THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Bank Credit and Loan Repayment Rates during COVID-19 in Kabale District, Uganda

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Abstract:
The study was to investigate the impact of bank credit on loan repayment rates in the Kabale region using Lyamujungu SACCO as the case study. Loan repayment performance at Lyamujungu SACCO has rapidly declined. This study used a cross-sectional survey method to examine, characterize and compare bank credit and loan repayment in Kabale district, using Lyamujungu SACCO as the case study. The sample size for each subject type was determined using the table of Krejcie and Morgan. Out of 150 samples, a sample of 108 people was selected for the study. The researcher used both purported sampling and simple random sampling to select members/clients of SACCO. Based on the results in the table, the null hypothesis for all three variables is rejected, with a significance level of (p = <.000, p = <.040, and p = <.001). This means that there is evidence that the distribution of mean scores for each of the three variables is not the same depending on the borrower's ability to repay. The study concluded that labor productivity growth decreased and therefore, income decreased, investment decreased and affected the borrower's ability to repay loans during the COVID-19 pandemic in Lyamujungu SACCO.

Keywords: *Bank credit, loan repayment rates, COVID-19*

1. Introduction

The total amount that a person or business can borrow from a financial institution is called bank credit. A borrower's credit score, income, assets, collateral, and current liabilities all play a role in whether or not credit is approved. Bank credit may or may not be secured (Baluku *et al.*, 2022). It is calculated using a complex algorithm that considers your current salary, how much you have paid off on past loans, and any other debt you still owe someone. Money is withdrawn from your bank account on debit. A credit is the opposite of a debit because it adds funds to your account (Nyangarika & Bundala, 2020). The borrower character describes a person's approach to past financial obligations.

Loan repayment is paying back the amount you borrowed from the lender plus the interest involved. Usually, a repayment plan includes a routine procedure in the form of equal monthly installments. The decrease in lending interest rate means that credit supply and demand affect the interest rate level; higher or lower demand for credit will lead to higher or lower interest rates (Njenga & Jagongo, 2019).

Microfinance institutions (MFIs) rely on frequent human interaction and social pressures to maintain historically high repayment rates to provide financial services to those in need. Difficult (Muriungi & Maina, 2021). The essential staff of MFIs performing these functions are loan officers. Credit officers travel to remote areas to contact existing borrowers, find potential new borrowers, assess borrower creditworthiness, lend, provide financial advice and recover loans. Thus, loan officers establish a relationship of trust with the borrowers of their clients (Muriungi & Maina, 2021). Although credit officers play an important role in the operations of a microfinance institution, little is known about how they plan their time and balance all these disparate duties. Loan officers are currently facing new challenges due to the pandemic (Said *et al.,* 2019).

Rasul *et al*. (2021) report that COVID-19 is creating serious health and financial challenges for savings groups due to market instability, travel restrictions, and gathering restrictions and this is supported by (Eton et al., 2023). Since the majority of members are women, they can be primary caregivers during a health crisis, putting them at risk of higher costs in addition to increased risk of domestic and sexual violence. Thus, COVID-19 has an influence on the development of SACCOS as it is associated with other external stressors such as domestic violence. Many studies have shown how the COVID-19 epidemic has affected agriculture Kyabarongo *et al.* (2022) and also supported by Nteere (2022). Due to labor shortages, households affected by the COVID-19 pandemic may reduce their arable land or may stop using certain crops or labor-intensive farming practices.

Since its establishment, Lyamujungu SACCO has been successful. Members have done well in saving, borrowing and paying off debt. However, the 2021 audit report for the financial year 2018-2019 stated that loans were not repaid on time. Only 33% of the 5,330.005,000/= shillings distributed were recovered, while 67% has been refunded. During the

2019-2020 financial year, 12,220,711,000/= billion million shillings were distributed to members; 60% of the funds were recovered, leaving 40% to the public. In the 2020-2021 financial year, when 10,173,361,000/= Ugandan shillings were distributed, only 64% of the loan was repaid. This confirms the need to identify the root of SACCO's below-average performance (M. Agaba et al., 2022). The board and management have attempted to address this problem by educating customers about loan repayment, creating businesses they can run, and requiring them to create a business plan in advance when applying for a loan. Despite all efforts, loan repayment performance is rapidly decreasing (Moses & Osunsan, 2018). The loan manager said the situation was getting worse and there was almost no ability to repay the loan. This has to do with the borrower's personality, solvency, and credit history. Members will flee from SACCO if the situation persists.

The purpose of the study was to investigate the impact of bank credit on loan repayment rates in the Kabale area using Lyamujungu SACCO as a case study and there were three objectives of the study: To establish the effect of borrower character on loan repayment during COVID-19 at Lyamujungu SACCO, then to examine the effect of borrower’s capacity to pay on loan repayment during COVID-19 pandemic at Lyamujungu SACCO and To establish the effect of borrower's credit period on loan repayment during COVID-19 pandemic at Lyamujungu SACCO.

2. Research Method

The population is the number of local residents who belong to a particular set of social, cultural, socio-economic, ethical, or racial categories (Turyasingura *et al.,* 2022). Sample size simply refers to the portion of the population that has been purposefully chosen to study the parent's characteristics (Turyasingura *et al.,* 2021). The sample size for each category of respondents was determined by the use of Krejcie and Morgan table and out of 150, a sample of 108 respondents was selected for the study: general manager, 6 branch managers, loans officers, and 86 clients, totaling 108. The researcher used both purposive and simple random sampling to select the members/clients of the SACCO. Regarding the validity, relevance, and content of the questionnaire, study supervisors and subject matter experts were consulted. Content validity aims to assess the extent to which a sample of items taken together form a complete operational description of a structure. The questionnaires were pre-tested on three (3) SACCO members with businesses in Kabale district. The reliability of the questionnaires was assessed using Cronbach's Alpha at 0.05. According to (Moses & Turyasingura, 2022), Cronbach's alpha was used when the instrument had more than two responses provided for each item. Quantitative data was coded and entered in SPSS version 20.0 to generate the ANOVA, mean, standard deviation, Pearson correlation, and regression. Quantitative analysis involves the use of tables that show the frequency or occurrence of descriptive statistics and inferential statistics that establish the statistical relationships between variables (Turyasingura *et al.,* 2022).

3. Results and Discussions

3.1. Results

3.1.1. Hypothesis Testing

The distribution of the data will be checked to determine whether parametric or non-parametric methods will be used for data analysis.

Tests of Normality						
	Kolmogorov-Smirnov[a]			**Shapiro-Wilk**		
	Statistic	**df**	**Sig.**	**Statistic**	**df**	**Sig.**
The mean score of borrower's character on loan repayment period.	.130	108	.000	.896	108	.000
The mean score of borrower's capacity on loan repayment period.	.135	108	.000	.960	108	.003
The mean score of borrower's credit period on loan repayment.	.126	108	.000	.930	108	.000

Table 1: Hypothesis Testing for Normality
Source: Processed Data

The table above shows the results of normality tests for three variables, "Mean score of borrower's character on loan repayment period," "Mean score of borrower's capacity on loan repayment period," and "Mean score of borrower's credit period on loan repayment period." The tests used are the Kolmogorov-Smirnova test and the Shapiro-Wilk test. For each of the three variables, the table provides the test statistic and degrees of freedom (df) for both the Kolmogorov-Smirnova and Shapiro-Wilk tests, as well as the significance level (Sig.). The significance level indicates the probability that the sample came from a normal distribution.

In general, if the significance level is less than a predetermined significance level (often .05), then the null hypothesis of normality is rejected and the data is considered to be not normally distributed.

Based on the results in the table, all of the variables have a significance level of less than .05 for both tests, indicating that none of the variables are normally distributed.

In such cases, it is often recommended to use non-parametric statistical methods instead of the more commonly used parametric methods, which assume the normality of the data. Non-parametric methods are more robust and do not require the assumption of normality, making them suitable for use with non-normally distributed data. This is the reason why I used a non-parametric method to test the hypothesis.

	Null Hypothesis	Test	Sig.	Decision
1	The distribution mean score of "Borrower character has no effect on loan repayment during COVID-19 at Lyamujungu SACCO" is the same across the ability to repay the borrowed loan.	Independent - Samples Kruskal – Wallis Test	.000	Reject the null hypothesis
2	The distribution mean score of the "Borrower's capacity to pay has no effect on loan repayment during COVID-19 pandemic at Lyamujungu SACCO "is the same across the ability to repay the borrowed loan.	Independent - Samples Kruskal – Wallis Test	.040	Reject the null hypothesis
3	The distribution means a score of "Borrower's credit period has no effect on loan repayment during COVID-19 pandemic at Lyamujungu SACCO" is the same across the ability to repay the borrowed loan.	Independent - Samples Kruskal – Wallis Test	.001	Reject the null hypothesis

Table 2: Hypothesis Testing for Null Hypothesis
Source: Processed Data

The above shows the results of non-parametric statistical tests for three null hypotheses. The test used is the Kruskal-Wallis Test, which is a non-parametric test for comparing the median of two or more independent groups.

For each of the three null hypotheses, the table provides the hypothesis being tested, the type of test used, the significance level (Sig.), and the decision based on the test result. The significance level is set at .05, meaning that if the significance level is less than .05, the null hypothesis is rejected.

Based on the results in the table, the null hypothesis for all three variables is rejected, with significance levels of *(p = <.000, p = <.040, and p = <.001)* for "Mean score of the borrower's character on loan repayment period," "Mean score of the borrower's capacity on loan repayment period," and "Mean score of the borrower's credit period on loan repayment period" respectively.

This means that there is evidence to suggest that the distribution of the mean score of each of the three variables is not the same across the ability of the borrower to repay the borrowed loan.

4. Discussions

Research results on the influence of borrowers' personalities on debt repayment during the COVID-19 pandemic show that there is a strong link between the COVID-19 epidemic and the decline in labor productivity growth and, therefore, income less (M = 4.73, SD = 0.523) These results are based on the presentation of multiple responses concurring with the instrument category (Celestin, 2019). Similarly, Otwoko & Maina (2021) argue that the economic crisis caused by the COVID-19 pandemic seems to have affected people's personalities. In fact, the COVID-19 pandemic is associated with threats to the economy, affecting the closure of industries and people being unable to earn anymore, creating a bad character for those who are not and taking out credit and ending up with only a small profit (Mugarura & Agaba, 2023).

Other effects include reduced investment resulting in lower labor market income (M=4.56, SD=0.765), high consumption on farms and not supported by production (M = 4.52, SD=0.859), and some customers are unable to repay their loans because they are uncertain about their viability (M=3.99, SD=1.286). (Kule *et al.*, 2020) reported that the outbreak of the COVID-19 pandemic in the first quarter of 2020 triggered a number of unusual emergency measures, including travel bans, required closures of facilities and non-essential businesses, restrictions on meetings and obligations to work from home (Mbabazi & Agaba, 2021).

Findings on the impact of borrowers' ability to repay during the COVID-19 pandemic show that key critical factors include providing fewer loans than customers ask for (M = 4, 05, SD = 1.256) and SACCO closing early. However, customers still needed services (M=3.73, SD=1,378). During the COVID-19 pandemic, it was revealed that SACCOs decided to reduce the amount requested by customers in the form of loans when they doubted their ability to repay. In addition, the banking regulator, namely the Bank of Uganda, has reduced the prescribed working hours for all operating financial institutions, thereby limiting the ability of customers to access the service and not pay credit borrowed.

The same conclusion was reached by Kule *et al.* (2020), who asserted that although each lender is unique, many prefer the applicant's DTI to be around 35% or less before re-approval of the credit application. It is important to remember that lenders are sometimes prohibited from lending to customers with higher DTIs. DTI is determined by multiplying the borrower's total monthly income by the sum of all monthly debt payments (Kathuo *et al.*, 2020; Moses et al., 2023). The higher an applicant's chance of being approved for a new loan, the lower their DTI (Mbabazi & Agaba, 2021). However, since COVID-19 started spreading, a lot has changed.

The results on the effect of borrowers' credit duration on repayment during the COVID-19 pandemic show that key impacts, including isolation and social distancing, have hindered customers' opportunities (M = 4.78, SD = 0.418, consequences for customers to default on debt and Loss of Savings (M=4.70, SD=0.459) and Absolute Poverty (M=4.56, SD= 0,600). Respondents in the field of the study strongly agreed that the impacts mentioned were important in loan repayment during the COVID-19 pandemic outbreak (Agaba & Mugarura, 2023).

In contrast, Semusu and Turyasingura (2023) clarify that a loan's term is the length of time it takes to pay off the debt. Long-term or short-term notes can be used as loans. Therefore, despite the fact that uncertainty has always been a part of lender business models, before the pandemic, finance providers were better able to assess a borrower's ability and willingness to repay as well as the likelihood of default by considering credit and payment histories, income, or assets; non-financial information (such as home address, the relevant sector of the borrower's business, and length of banking relationship) that can serve as a proxy for income; and the purpose of the loan.

5. Conclusion

The study concludes that the decline in labor productivity growth and the subsequent decline in income and investment due to underproduction led to lower labor market income and high consumption during the COVID-19 pandemic. Lack of support influenced the factors affecting the borrower's personality when repaying loans in Lyamujungu SACCO. Conclusions are based on the instrument items with the highest mean and standard deviation on the Likert scale. The study concluded that factors such as SACCO providing fewer loans than customers requested and SACCO closing early when customers needed services affected borrowers' ability to repay. The study concludes that borrowers' creditworthiness has a significant effect on loan repayment during the COVID-19 pandemic, as factors such as social distancing and isolation show that blocking opportunities, the impact of the COVID-19 pandemic goes hand in hand with the consequences that make SACCO members unable to pay their debts and lose their savings, and absolute poverty is one of the consequences of the covid -19 pandemic.

6. Acknowledgements

I would like to thank Byamukama Dicky, who took the time and energy to collect data and analyze it and also thank Marus Eton for his guidance which was very useful for writing this article. I would also like to thank the Head of the Department of Business Studies at Kabale University, all my colleagues in the Faculty of Economics and Management Science at Kabale University, and all my family and friends.

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