be judged against its ability to continuously offer the services to its clients despite the challenges that may come on its way. This definition inculcates the reality of the environment that the financial institutions operate that is characterized by short term shocks, and the ability to absorb the same defines sustainability of an organization and is demonstrated in the ability to cover operational, financial and administrative costs regardless of the shocks.

Questions have been raised in reference to uniqueness of MFIs in comparison with other financial institution as to whether sustainability ought to be viewed in the same way for both
the institutions. Notably, MFIs are said to pursue double bottom lines of social and the financial obligation (Kumar, 2012) and therefore both of the same objected ought to be factored in when assessing the sustainability of MFIs. In this respect, it has been suggested that financial sustainability of MFIs need to incorporate the social aspect too. An attempt to define this in specific terms, points that an MFI can be said to be viable and thus sustainable, if its revenues are above the operational cost per unit of principal lent (Guntz, 2011). This, it has been argued can be achieved through a balance between loan disbursement and recovery for the case of MFI’s.

Further, it has been argued that sustainability of microcredit schemes is defined by a number of variables. Under this view, it has been argued that in MFI, grants and soft loans cover operating expenses and establish the revolving loan fund. It is expected that revolving fund earns interest income that can cover the cost of funds and some operating expenses. The other variable entails the operational sustainability where income earned covers cost of funds and operational expenses. The said process should also ensure that subsidy remains due to the financial costs of maintaining the value of a revolving loan fund in a highly inflationary environment, or of paying commercial rates of refinancing costs. Factoring all the aforementioned demands, it has been argued that for a micro-credit scheme to be financially sustainable, all costs are covered with the interest and fees charged by the organization and funds are raised at commercial rates from formal financial institutions needs cover 100 percent of their operational costs in order to maintain their current activity level (Mwaura & Wanyoike, 2014). This study mainly focused on financial self-sustainability as the dependent variable.
2.3.3 Corporate Governance

Corporate governance concept refers to a system by which organizations are directed and controlled (Microsave, 2015). The concept can be advanced in line with the agency theory that calls for a system that can resolve the conflict of interest between managers and shareholders which can pose a principal-agent problem. Corporate governance seeks to ensure the stakeholders interests are promoted by the agents they employ to run their business, through providing direction and monitoring how the affairs of the organizations are run.

The board of governors forms the personnel that, although not mainly involved in the running of the day to day affairs, provide the strategic options of the organizations, set rules and directions, monitor, and occasionally meet to review the performance of an organization. In MFIs, good governance has been termed as vital in strengthening stewardship and achievement of the planned goals which translates into performance (Thriwakwa et al., 2013).

Composition, roles and quality of corporate governance has been considered to be important whenever a review of performance of the MFIs is concerned. In respect to composition, an emphasis has been made to have a diversified team. This is so since such a team is likely to thoroughly identify issues that are important to the organization. As such it has been argued diversity in such terms as gender, age, experience and inclusion of minority need to be observed if the corporate governance is to be considered well represented. In line with agency theory, it has been argued that the board of governors ought to be independent and this can be achieved when there is a balance between executive and non-executive directors on the board (Bathula, 2008). In respect to this, Dahya, Dimitrov, and McConnell (2008) observed that there was a positive relationship between firm performance and the proportion of outside
directors. There is also an emphasis on the concept of duality, which requires that the roles of CEO and chairperson are carried out by the same person (Mersland & Strøm, 2009).

Another key issue in regard to corporate governance is the qualifications, skills and the abilities of the board members. Given the role of the members, it has been advanced that the personnel need to possess a set of qualification that can enable them perform well. In this regard, it has been argued that, an individual appointed to be part of the board ought to be willing and devoted to set aside time for the MFI, possess skills that are complementary to those of other board member, and be able to contribute to the benefit of the organization. The said should be in both leadership and technical knowledge (Microserve, 2015). This study will concentrate on the number of board members, diversity, skills, and duality components of corporate governance.

2.3.4 Corporate Governance and Liquidity

Corporate governance in MFIs derives its significance from the Agency theory that demands that the shareholder rights are protected, enhanced disclosure and transparency, and facilitate effective functioning of the board. La-Porta (2000). Therefore any threat to an organization’s operations due to deficiencies in the internal management is proactively guarded through a sound cooperate governance. Of the areas addressed by setting up policies and monitoring the performance is the liquidity position of the MFIs. This position has been supported by both theoretical and empirical studies that have sought to examine the relationship between corporate governance and liquidity.

The available literature has also emphasized the centrality of the liquidity position among MFIs requiring that top management should be involved in reviewing the liquidity status of the institutions (Microsave, 2015). In this respect, it has been argued that among the key issues that ought to form part of the agenda of the board meetings is to review the liquidity
position of the institution. Such an assessment can make further directives if the board members feel that the position may pose a liquidity risk where the institution may in the immediate future fail to meet its obligations. Thus it can be deduced that corporate governance is instrumental in ensuring the liquidity safety of MFIs.

In another earlier contribution, it was argued that corporate governance may influence liquidity by guarding against the insiders, including managers and large shareholders possibility of exploiting private information through information-based trading when investor interests are poorly protected (Giannetti & Simonov, 2006). Thus the presence of good governance practices ensure that one of the factor that ensure performance of an MFI, the optimum level of liquidity is maintained and thus acts as a guard against the possibility of manipulation of the same by the internal agents.

The Council for Microfinance Equity Funds (CMEF, 2012) also made their contribution in the same respect advancing the view that one of the responsibilities under corporate governance is that of risk strategy management. Under this responsibility, a call is made to ensure that the MFIs avoid the financial risks by adopting strategies that focus on credit, liquidity, and refinancing risks and capital adequacy. Given the said responsibility of the corporate governance in ensuring liquidity issues are addressed, it would therefore be possible to expect that MFIs that has good corporate governance to also yield positive result in regard to liquidity position.

Further, a study assessing the liquidity position of MFIs indicated that the role of monitoring and controlling the flow of cash from the institutions was important in ensuring a better liquidity position (Murage, 2014). In this regard corporate governance becomes one of the means of ensuring that the institution’s liquidity. This is so since corporate governance sets and monitors policies that ensure the overall performance of the organization based on the
strategic aims. Since MFIs performance will depend on among others the liquidity position of the institution, it can be deduced that sound governance principles would ensure that the liquidity of an MFI is in an optimum level.

Kimathi et al. (2015) also observed that governance was important in managing liquidity risks among the MFIs. Two key roles of management and monitoring were identified. In essence managing liquidity was found to be an important governance role for MFI’s since it ensures that an organization hold an appropriate amount of liquid since this enables meeting of the immediate obligation and also capitalize on important investment opportunity that may arise on a short notice. In regard to monitoring role the members of management team ensure that the liquid required by an organization at a given time does not go below a given level that can threaten the ability of an MFI to meet its obligation. Thus form the said observation; it can be argued that corporate governance is important in ensuring that MFIs maintain the required level of liquidity.

Therefore the available literature provides strong indications that the role of corporate governance in ensuring organization’s liquidity levels are at an optimum point. This helps to develop hypothesis one for this study that, H1: corporate governance is positively related to liquidity.

2.3.5 Liquidity and Financial Sustainability

Liquidity being the ability of the organization to meet its current obligation, provides a greater possibility that when maintained, the organization will thrive demonstrating a sustainable organization. The available literature has shown consistent evidence that liquidity is an important antecedent of financial sustainability of MFIs, Natacha et al. (2008), for instance, whose study was conducted in France observed that liquidity was vital in determining financial stability among the banks, which is a key indicator of financial
sustainability. In this respect, the scholars argued that, financial institutions need to manage liquidity stocks and flows in order to maintain financial stability. In this respect it was advanced that some initiatives like monthly report on banks’ overall liquid assets and liabilities, which include cash positions, claims and negotiable securities, as well as off-balance sheet commitments and available liquidity lines were used to present an overview of the institutions’ liquidity and by extension indicate how likely the institution was in terms of financial sustainability.

In another contribution, Mirza (2006) cautions MFIs from heavy borrowing which is likely to affect the organizations liquidity and threaten their financial sustainability. This caution was raised in respect to the failures registered by some of the MFIs which is an elaboration of the trend it can take. Thus in this case, where an MFI suffers liquidity risk, its sustainability is affected which may culminate into collapse. A critical assessment of the said view also suggests that an MFI, whose liquidity position is good, is also likely to be financially sustainable.

Further, a comprehensive study assessing MFIs sustainability in countries in Southern Asia revealed that liquidity was one of the factors that promote sustainability (Ahmed & Bhuiyan, 2015). In this regard, the institutions that maintained a good level of liquidity demonstrated a high degree of resilience which amounts to financial sustainability. On the contrary many of the MFIs that performed poorly had among others, suffered from liquidity risks that made it difficult for them to meet their immediate financial obligations. Thus with this, it can be deduced that liquidity is a good antecedent of financial sustainability among the MFIs.

Elsewhere, Njeri’s (2014) study revealed that liquidity had a positive relationship with financial performance which provides a strong ground to argue that liquidity is an antecedent of MFIs performance. In the finding, it was discovered that the MFIs that had recorded a
constant level of liquidity which meant that the organizations were able to meet their immediate obligations and also invest on available opportunities, performed well financially. On the contrary, the organizations that were declining had liquidity as one of the problems that explained poor performance. In essence an argument can be advanced that where an optimum amount of liquidity is maintained and organization’s sustainability is enhanced.

Similarly, Wafula (2017) who conducted a study in Kenya found that liquidity was one of the variables that explained financial sustainability among the Microfinance institutions. Financial sustainability is one of the dimensions that reveal MFI’s sustainability. In that study where 44 micro finance institutions formed the unit of inquiry, the result showed that among the variables, liquidity was positively related to the sustainability.

Further evidence in a recent study reinforced the view that liquidity position of an organization was significant in determining the financial sustainability of MFIs (Kathomi, Kimani & Kariuki, 2017). Given the results, it was argued that liquidity gave an organization the ability to meet the immediate obligation and be well positioned to offer short term loans that provide long term sustainability. With that therefore it can be said that liquidity is key to determining MFIs sustainability.

With the evidence provided from different contexts that has consistently shown liquidity as a good predictor of sustainability, we develop a hypothesis that H2: Liquidity is positively related to financial sustainability among MFIs in Uganda.

2.3.6 Corporate Governance and Financial Sustainability

There is both theoretical and empirical evidence that indicates that corporate governance is an important factor that determines financial sustainability of an organization. As to how this occurs, the composition, roles and responsibilities entailed in corporate governance provides
a reasonable ground that when well achieved, corporate governance has a strong influence on the overall performance of an organization including financial sustainability.

In one of the views, a more elaborate argument based on what corporate governance entails, shows that organizations heavily rely on the same to achieve their financial sustainability. In this respect, corporate governance has been present as essentially being about effective leadership, which characterized by the ethical values of responsibility, accountability, fairness, and transparency. As such, it can be said to be the system or process of giving direction or control to companies. In relation to corporate governance’s contribution to an firm, it has been argued that a clear and functioning corporate governance system helps the firm to attract investment, raise funds, and strengthen the foundation for firm performance, whose indicators includes financial sustainability (Dzingai & Fakoya, 2017).

Studies that have exclusively centred on MFIs have also shown that corporate governance of the said institutions have been an important factor that explains their financial sustainability. For instance, in an earlier study conducted in the Ugandan context, Okumu (2007) found that prudence management was vital in promoting sustainability among MFIs. In essence, since management entails the role of corporate governance, it can be argued that there is compelling evidence that the effectiveness of the team entrusted with managing the SACCOs will be important in determining the sustainability of the SACCOs.

Later, Mugenyi (2010) in his work had interest in finding out the corporate governance indicators that were weakening the Savings and Credit Cooperative Organizations (SACCOS) in Uganda. He analyzed the perceptions and experiences of board members in a qualitative approach wherein the researcher collected data from seven focus groups from seven SACCOS with at least 4 to 8 members interviewed. The results indicated that the corporate governance mechanism of SACCOS had an effect on the growth of SACCOS. The study
recommended that more research should be done to improve on the governance mechanism of these SACCOS to meet with the expansion of these institutions at a time when the government was making more efforts to improve on their liquidity and sustainability.

In another comprehensive study that assessed the financial sustainability of 42 microfinance institutions in Kenya, the quality of corporate governance was found to be an important determinant of financial sustainability (Kosgei, Abdi & Kosgei, 2014). The study revealed that clear corporate governance practices, having a balance between quality and quantity of board sizes and the skills of board members is instrumental in achieving financial sustainability. Thus an argument can be advanced that good corporate governance is an important antecedent of financial sustainability.

Elsewhere, a study assessing MFIs sustainability in countries in Southern Asia identified corporate management as one of the factors that promote sustainability (Ahmed & Bhuiyan, 2015). The study indicates that a strong management board ensured that the aims of MFIs were followed and therefore aligning the objective to any decisions made. Otherwise where the management failed the MFIs would decline. Therefore from the findings of the study, it can be deduced that corporate management is an important antecedent of MFI’s sustainability.

Further, Zegeye (2015) whose study was conducted in Ethiopia assessing the contribution of corporate governance and financial position of MFIs also found that corporate governance had an important role to play. In the said study, board size, board competency, board experience in the financial sector and meeting frequency of board were found to be among the factors that had a positive impact on performance. Thus, it can be argued that financial sustainability can be effectively achieved if a number of key roles that are a reserve of corporate governance are well observed.
In another study Olick (2015) observed that corporate governance, which entails roles played by the key organizational leaders which includes directing and managing the business, aim at enhancing prosperity, corporate accountability and sustainability. Thus, when executed properly, the role of corporate governance is an important factor that promotes sustainability of MFIs. The said view gained an empirical support in a study conducted in Kenya at among MFIs. The study thus provided further support that corporate governance is a good predictor of sustainability.

In yet another study conducted in Nigeria, the board size component of corporate governance was found to be the major contributing dimension that explained financial sustainability (Uchenna et al. 2016). The study assessed 98 national and state microfinance organizations for a period of between 2011 and 2015. The key significant predictor of sustainability was the board size. In the recommendation, the scholars suggested that MFIs needed to be more gender friendly and appoint more females on board so that the performance of organizations sustainable. Therefore, from the available literature, a hypothesis is developed that states, H3: Corporate governance is positively related to financial sustainability among MFIs.
Conclusion

Financial sustainability is important in determining how long microfinance institutions can operate or survive. This is so since financial sustainability enables the microfinance to have the money the customers borrow and return with interest. It also rewards the investors that are motivated to keep on investing in their initiative. To achieve this however, there is a need to effectively manage the liquidity position, which on the other hand relies on sound corporate governance. Literature hardly identifies empirical studies that have focussed on corporate governance, liquidity and financial sustainability of SACCOs in Uganda thus, creating a gap to be fulfilled by this study.
CHAPTER THREE
METHODOLOGY

3.1 Introduction
This chapter discusses the research design, methods and techniques that were used to collect and analyse data.

3.2 Research Design
The study adopted a cross-sectional survey design and quantititative research approaches that are descriptive and analytical in nature to establish whether the changes in cooperate governance and liquidity correlate with financial sustainability of SACCOs.

3.3 Study Population
The population of this study was 56 active registered SACCOs in Kampala (UCSCU 2017).

3.4 Sample Size Determination and Selection
According to Krejcie and Morgan (1970) Table of sample selection, 48 SACCOs were the appropriate sample size. The SACCOs were randomly selected by assigning numbers to each of them and the list was put in a container. Then at random 48 SACCOs were picked without replacement. SACCO formed the unit of analysis and respondents were purposively selected given the required knowledge and skill to inform. The respondents comprised of, 1 manager, 2 administrators, 1 credit officer and 2 supervisors. These formed the unit of inquiry. Thus, a total of 288 Questionnaires were distributed as shown in Table 3.1.
Table 3.1: Distribution and selection of respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>No.</th>
<th>Sample Size</th>
<th>Technique</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager</td>
<td>1</td>
<td>48</td>
<td>Purposive sample</td>
</tr>
<tr>
<td>Administrators</td>
<td>2</td>
<td>96</td>
<td>Purposive sample</td>
</tr>
<tr>
<td>Credit officer</td>
<td>1</td>
<td>48</td>
<td>Purposive sample</td>
</tr>
<tr>
<td>Supervisors</td>
<td>2</td>
<td>96</td>
<td>Purposive sample</td>
</tr>
<tr>
<td>TOTAL</td>
<td>6</td>
<td>288</td>
<td></td>
</tr>
</tbody>
</table>

Source: SACCOs registers

3.5 Data Collection

The study relied on primary data sources. The required primary data was collected directly from the respondents from the different SACCOs. This was done through administering of structured questionnaires (Raaijmakers et al., 2000).

3.6 Measurement of Variables

Corporate governance was measured in terms of board size, board composition, board competency, and board experience in the sector, meeting frequency of Board, audit committee size, CEO duality and CEO gender. Board structure has relied heavily on the concepts of agency theory, focusing on the controlling function of the board (Habbash, 2010).

Liquidity was measured in terms of access to funds including savings mobilisation, Asset/Liability management (Assets liquidation, Net operating cash flows, Deposits, Borrowings, Donations, Capital injections); and Cost of funds (Interest rate, Competitive environment) (Comptroller’s Handbook, 2012).
Financial Sustainability of MFI (SACCOs) was measured in terms of financial self-sufficient, operational self-sufficient, net income, Capital adequacy, Asset quality, Profitability and Earnings (Bank of Uganda, 2015).

Each of the four variables was measured by items on a five-point likert scale, where a 5 point likert scale was used to determine the level of agreement with the questions in the questionnaire where 1= strongly disagree, 2 =disagree, 3=uncertain, 4= agree and 5= strongly agree.

3.7 Reliability Analysis

Reliability refers to the consistency and the stability of the test results. A tool is considered reliable if a group of respondents is given the same questionnaire many times to respond with consistency. To assess the reliability of the tool used in this study, Cronbach alpha coefficient test (Cronbach, 1946) was conducted and the questions that scored an average of 0.7 or above were considered highly reliable.

As seen in the results in Table 3.2, all variables under study scored an average or above 0.7 Cronbach’s alpha, which indicates that the questions were reliable.

Table 3.2: Reliability Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Governance</td>
<td>.755</td>
</tr>
<tr>
<td>Liquidity</td>
<td>.706</td>
</tr>
<tr>
<td>Financial Sustainability</td>
<td>.841</td>
</tr>
</tbody>
</table>

*Source: Primary Data.*
3.8 Validity of the Research Instrument

Validity refers to the degree of accuracy achieved by a research instrument in testing the variable that a researcher seeks to examine. In order to ensure this, the questions used to develop the measurement instrument were largely adopted from the previous works of the scholars who have examined the same variables (Habbash, 2010; Comptroller’s Handbook, 2012; Bank of Uganda, 2015). A pre-test of the questions was conducted and this was done by distributing 8 sample questionnaires to 3 lecturers in the finance department of MUBS and 5 staff from UCSCU Kampala to assess the validity of the questions which led to further refinement of the questionnaires. Also incorporated, were the views and comments of the supervisors.

3.9 Data Processing and Analysis

Upon examination of the data collected, all the answered questionnaires were found appropriate for analysis. The data was then entered into Statistical Package for Social Scientists (SPSS) for analysis. 261 out of the 288 respondents responded a response rate of 90.6%. Descriptive statistics were used to examine sample characteristics and these are presented using frequency tables. Since the study intended to establish relationships between the study variables, correlation analysis was used to determine the degree of association between the study variables while Regression analysis was used to determine the predictive potential and influence of corporate governance and liquidity on the financial sustainability.

3.10 Ethical Considerations

The study was conducted after obtaining official permission from the University (MUBS) and respondents from SACCOs were also asked for their consent, confidentiality and privacy was upheld.
CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents and interprets the research findings. In particular, the chapter presents results regarding distribution of the respondents by their characteristics as well as, the correlation and regression results in accordance with the research objectives.

4.2 Distribution of Respondents by Title

Table 4.1 shows the distribution of respondents by their respective positions in the SACCOs given that they were purposively selected because of their experience, knowledge and skills.

Table 4.1: Distribution of Respondents by Title.

<table>
<thead>
<tr>
<th>Title</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager</td>
<td>48</td>
<td>18.4</td>
</tr>
<tr>
<td>Administrators</td>
<td>123</td>
<td>47.1</td>
</tr>
<tr>
<td>Credit Officers</td>
<td>50</td>
<td>19.1</td>
</tr>
<tr>
<td>Supervisors</td>
<td>40</td>
<td>15.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>261</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Primary Data*

Results in Table 4.1 indicate that out of the 288 respondents targeted, 261 responded, a response rate of 90.6%. This implies that 9.4% of the questionnaires were not returned by the respondents.

4.3 Characteristics of Respondents

This section shows the results of the background information relating to gender of the respondents, marital status, the duration that they have served the SACCO, the education level and the SACCO capital size.
4.3.1 Gender of the Respondents

This is a state of being male or female. Table 4.2 shows the distribution of respondents by gender where the Female respondents were more than the Male.

Table 4.2: Gender of the Respondents.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>121</td>
<td>46.4</td>
</tr>
<tr>
<td>Female</td>
<td>140</td>
<td>53.6</td>
</tr>
<tr>
<td>Total</td>
<td>261</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data

The results in Table 4.2 show that the majority of the respondents were female (53.6%) while the male were the minority (46.4%). This implies that majority of the employees in SACCOs in Kampala were dominated by women, an indication that women run many small business whereby they are prompted to save to earn an interest on their savings.

4.3.2 Marital Status

Marital status is any of several distinct options that describe a person's relationship with a significant other. Married, single, divorced, and widowed are examples of marital status.

Table 4.3: Marital Status of the Respondents

<table>
<thead>
<tr>
<th>Status</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>114</td>
<td>43.7</td>
</tr>
<tr>
<td>Married</td>
<td>131</td>
<td>50.2</td>
</tr>
<tr>
<td>Widow, Widower</td>
<td>16</td>
<td>6.1</td>
</tr>
<tr>
<td>Total</td>
<td>261</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data

The results in Table 4.3 indicate that the most of the respondents were married (50.2%) while 43.7% were single and 6.1% were widow or widower. This implies that most of the respondents in these SACCOs are responsible people and they will handle the project with
care since they see it as profitable and rewarding and thus can be of help in sustaining their families.

4.3.3 Age of the Respondents
Age of the respondents is one of the most important characteristics in understanding their views about the particular problems; by and large age indicates level of maturity of individuals, in that sense age becomes more important to examine the response.

Table 4.4: The age distribution of respondents

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-25 Years</td>
<td>63</td>
<td>24.1</td>
</tr>
<tr>
<td>25-30 Years</td>
<td>135</td>
<td>51.7</td>
</tr>
<tr>
<td>35 Years and Above</td>
<td>63</td>
<td>24.1</td>
</tr>
<tr>
<td>Total</td>
<td>261</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data

Results from Table 4.4 indicate that the sample was dominantly composed of respondents aged between 25-30 years with 51.7%, followed by the range of 18-25 years with 24.1% and 34 years and above with the same percentage of 24.1%. This implies that employees in these SACCOs are mature enough to understand the practices, systems and policies of Microfinance Institutions. It also means that the young people in town have embraced the spirit of SACCOs as shown that majority are aged between 25 and 30.

4.3.4 Years of Service that the Respondents had served the SACCO/Experience
It was important to examine the years the respondents had served in these SACCOs in order to establish their working experience.
Table 4.5: Working experience of the Respondents in the SACCOs.

<table>
<thead>
<tr>
<th>Experience</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Years Less</td>
<td>84</td>
<td>32.2</td>
</tr>
<tr>
<td>5-10 Years</td>
<td>117</td>
<td>44.8</td>
</tr>
<tr>
<td>10 Years and Above</td>
<td>60</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>261</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data

Results from Table 4.5 show that most of the respondents had served their SACCOs between 5 and 10 years (44.8%), followed by a period of 5 years and less (32.2%) and those with 10 years and above (23%). This indicates that the respondents have had sufficient work experiences to know how the SACCOs operate hence their responses are reliable. This might also indicate either less turnover of employees or rapid expansion of SACCOs.

4.3.5 Education Level

Knowing the education level of the respondents was also vital because it helps in knowing the kind of employees that run these SACCOs, whether they are learned or unlearned.

Table 4.6: Education Level of the Respondents

<table>
<thead>
<tr>
<th>Level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate/Diploma</td>
<td>102</td>
<td>39.1</td>
</tr>
<tr>
<td>Bachelor's Degree</td>
<td>121</td>
<td>46.4</td>
</tr>
<tr>
<td>Master’s Degree</td>
<td>37</td>
<td>14.2</td>
</tr>
<tr>
<td>Ph.D.</td>
<td>1</td>
<td>0.4</td>
</tr>
<tr>
<td>Total</td>
<td>261</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data

Results from Table 4.6 above indicate that the majority (46.4%) of the respondents had bachelors’ degrees with 39.1% having Certificate/Diploma while 14.2% had Masters’ Degree
and only 0.4% had Ph.D. This implies that to a greater extent, employees of SACCOs have the necessary expertise to carry on their operations as they are quite knowledgeable.

4.3.6 The Capital Size of SACCO in Millions of Ugandan Shillings
It was also important to know the level of growth of these SACCOs; therefore it was necessary to know their capital size.

Table 4.7: Capital Size of the SACCOs

<table>
<thead>
<tr>
<th>Capital Size</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 500 million</td>
<td>11</td>
<td>22.9</td>
</tr>
<tr>
<td>500 million-1000 million</td>
<td>20</td>
<td>41.7</td>
</tr>
<tr>
<td>1000 million and Above</td>
<td>17</td>
<td>35.4</td>
</tr>
<tr>
<td>Total</td>
<td>48</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Primary Data*

From the 48 selected SACCOs, managers were requested to provide information about their capital size. Managers were purposively selected because they have got the knowledge regarding the capital structure of these SACCOs. Results from Table 4.7 indicate that the majority (41.7%) of the SACCOs’ capital size is between 500 million-1000 million, followed by 1000 million (35.4%) and above and the least was less than 500 million (22.9%). This means that the most of the SACCOs were well capitalized to carry out their operations.

4.4 Relationship between Variables
A Pearson bivariate correlation analysis was conducted to examine the direction and the degree of association between pairs of variables in accordance to the research objectives. The variables assessed included corporate governance, liquidity, and financial sustainability as shown in Table 4.8
Table 4.8: Pearson’s Correlation between Corporate Governance, Liquidity, and Financial Sustainability

<table>
<thead>
<tr>
<th>Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Governance [1]</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity [2]</td>
<td>.326**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Financial Sustainability [3]</td>
<td>.283**</td>
<td>.423**</td>
<td>1</td>
</tr>
</tbody>
</table>

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

Source: Primary Data

4.4.1 Corporate Governance and Liquidity

Results in Table 4.8 indicate that corporate governance is significantly and positively correlated with liquidity (R=0.326) at significance level of 0.01. This implies that improved liquidity of SACCOs is associated with good corporate governance principles.

4.4.2 Corporate Governance and Financial Sustainability

The result in Table 4.8 further indicate that corporate governance is significantly and positively correlated with financial sustainability (R=0.283) at significance level of 0.01. This implies that financial sustainability of SACCOs is associated with good corporate governance principles.

4.4.3 Liquidity and Financial Sustainability

Financial sustainability (R=0.423) at significance level of 0.01 as shown in Table 4.8. This implies financial sustainability of SACCOs is associated with maintenance of optimum liquidity levels.

4.5 Regression Analysis

A hierarchical analysis was conducted to examine both the contribution of each variable, corporate governance and liquidity, and the combined contribution of all the variables in
explaining the variation of the dependent variable. In conducting this analysis, the background information was put first and its R square was observed, then Corporate governance was added and it’s a change of R Square was observe, and finally liquidity was added and both the change in R square and the combined R square was observed. The summary of the finding is as shown in Table 4.9 below.

**Table 4.9 Regression Analysis Estimation Results**

<table>
<thead>
<tr>
<th>Dependent variable: Financial sustainability</th>
<th>Hierarchical regression results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Var</td>
<td>Model 1</td>
</tr>
<tr>
<td>(Constant)</td>
<td>2.53**</td>
</tr>
<tr>
<td>SACCO Capital size</td>
<td>.012</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.384**</td>
</tr>
<tr>
<td>SACCO Capital Size</td>
<td>-.015</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>.556**</td>
</tr>
<tr>
<td>(Constant)</td>
<td>.77**</td>
</tr>
<tr>
<td>SACCO Capital Size</td>
<td>-.018</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>.336**</td>
</tr>
<tr>
<td>Liquidity</td>
<td>.398**</td>
</tr>
</tbody>
</table>

**Model summary**

<table>
<thead>
<tr>
<th>R²</th>
<th>Model 1</th>
<th>Beta</th>
<th>Model 2</th>
<th>Beta</th>
<th>Model 3</th>
<th>Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adj R²</td>
<td>-.004</td>
<td>.082</td>
<td></td>
<td></td>
<td>.188</td>
<td></td>
</tr>
<tr>
<td>R² Change</td>
<td></td>
<td>.088</td>
<td>.107</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig</td>
<td>.568</td>
<td>.000</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

a. Predictors: (Constant), SACCO Capital size

b. Predictors: (Constant), SACCO Capital Size, Corporate Governance

c. Predictors: (Constant), SACCO Capital size, Corporate Governance, Liquidity

**Source: Primary Data**

The results in Model 1 (table 4.9) show that the control variable (SACCO capital size) has an insignificant contribution in the variance explained in financial sustainability.
Model 2 shows that an addition of corporate governance to the equation, accounts for an extra 8.8% of the variance explained by the model ($R^2 = .106; p<.05$). The findings further confirm a positive and significant relationship between corporate governance and financial sustainability ($\beta = .284; p<.05$). Therefore, SACCOs should ensure that they observe corporate governance principles which entail transparency, separation of duties, board members’ complementary competences, and diversity in membership. This according to the results promotes financial sustainability.

The addition of liquidity in Model 3, reveals an extra 10.7% of variance explained in financial sustainability at ($R^2 = .213; p<.05$). The model results also show that there is a positive and significant relationship between liquidity and financial sustainability ($\beta = .163; p<.05$). Therefore, the SACCOs should ensure optimum level of liquidity which entails cash and near cash assets that can meet short terms obligations as they fall due. This enhances financial sustainability.

The results in table 3 show that liquidity is a greater determinant of financial sustainability ($R^2$ change = .107). Nonetheless, the overall model explains 21.3% ($R^2 = .213$) of the variation in Financial sustainability. Thus in combination, both corporate governance and liquidity explain, 21.3% variation in financial sustainability, implying that the remaining 78.7% is explained by factors not considered in this study.
CHAPTER FIVE
DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter presents a discussion of findings observed and inferred from the data presented in chapter four. The discussion of findings is based on the literature available in chapter two. This chapter also provides the conclusions, recommendations and suggestions of areas for further study. The study is divided into three sections; discussion of results, conclusion and recommendations.

5.2 Corporate Governance and Liquidity
Results indicate that corporate governance is positively and significantly associated with liquidity of SACCOs in Kampala. Thus, having good corporate governance principles including, a good mixture of diversity among board members, having members who are conversant with the business environment and possessing required competences. Therefore because effective governance improves financial and operational transparency, which decreases information asymmetries between insiders (e.g., managers and large shareholders) and outside investors (e.g., outside owners and liquidity providers), as well as among outside investors; liquidity is easily achieved and at the same time some extra cash can be invested in other ventures that attract more revenue.

One of the explanations to the above results is the agency theory. The agency theory proposes for checks and balances against the management team that acts as an agent of the stakeholders but who may, if not checked, advance their own interests (Jensen & Mecking, 1976). As such a board offers the required checks. In this respect the board devises policies and monitors them to ensure that the SACCO managers maintain an optimum amount of liquidity.
Further, given the composition of board members, of which a good mix require diversity of views, knowledge and the related complementary competences including financial knowledge, the board is likely to develop policies that are beneficial to the organisation in regard to liquidity. This ensures that the managers follow the well elaborated policy, and in case they feel a need to adjust, they need to provide a well justified reason. Thus the well elaborate policy developed and monitored by board, ensures that the required liquidity levels are maintained.

The said results are supportive of other major scholarly works that have found the importance of good corporate governance in enhancing liquidity of firms. For instance, the Agency theory demands that the shareholder rights are protected, enhanced disclosure and transparency, and facilitate effective functioning of the board. La-Porta (2000). As such organizations that have largely followed the principles advanced by the theory ensure that any threat to an organization’s operations due to deficiencies in the internal management is proactively guarded through a sound cooperate governance, through setting up policies and monitoring the performance is the liquidity position of the SACCOs (Bieniasz & Golas, 2011). Further, Microsave (2015) observed that liquidity is key for SACCOs and proactive corporate governance have been found capable of ensuring that SACCOs maintain a desirable level of liquidity.

Further scholarly works including one of Giannetti and Simonov (2006), Council for Microfinance Equity Funds (CMEF, 2012), Murage (2014), have all identified that SACCOs need to ensure they have an optimum level of liquidity. In all the studies, the quality of corporate governance which is mainly attributed to diversity, the knowledge about the microfinance business, and being proactive, have been instrumental in setting policies and monitoring them to ensure that the SACCOs do not suffer from liquidity risk. On the contrary, the organizations that were found to have suffered from the liquidity risk, a
weakness in corporate governance has been found to play a role. Kimathi, A. (2015) also observed that governance was important in managing liquidity risks among the SACCOs through management and monitoring. Therefore, the results support the available literature that have largely found that corporate governance is vital in ensuring organization’s liquidity levels are at an optimum point.

5.2.1 Liquidity and Financial Sustainability
The results show that liquidity is positively related to financial sustainability therefore SACCOs that maintain optimum liquidity levels, which entails ensuring that the organisation has adequate cash and near cash assets that are available to offset the short term obligations as and when they become due, are the organizations that enjoy financial sustainability, which entails the power of SACCOs to be self-sustaining both operationally and financially without compromising governance and its operations (Muwamba, 2012).

It has been argued that one source of failure to achieve financial sustainability in SACCOs is the liquidity risk which entails the challenge of inability to meet the current cash obligations (BIS, 2008). In essence, it is advanced that efficient liquidity management which requires a SACCO to maintain sufficient cash reserves and at the same time invest on idle cash to earn revenue in to enable the organisation honour its obligation, and thus achieve financial sustainability. Thus this clearly shows that effective liquidity management is essential for achieving financial sustainability.

The above results support other studies that have over time consistently shown that liquidity is a key antecedent of financial sustainability. For instance, Natacha et al. (2008), observed that liquidity was important in explaining financial sustainability among banks. Mirza (2006) also cautioned SACCOs against heavy borrowing which is likely to affect their liquidity and threaten their financial sustainability. Other studies including one by Ahmed and Bhuiyan
(2015), Njeri (2014) and Wafula (2017) showed a constant results indicating that in all the SACCOs that were examined in different contexts, liquidity was positively related to the sustainability.

Further, a study by Kathomi et al. (2017) found that liquidity position of an organization was significant in determining the financial sustainability of SACCOs. Given the results, it was argued that liquidity gave an organization the ability to meet the immediate obligation and be well positioned to offer short term loans that provide long term sustainability.

5.2.2 Corporate Governance and Financial Sustainability

Corporate governance is positively related to financial sustainability. The result indicate that when the SACCO has an effective corporate governance in regard to properly executing the role of, providing the strategic options, set rules and directions, monitor, review the performance of an organization, and being well composed with a diversified team that possess appropriate skills and abilities, financial sustainability is a resultant outcome.

A key explanation of the results can be based on agency theory. In this respect, agency theory appreciates that the owners of an organisation, who are the shareholders, will often employ other agents to run the organisation on their behalf (Fama & Jensen., 1983). However the employed agents have their interests and if not monitored, they may advance their interest at the expense of the owners’ objectives. Financial sustainability is such an objective for MFIs. To ensure that this is achieved, effective corporate governance that monitors the activities of management in the interests of shareholders has been advanced. Thus where an MFI has effective corporate governance, positive results of which one is financial sustainability are an outcome.

Another explanation is that members who form the board of a SACCO are entrusted with formulating the strategic objectives of the organisation and ensure that the management
pursues the same. Since financial sustainability is one of key objective, the board is likely to regularly monitor the activities that ensure financial sustainability is achieved. As such financial sustainability is an indicator that a SACCO has had good corporate governance.

The above result supports various studies that have been done assessing the factors that explains the financial sustainability across different contexts. For instance, Dzingai and Fakoya (2017) observed that an effective corporate governance, provides a system or process of giving direction or control that strengthen the foundation for firm performance, whose indicators includes financial sustainability. Other studies including one of Okumu (2007) and Mugenyi (2010) that were previously done in Uganda posted similar results. Other studies done elsewhere including one by Kosgei, Abdi and Kosgei (2014), Ahmed and Bhuiyan (2015), and Zegeye (2015) concluded that corporate governance had an important role to play in ensuring financial sustainability among SACCOs. The effectiveness was ensured in board size, board competency, board experience in the financial sector and meeting frequency of board which ensured a positive impact on financial sustainability.

Further similar studies including one by Olick (2015) and Uchenna, A. (2016) revealed that, when executed properly, the role of corporate governance, which entails directing and managing the business, aim at enhancing prosperity, corporate accountability and sustainability leads to financial sustainability as one of the key outcomes.

5.3 Conclusions
Effective corporate governance is vital for ensuring financial sustainability among SACCOs. However in addition, maintenance of good liquidity levels is also necessary for financial sustainability to be achieved. Further, an optimum liquidity level in terms of capacity should be maintained since it is an important factor that ensures financial sustainability of the
SACCOs. Finally, apart from the examined factors, there are other factors that explain financial sustainability given the statistical evidence from the study.

5.4 Policy Implications
SACCOs should ensure that the principles of corporate governance as advocated by the various institutions like WOCCU, AMFIU, UCA, and UCSCU are implemented and enforced at all times to ensure increased liquidity of the SACCOs. The board members of these SACCOs should ensure they get copies of these documents or that they are availed to them for purposes of supervision and monitoring of the SACCO activities. In addition, the SACCOs should organize regularly business management skills training for the board members. This would ensure that the SACCOs are competently managed and maintain the required liquidity to offset the immediate financial needs.

The SACCOs also need to observe the corporate management principles in order to enhance sustainability. The corporate governance is responsible for the key decisions regarding objectives and also monitoring the performance. Once this is handled by competent board members, the SACCOs stand to be financially sustainable.

It is also important that SACCOs maintains an optimal level of liquidity. This would ensure that they are able to offset the short term obligation and capitalise on the short term investments that arise occasionally. Once this is achieved, the SACCOs stand a strong possibility of maintaining financial sustainability.

If all the above policies of corporate governance and liquidity are put into practice, it will ensure the financial sustainability of the SACCOs within Kampala.
5.5 Limitations of the Study
The adoption of a cross sectional research design provided a less comprehensive result since the design only entails collection of data at a point of time. As such, the study does not incorporate the possible changes on the views of the respondent over a period of time. Had a longitudinal design been adopted, the results would have been more comprehensive. However, from literature, cross-section studies are suitable for studies because they are relatively quick and easy to conduct (no long periods of follow-up), data on all variables is only collected once, one is able to measure prevalence for all factors under investigation, multiple outcomes and exposures can be studied and good for descriptive analyses and for generating hypotheses.

5.6 Areas for Further Research
The debate on corporate governance continues both in academic circles and popular press, and both at domestic and international levels this shows that this field needs more attention. Although this study contributes to the body of literature on various dimensions, the results are not conclusive. The sample in this study was limited to the available data and the choice of statistical analysis was determined by the period and SACCOs covered. Also the results must also be carefully handled since many specific environmental factors can impact SACCO’s working process. It would therefore, be desirable to extend the present study by complementing it with studies using other methods and including comparative data. The inclusion of other corporate governance and performance variables such social performance indicators as this would also merit further considerations. More research on practices of board is needed to assess the effects on Sacco’s performance.
REFERENCES.


CGAP (2000). Eligibility criteria for Accessing core Funding of this Multi Donor Microfinance Facility.


Jonathan A. C. S. (2005). Factors influencing the financial sustainability of selected microfinance institutions in Namibia


SydBank (2015). *Credit Risk, Denmark.*

The micro finance deposit-taking institutions (licensing) regulations (MDI) (2004)


Uganda Cooperative Savings and credit Unions (UCSCU), report 2008


QUESTIONNAIRE

Dear respondent, I am conducting an academic research under the topic “Corporate Governance, liquidity and financial sustainability of Microfinance institutions in Uganda”. A case study of SACCOs in Kampala. You are requested to participate in this study. This is purely an academic research and your response will be treated with utmost confidentiality.

Thank you for your cooperation.

SECTION I: BACKGROUND INFORMATION

i) Gender of the respondent

1  Male   2  Female

ii) Marital Status

1  Single   2  Married   3  Widow/Widower

iii) Age bracket in years

1  18-25   2  18-25   3  More than 35

iv) Length of service in SACCO in years

1  Less 5yrs   2  5-10yrs   3  above 10yrs

v) Highest level of Education attained

1  Certificate/Diploma   2  Bachelor’s   3  Masters   4  PhD

vi) The SACCOs capital size in millions of Ugx.

1  Less than 500   2  500-1000   3  1000 & above
SECTION II: OBJECTIVES

Please indicate by ticking the appropriate box to what extent you agree or disagree with the following statements below. (1=strongly agree (SA), 2=Agree (A), 3=Not sure (NS), 4=Disagree (D) and 5=strongly disagree (SD)

<table>
<thead>
<tr>
<th>CODE</th>
<th>CORPORATE GOVERNANCE</th>
<th>SA</th>
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<tbody>
<tr>
<td>C01</td>
<td>The board composition compares to the diversity makeup of the SACCO’s employee base and maintains a diversity policy.</td>
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<tr>
<td>C02</td>
<td>The Board of the SACCO provides the right mix of skills and knowledge to manage the SACCO.</td>
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<tr>
<td>C03</td>
<td>Board members have expertise in Banking, Micro Finance, Accounting and Finance.</td>
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<td></td>
<td><strong>Board structure</strong></td>
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<tr>
<td>C04</td>
<td>Number of Board Members in the SACCO</td>
<td>1</td>
<td>2</td>
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<tr>
<td>C05</td>
<td>All board Members are Members of the SACCO</td>
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<tr>
<td>C06</td>
<td>Boards tenure has limits that are strictly adhered to</td>
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<td>C07</td>
<td>Board Members attend meetings regularly</td>
<td>1</td>
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<tr>
<td>C08</td>
<td>There is an open line of communication between board members and management</td>
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<td>C09</td>
<td>Refresher courses on business skills are organized for board members regularly</td>
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<tr>
<td>C10</td>
<td>Board Members encourage dialogue between board members and management</td>
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<tr>
<td>C11</td>
<td>Board Members have some knowledge in business Management</td>
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<td></td>
<td><strong>CEO duality</strong></td>
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<td>C12</td>
<td>CEO also doubles as the chairperson of the board</td>
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<td><strong>Transparency</strong></td>
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<td>C13</td>
<td>The information provided by the SACCO to its stakeholders is complete without omitting any material facts.</td>
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<tr>
<td>C14</td>
<td>All the information the SACCO management disseminates to its stakeholders is timely and relevant for decision making.</td>
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<tr>
<td>C15</td>
<td>The SACCO management is open in all information it disseminates to stakeholders</td>
<td>1</td>
<td>2</td>
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<tr>
<td>C16</td>
<td>The responsibility for action is clearly indicated in the minutes arising from the proceedings of the SACCO meetings.</td>
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<tr>
<td>C17</td>
<td>The SACCO management provides detailed information on</td>
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49
its portfolio quality to its members in the shareholders meetings.

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<tbody>
<tr>
<td>C18</td>
<td>All stakeholders obtain all necessary information from the SACCO to help them make informed decisions.</td>
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**Board performance**

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<tbody>
<tr>
<td>C19</td>
<td>The Board commits resources to achieve the Mission of the SACCO</td>
<td>1</td>
<td>2</td>
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<tr>
<td>C20</td>
<td>The Board has regular meeting to review performance of the SACCO and guide on the way forward</td>
<td>1</td>
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<tr>
<td>C21</td>
<td>The Board is committed to the Strategic Vision and Mission of the SACCO</td>
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<tr>
<td>C22</td>
<td>The Board makes strategic decisions relating to best practices within the industry</td>
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<tr>
<td>C23</td>
<td>The Board appoints the SACCO Manager, monitors and checks to ensure that he acts in the best interest of the SACCO</td>
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<tr>
<td>C24</td>
<td>The Board regularly identifies the Strength of, opportunities available, the weaknesses and threats to the SACCO and maps a strategic direction to take.</td>
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<tr>
<td>C25</td>
<td>The Board checks excesses that would promote personal interests of managers</td>
<td>1</td>
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<tr>
<td>C26</td>
<td>The Board puts in place financial performance measures regarding the strategic objectives of the SACCO</td>
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<tr>
<td>C27</td>
<td>The Board cautiously supervises the work done by Management</td>
<td>1</td>
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<tr>
<td>C28</td>
<td>The Board identifies with and relates to networks that help the SACCO achieve superior financial performance</td>
<td>1</td>
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<td>C29</td>
<td>The Board ensures that there is continuity through succession planning</td>
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<td>C30</td>
<td>The Board delegates to and rewards management for superior performance</td>
<td>1</td>
<td>2</td>
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<tr>
<td>C31</td>
<td>The Board always operates in the best interest of shareholders</td>
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<td>2</td>
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<tr>
<td>C32</td>
<td>The Board takes corrective action on adverse financial performance</td>
<td>1</td>
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SECTION III: LIQUIDITY IN SACCOS

<table>
<thead>
<tr>
<th>CODE</th>
<th>LIQUIDITY</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
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<tbody>
<tr>
<td>L01</td>
<td>Our Sacco is able to pay its obligations as and when they come due.</td>
<td>1</td>
<td>2</td>
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<tr>
<td>L02</td>
<td>Our Sacco needs additional working capital.</td>
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<tr>
<td>L03</td>
<td>In case our assets are sold, they are likely to bring a value greater than or equal to their book values.</td>
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<td>2</td>
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<tr>
<td>L04</td>
<td>Our Sacco is able to generate sufficient positive cash flow to maintain and grow its operations.</td>
<td>1</td>
<td>2</td>
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<tr>
<td>L05</td>
<td>Costs associated with long-term investment on capital items are reducing.</td>
<td>1</td>
<td>2</td>
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<tr>
<td>L06</td>
<td>The overall total deposits from clients have increased in the recent one year.</td>
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<td>2</td>
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<tr>
<td>L07</td>
<td>On average, clients deposit more than they withdraw.</td>
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<td>L08</td>
<td>Management has been able to add cash from external sources into the operations of the Sacco.</td>
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Savings Mobilisation (Cost of funds)

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<tr>
<td>L09</td>
<td>The costs incurred when getting funds are passed on to clients in fees charged.</td>
<td>1</td>
<td>2</td>
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<tr>
<td>L10</td>
<td>The interest rate paid by our Sacco for the funds that it deploys is reducing.</td>
<td>1</td>
<td>2</td>
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<tr>
<td>L11</td>
<td>Management has been able to obtain funds from least cost sources available.</td>
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<tr>
<td>L12</td>
<td>Competition for funding has been reducing in the last one year.</td>
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<td>L13</td>
<td>Our Sacco co-operates with other financial institutions whenever there is need.</td>
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<tr>
<td>L14</td>
<td>Cost of borrowing more money to fund our projects has reduced in past one year.</td>
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SECTION IV: FINANCIAL SUSTAINABILITY

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<tr>
<td>F01</td>
<td>All our borrowers satisfies the terms and conditions in order to access our loans</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
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<tr>
<td>F02</td>
<td>The interest rates charged on loans has always covered all our operation costs over the past years</td>
<td>1</td>
<td>2</td>
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<tr>
<td>F03</td>
<td>The budget for recruitment and training staffs has ever been supplemented by funds from other sources over the past years</td>
<td>1</td>
<td>2</td>
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<tr>
<td>F04</td>
<td>Some borrowers have ever repaid their outstanding loans one day</td>
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<tr>
<td>F05</td>
<td>The funds generated by our loan portfolio is always in excess to cover all loans requested by borrowers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>F06</td>
<td>Our capital acquisition expenses has always been very high over the past years</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>F07</td>
<td>We have never experienced loan losses and write – offs in our Sacco over the past years</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>F08</td>
<td>Our Sacco has always experienced high annual increase in the number of new staffs over the past years</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>F09</td>
<td>Our staffs always provides leadership training and guidance to all borrowers on request</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>F10</td>
<td>There has been high cost of transaction and loan supervision over the past years</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>F11</td>
<td>Growth of businesses of all our borrowers has led to rapid increase in repayment rate by all borrowers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>F12</td>
<td>Certain categories of our loyal borrowers have always been allowed to negotiate for new loan terms and conditions to suit their financial situation</td>
<td>1</td>
<td>2</td>
<td>3</td>
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<tr>
<td>F13</td>
<td>We have always paid less in terms of interest expenses on our customers’ savings/deposits</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>F14</td>
<td>All our cash requirements has been financed by high returns generated by our loan portfolio</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>F15</td>
<td>Budgets on our assets acquisition has ever been supplemented over the past years</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>F16</td>
<td>It has always been easy to track our loan portfolio performance with less costs</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>F17</td>
<td>All our loans are small in amount with the highest numbers of loyal borrowers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>F18</td>
<td>The repayment rate on all our loans is 100% on – time</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>F19</td>
<td>Profits generated by our loan portfolio has always been enough to run all our Sacco operations</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>F20</td>
<td>Our equity is always constantly high and it has covered all our borrowings over the past year</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>F21</td>
<td>Our Sacco growth and expansion has been only financed by retained earnings from our loan portfolio over the past years</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

**Thank you for your response**