



Debt Management Literacy and Financial Performance of Saccos in Kumi County - Kumi Uganda

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ABSTRACT: This dissertation is presented on the topic, “Debt management literacy and financial performance of SACCOs in Kumi County”. The overall objective of the study was to determine the effect of Debt management literacy on financial performance of SACCOs in Kumi County and to achieve this the researcher used one specific objective Vinz; “To determine the effect of Debt management literacy on financial performance of SACCOs in Kumi County”. In carrying out the study, the researcher used a case study research design because of its ability to investigate the study variables in detail. The population under study was 150 (N) people and a sample population of 108 (n) people consisting of; SACCO board members, SACCO management team members and SACCO members. The sample size was determined by use of both probability and non-probability sampling techniques. In data collection, the researcher used a duo approach with the use of; Questionnaire survey method which allowed collection of firsthand information within a short period of time and interview method employed on some key informants i.e. SACCO Board members as this was intended to probe for more information, get clarification and capture facial expression. Two tools in this context were used i.e. Research Questionnaire and interview guide.

The data collected was both quantitative and qualitative in nature. Data analysis was carried out in two fold; Quantitative data was analysed using Statistical Package for Social Scientists (SPSS) version 25*64 bit. Qualitative data was recorded in the researchers note book and transcribed for a clear meaning.

The research findings highlighted a strong positive relationship between debt management literacy and financial performance of SACCOs with $R = 0.666$. The study confirmed that Debt management literacy explains 44.4% of financial performance as evident with $R^2 = 0.444$.

The researcher based on the study findings recommended creation of awareness and corporate member education on debt management; Documentation and implementation of a comprehensive credit or debt management policy; There must be a clear line of authority as to who authorizes and approves what and creation of a policy on relationship management strategies so as to ensure long and lasting beneficial relationships with clients.

KEY WORDS: Debt; Debt management; literacy; financial performance.

1. INTRODUCTION

The first modern cooperation emerged in certain working class environments in European industrial cities in 1840s, i.e. in Great Britain and France. The pioneers of modern cooperation emerged in working-class environments in European Industrial cities in the 19th Century. In 1840, the first industrialized countries (Great Britain and France), pioneers of co-operatives invented models of the consumer cooperative and the labor cooperative to defend and promote the interests of working-class families in the face of the social disasters caused by industrial revolution. The second generation of the pioneers of modern cooperation emerged, in certain European rural environments in the late 19th century. In the 1860s, these pioneers created the models of agricultural cooperatives and savings and credit cooperatives inspired by the success of the consumer cooperatives formula in Great Britain and based on old traditions of rural solidarity aimed to meet the primary economic needs, which went unsatisfied [1]. Agricultural cooperatives then enabled families of farmers and livestock raisers to organize their own supply systems of agricultural inputs and market their products and no longer depended on merchants and businessmen in the cities. The SACCOs helped them to stop depending on money lenders and to find the credit necessary to modernize their agricultural cooperatives [2].

According to [3] in Africa, the idea of SACCOs was brought by a Roman Catholic priest, in Jirapa, a town in Ghana, in 1955. Father John McNulty from Ireland had studied in Canada where he learnt about savings and credit co-operative societies. Father McNulty helped the Jirapa villagers to form a Savings and Credit Co-operative. The co-operative assisted the members to address



their financial problems which they couldn't individually. Father McNulty trained about 60 people, who were the first successful savings and credit co-operative pioneers on the African continent. The success of Jirapa savings and credit co-operative spread throughout Ghana and by 1968, the savings and credit co-operatives throughout the country came together to form the Credit Union of Ghana, which was set up to promote, organize, service and co-ordinate the activities of savings and credit co-operative in Ghana. SACCOs in East Africa are currently among the leading sources of the co-operative credit for socio-economic development Cooperatives in Kenya were started in 1908 and membership was limited to white colonial settlers. The first cooperative was established at Lumbwa, present day Kipkelion area [3].

Uganda Cooperative Savings and Credit Union Limited (UCSCU) is a national apex organisation for Savings and credit Cooperative Societies (SACCO) in Uganda. UCSCU was established in 1972, and it is registered under the Uganda Cooperative Societies Statute 1991 and the Uganda Cooperative Regulations 1992. UCSCU, as the umbrella body of Savings and Credit Cooperatives (SACCOs) has unwaveringly encouraged the formation and development of Safe and Sound SACCOs to ensure that financial services reach the population across the country as a way of encouraging savings mobilization and use of these savings deposits as a source of investment capital to rural enterprises in form of loans. UCSCU is formed, financed, owned and controlled by Savings and Credit Cooperative Societies (SACCOs). The SACCOs elect a Board of directors, which formulates policies. The Board of UCSCU then hires management for the day-to-day operations. The UCSCU's mission is to "To promote and empower SACCOs in Uganda by offering high quality and specialized financial services for their sustainability". The UCSCU subscribes and adheres to the cooperative values which include the following: Team work, Stakeholder responsiveness, Member-sensitivity and Productivity.

The researcher zeroed his study on the Efficiency structure theory developed by [4]. According to this theory it states that; a bank which operates more efficiently than its competitors gains higher profits than its competitors resulting from low operational costs. The same bank holds an important share of the market. Consequently, differences at the level of efficiency creates an unequal distribution of positions within the market and an intense concentration. The efficiency theory further suggests that enhanced managerial capability and scale efficiency level leads to higher concentration and higher profitability. Among these capabilities, the bank should be skilled in areas of knowledge sets which includes; the talent to reinforce the training process and the relational network, its ability to master the sense of prediction, selection and rely on human capital and its capability to minimize costs and while seeking adjustment of costs based on quality and product volumes in order to be efficient.

According to [5] financial performance is the degree to which financial goals are being or have been achieved. Also author [6] asserts that a negative relationship between debt and turn over on the basis of successful companies doesn't depend so much on external funding but rather they should rely on their internal reserves accumulated from past profits. It's expected that most members will join SACCOs which have been profitable due to their going concern status.

A Savings and Credit Cooperative is a type of cooperative whose objective is to pool savings for the members and in turn provide them with credit facilities [7]. The general objective of SACCOs is to promote the economic interests and general welfare of its members. According to [8], they defined a cooperative as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise. From the north, Kumi County is bordered by Lake Bisina; Bukedea County to the east; Kanyum County to the south and Ngora District to the west. The County surrounds the district headquarters which is located approximately 54 kilometres (34 mi) by road southeast of Soroti city the largest town in Teso sub-region. The county lies in 1° 27' 38" N Latitude and 33° 56' 9" E Longitude with a total population of about 11,400 people [9] Between, 2002-2014 Kumi district in general had over 11 Cooperative Societies which included; Akadot farmer Cooperative Society with 150 members, Atatur produce and marketing Cooperative Society with 50 members, Atatur fruit Growers Cooperative Society with 81 members, Atatur Orice Abeit farmers' Cooperative Society Ltd with 31 members, Mukongoro area Enterprises Cooperative with 820 members, Mukongoro farmers' Cooperative with 315 members, Nyero fruit farmers' Cooperative with 106 members, Oleicho farmers' Cooperative with 150 members, Omatakiria Farmers' Cooperative with 30 members, Omatenga farmers' Cooperative with 57 members and Kumi Sub-County fruit growers with 87 members with over seven (07) cooperatives from Kumi County.

However, by 2017 these Cooperatives were no more with the existing being newly formed Sacco's, one in Nyero Sub-County (Jossa) and the other in Ongino Sub-county (Kachaboi). A critical analysis of the report also disclosed that; the management of Saccos were dominated by people who had attained Secondary and primary level of education with a total of 113 and 70



respectively against 31 at Tertiary level. Against this vulnerable background the researcher picked interest to study the effect of debt management literacy on financial performance of Saccos in Kumi County.

1.1 Problem Statement

According to [10] revealed that there were over 32 registered cooperatives in the district by 2002-2012. However, in the years 2014 -2016 about four (04) registered Sacco's and five (07) other Cooperatives ranging from agriculture to non-agricultural cooperatives were operational. In the year 2017-2018 the report showed that there were only two SACCOs operational in the district i.e. Kachaboi and Jossa Sacco in Ongino and Nyero Sub-County respectively. The report however, showed increase in working capital by almost 50% amongst the existing SACCOs, a 14% growth of SACCO membership with a mild profit growth of 4% and loan recovery rate resting at 98% of the total loans disbursed. Worth noticing was the composition of SACCO's leadership based on education standards; Secondary (113), Primary (70), Tertiary (31) and with No formal education (01), as per [11]

The conflicting standards of; increasing membership and increase in working capital against a very mild growth in profits at 4% with 98% loan recovery rate raised a question of concern. It's against this vulnerable background that the study was carried out to determine the effect of debt management literacy on financial performance of SACCOs in Kumi district.

1.2 Purpose and objective of the study

The overall purpose and objective of the study was to determine the effect of Debt management literacy on financial performance of SACCOs in Kumi County. The key research question addressed was; "What are the effects of debt management literacy on financial performance of SACCOs in Kumi County?"

1.3 Justification of the Research study

According to ¹² the management of Cooperative Unions and SACCOs in particular is based on the Rochdale principles and to this any business activity implemented or executed on principle is expected to prudently prove it's self with results. However, according to [11], it indicates that there were double standards where working capital employed rapidly increased by 50% against a mild 4% profit growth. This equally conflicted with a 98% loan recovery rate of the total money disbursed. It's also noted that the SACCO's leadership is composed of the following based on education standards; Secondary (113), Primary (70), Tertiary (31) and with No formal education (01) [11] It's against this conflicting background that the research study was under taken.

1.4 Significance of the study

The study is intended to help training institutions in understanding the significance of Debt management literacy in influencing financial performance of SACCOs. It will also help academics in establishing the relevant curriculum taught in business and management training institutions to suit and address the problems in the real business environment.

With a majority of SACCOs operating under informal sector where members have no or have basic education, the government policy makers will find out whether the basic financial education taught in schools have any bearing to SACCO's performance. The study will further establish whether there is need for Debt management literacy programs amongst SACCOs in a bid to stimulate growth in the economy and most importantly in increasing house hold incomes.

Nevertheless, the research also adds to the existing literature and provides background information to research organizations and scholars who will need to carry out further study on SACCOs as a key area in fostering economic development especially in developing countries.

The study will also be important to managers of financial institutions and financial consultants since they will be able to discover areas to put more emphasis while giving financial advice to clients. This study too gives insight to government and policy makers in their role in ministry of finance Trade and industry and not forgetting cooperatives on the need for financial education in all school based programs.

Scholars and other academics will equally stand to benefit from added knowledge in financial management and be able to identify research gaps for future studies.

This study will assist the SACCO members in making rational decisions in reference to loan disbursements since the survival of the SACCO depends on how effectively and efficiently the loans are managed.

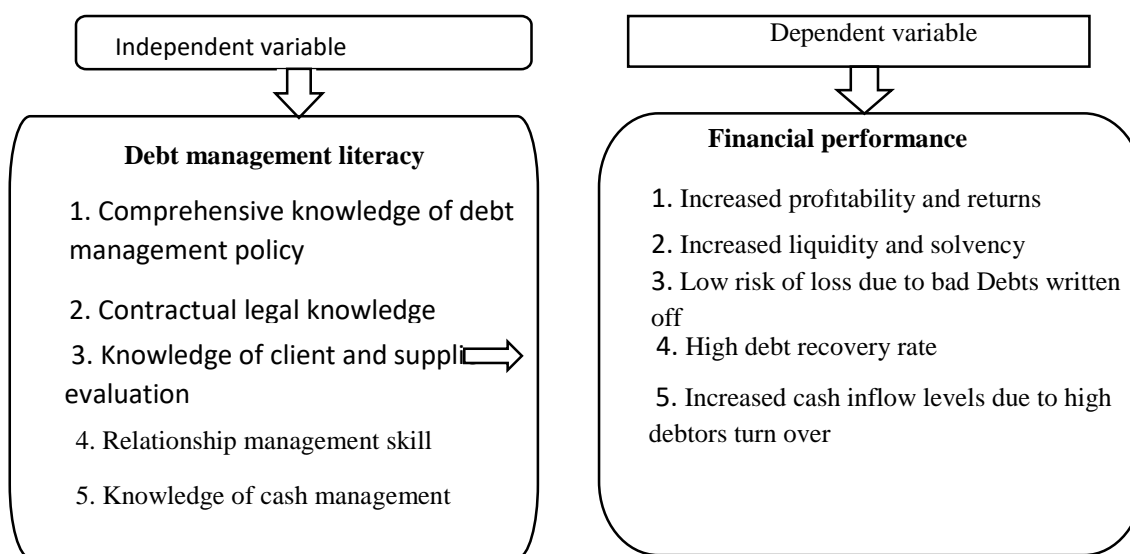


1.5 Scope of the study

The study was conducted in Kumi County-Kumi District in the Eastern Region of the country. This scope is based on the fact that the two operational SACCOs in Kumi district i.e. Kachaboi and Jossa SACCO are all located in Kumi County. The study also considered all the relevant information within the period 2012-2020 as the information within this period can relevantly be depended upon in informing researchers and policy makers in decision making i.e. within the time frame of 8 yrs. However, the content scope to this study was guided by the specific objective.

1.6 Conceptual Framework

Figure 1.1: Conceptual frame work.



In the study conducted by [13], they defined a conceptual frame work as; “an abstract or general idea derived from specific instances”. This implies that it is a set of broad ideas and principles taken from relevant fields of enquiry and used purposefully to structure a subsequent presentation. Also according to [14] and [15], they defined a conceptual framework as; “hypothesized model that identifies the model under study and the relationship between the dependent and independent variables”.

2. LITERATURE REVIEW

This section reviews studies previously done on Debt management literacy in impacting financial performance. The author [16] stated that empirical literature review is a directed search of published work which includes books and periodicals. It is a comprehensive survey of previous inquiries related to the research questions.

The term debtors are defined as ‘debt’ owned to the firm by customers arising from sale of goods or services in the ordinary course of business” [17]. The three characteristics of receivables includes the element of risk, economic value and futurity explain the basis and the need for efficient management of receivables [18]

Accounts receivables of a business organization are created in two major ways. On one hand, the firm may advance payments to the suppliers of inventories to ensure timely supply, especially when the supplier holds a monopolistic position or when materials are in short supply or a firm desiring to develop a captive supply base or for short term financial and profitability considerations. On the other hand accounts receivables are created by a firm selling its output on credit, popularly termed as sundry debtors. Trade credit influences preferences of both sellers and the customers. The functions of accounts receivables management are intended to set out credit terms, selection of credit worth customers, installing an appropriate collection and monitoring system and financing the receivables for maximizing the firm’s value [19]



The function of accounts receivable management emanate from its goals which is stated simply as setting out credit terms, selecting the customers, installing appropriate collection and monitoring system and financing receivables for maximizing the value of the firm [20]

The first issue in the management of trade debtors is to decide whether to grant credit or not at all [21]. However credit is inevitable. The global market runs on credit, goods and services are routinely delivered with the expectation that payment will be made according to the agreed payment terms [22]. If a firm decides that it is in its best interest to allow delayed payment then it needs to set up a system of rules and guidelines which will amount to a debtor policy [21]. The primary objective of accounts receivable management is to maximize the value of the enterprise by striking a balance between liquidity, risk and profitability. A significant part of accounts receivables management involves the proper selection of customers, because every credit sale involves the risk of delayed payment or non-payment of the value involved [20]

Normally when dealing with accounts receivable management, a credit policy becomes an important factor for consideration among others. A credit policy is a blueprint used by a business in making its decision to extend credit to a customer. The primary goal of a credit policy is to avoid extending credit to customers who are unable to pay their accounts. The credit policy for larger businesses can be quite formal while that of a small business tends to be quite informal with a number of small business owners relying on their instincts. A good credit policy should help attract and retain good customers without having a negative impact on the cash flow. According to [23], he advocates at least four reasons to have a written credit policy i.e. it shows the seriousness of the undertaking, stresses need for consistency among departments, need for consistent treatment towards customers and finally it provides recognition to the credit departments as a separate entity. A firm's credit policy is the primary determinant of accounts receivable and it is under the administrative control of the chief finance officer. Moreover credit policy is a key determinant for sales and marketing executives [24]

In a liberal or lenient credit standard / policy the firm relaxes its minimum conditions to be met by the credit applicant. A firm with a liberal credit standard may likely portray the following indicators: The firm stimulates sales and attracts more customers; and extension of credit facility to less credit worthy customers; the average collection period may be long and increased profit due to increased sales. In a Restrictive or strict credit standard/policy, the firm raises the minimum required condition for the credit applicant which decreases sales as few customers are attracted; Extension of credit facilities to only more credit worthy customers hence reduced profits due to reduced sales [25]

To increase sales and create good customer relationships discounts are provided for early payment. Discount offers price reduction and specifies what the percentage reduction is and how rapidly payment must be made to be eligible for the discount. A discount term of 2/10 net 30 means that 2% discount will be offered if payment is made within ten days, and the maximum period of credit is thirty days [25]. Offering discounts has two benefits; first, the discount amounts to price reduction which stimulates sales. Secondly, discounts encourage customers to pay earlier than they otherwise would, which shortens the cash conversion cycle [24] When dealing with debt management; Credit analysis seeks to determine who will receive credit and under what conditions. For a continuing customer it is much easier because experience provides considerable information. For new customer credit analysis is obviously a tougher problem. As alternative sources of funds become costly and unavailable due to increasing lending rates, customers start to look at trade credit as a source of working capital. Current customers will request for extension of terms to stretch out their payments. New customers may request very liberal open account terms. Thus, a firm must beware and cautious in its credit decision makings [26]

According to [27], accounts receivable management includes establishing a credit and collection policy. The policy includes, credit period, discounts for early payment, and credit standards specifying to whom credit should be extended, the terms of the credit and the procedure that should be used to collect the money. Lower accounts receivable ratios may indicate that average investment in accounts receivable is unsuitable and the company's credit policy is too stringent. This may lead to loss of business with the company failing to tap into the potential for profit through sales to customers in higher risk classes. Investment in accounts receivable represents the cost of capital tied up in those receivables. Therefore, a company has to weigh the profit potential against the risk inherent in selling to more marginal customers. The profitability on additional sales generated must be compared with the amount of additional bad debts expected, higher investment and collection costs, along with the opportunity cost of tying up funds in receivables for a longer period of time. When establishing a credit policy, finance managers must consider three main variables;



credit standards and analysis, credit terms, and collection policy and procedures [28]. In the long run trade credit might give future profits by establishing and maintaining permanent customer relationships [29]

2.1 Research gap

According to the previous scholar [30], he concentrated his study on the effect of Budget literacy on financial performance of Saccos in Kumi district. This study however, focused on the effect of Debt management literacy on financial performance of Saccos in Kumi County.

3. MATERIALS AND METHODS

To investigate the research problem the researcher used a case study research design because of its ability to provide a systematic description, factual and accurate information [31]. The researcher picked only one County using non-probability sampling technique within the district for the study i.e. Kumi County. The study also used both quantitative and qualitative approaches. Quantitative approach was used to help a researcher to describe the current conditions and investigate the established relationships between the identified variables (debt management literacy and financial performance of SACCOs). A quantitative approach was relevant in sampling, data collection and quality control, correlation of variables, reliability and content validity testing. The researcher also used qualitative approach and it involved an in-depth probe and application of subjectively interpreted data [32]

3.1 Study Population

The study was carried out in Kumi County. The population under study was 150 consisting of SACCO Board members, SACCO management team members and SACCO members. The respondents above were involved in the study because they had the role mandate, experience and knowledge on SACCO operations.

3.2 Sample Size and Selection

The study used a sample size of 108 respondents drawn from a population of 150 using the author [33] sampling determination framework. The distribution was as per the categories shown in the table below;

Table 3.1: Sample size and selection of the population size

Category	Population	Sample Size	Sampling Strategy
SACCO Board members	10	5	Purposive
SACCO management team members	20	11	Purposive
Ordinary SACCO members	120	92	Simple Random
TOTAL	150	108	

Source: Modified by the Researcher as Adopted from [33]

3.3 Sampling Techniques

Both probability and non-probability sampling techniques were used in selecting the sample. Probability sampling minimized biasness since every member had an equal chance of being selected. Simple random sampling method was used to determine a sample of 85 respondents. Author [32] wrote that simple random sampling is an effective way of avoiding personal biases by the researcher. The study also adopted purposive sampling method for selection of 16 key informants (SACCO Board members and SACCO management team members). The respondents were hand-picked for this study because of their experience and had technical knowledge on the subject under investigation.

3.4 Data Collection Instruments

The researcher used questionnaire and interview. A questionnaire was formulated in a structured form using Likert five itemized rating scale of 1 to 5 with; 1- Strongly Disagree (SD), 2- Disagree (D), 3- Neutral/ Not sure (N), 4- Agree, and 5- Strongly Agree (5). The scale was preferable because of its flexibility and ease in use than other types of attitude scales³¹. The interview guide



was used to collect qualitative data from 07 Key informants (SACCO Board members) and the rest their understanding on the topic was sought by use of a questionnaire.

3.5 Reliability

For reliability of data, the researcher used triangulation data collection method. Triangulation approach involving the use of more than two methods in a study to double (or triple) check results was applied. This was regarded as "cross examination" as stated by [34]. According to [34] the idea was that one can be more confident with a result if different methods lead to the same result. If an investigator used only one method, the temptation is strong to believe in the findings. If an investigator used two methods, the results may well clash. By using three methods to get at the answer to one question, the hope is that two of the three will produce similar answers, or if three clashing answers are produced, the investigator knows that the questions need to be amended. The Cronbach's Alpha Reliability Coefficient (CARC) was computed using SPSS Ver.25 on 23 items. A pretest of the instrument was done to 15 non sampled respondents in order to establish consistency in their responses. The instrument yielded a Cronbach's Alpha Reliability Coefficient (α) of 0.881 or 88.1% based on pretest and in the actual results the instrument yielded Cronbach's Alpha Reliability Coefficient (α) of 0.990 or 99%. According to [35] he argued that reliability should be at least 0.90, preferably 0.95 or better where important decisions are made. In basic research, the concern is with the size of correlations and with the differences in means for different experimental treatments, for which purposes a reliability of 0.80 for the different measures is adequate. This implies that Alpha measures the extent to which item responses obtained at the same time correlate highly with each other. For this study therefore, the instruments were very reliable and fit for the study since the widely accepted reliability coefficient is 0.70 or higher for a set of items to be considered a scale in social science.

3.6 Data Analysis Techniques

The collected data was analyzed quantitatively and qualitatively. Quantitative data was sorted using descriptive statistics in Statistical Package for Social Scientists (SPSS) Ver.25 so as to identify the missing variable(s), outliers and normality of data prior to the linear analysis of the questionnaire data. After running the descriptive statistics in SPSS, the descriptive statistics included; frequency tables, mean, and standard deviation. As stated by [22], a correlation study was conducted with no manipulation. Qualitative data was recorded in the researcher's note book and transcribed for a clear meaning. The researcher then carried content analysis where the data was coded and processed.

3.7 Measurement of Variables

The researcher used categorical data to measure the background information about the respondents. The categorical data such as gender and marital status were measured using nominal scale with numbers being assigned to each category only to identify similar objects within a category from elements in another category that will be different. While independent variable and dependent variable i.e. Debt management literacy (dimensions) and financial performance of SACCOs were measured using a five Likert scale.

3.8 Ethical Considerations

All issues regarding to ethics in research were taken care of for especially; prohibitions against fabrication, falsification, and misrepresentation of research data so as to promote truth and avoid error. Among the ethical values observed included; honest reporting, objectivity, voluntary participation, respect for intellectual property, trust, mutual respect, and fairness. Furthermore, the principles of anonymity and confidentiality were adhered to in respect to the collected data.

4. RESULTS

This chapter of the dissertation covers Data presentation, analysis and interpretation of results portrayed in statistical figures i.e. frequency distributions were used. The researcher used Statistical Programme for Social Sciences (SPSS V 25 64 bit) for data analysis.

4.1 Response rate of the respondents

From a sample population of 108 respondents to be interviewed, the researcher successfully received responses from 88 interviewees representing 82% response rate.



Table 4. 1: Response rate of the respondents

Category	Sample Size	Actual samples	Percentage Represented	Sampling Strategy
Sacco Board members	5	5	4.6	Purposive
Sacco management team members	11	11	10.2	Simple random sampling
Ordinary Sacco members	92	72	66.7	Simple Random
Total (actual)	108	88	81.5	
Missing		20	18.5	
Presumed totals		108	100	

Source: Primary data January 2020 by the researcher based on retrieved tools.

The researcher got a very good response rate amongst all respondents as seen in the table above. According to¹⁴ it's argued that, 50% return rate is adequate for analysis, 60% good and 70% very good. In essence, the response rate was excellent since it was above 70% i.e. 81.5%.

4.2 Background Characteristics of Respondents

This section of the research article presents an analysis of the personal characteristics of the respondents. These characteristics are analyzed in four fold i.e. Gender, Age, Marital status and Level of education.

4.3 Gender distribution of the respondents.

The researcher used frequency distribution or frequency table and histogram to depict membership and representativeness of all gender in the research study as seen in the table and figure below;

Table 4.2. Gender distribution of the respondents.

	Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	40	45.5	46.0	46.0
	Female	47	53.4	54.0	100.0
	Total	87	98.9	100.0	
Missing	System	1	1.1		
Total		88	100.0		

Source: primary data analysis of the instrument, 2019

In the frequency distribution above the researcher observed that 40 male respondents representing 45.5% and 47 female respondents representing 53.4% of the total respondents participated in the research study. The implication of this distribution is that there are more females than males in Kumi SACCOs.

4.4 Descriptive analysis of the respondent's age

Table 4.3: Descriptive analysis of the respondent's age

	Frequency	Percent	Valid Percent	Cumulative Percent
Below 25	23	26.1	26.1	26.1
26-35	28	31.8	31.8	58.0
36-45	25	28.4	28.4	86.4
46-55	10	11.4	11.4	97.7
Above 55	2	2.3	2.3	100.0
Total	88	100.0	100.0	

Source: primary data analysis of the instrument, 2019



Based on age grouping, descriptive analysis shows that 23(26.1%) were falling below 25 years of age, 28 (31.8%) were aged between 26-35 years, 25 (28.4%) were aged 36-45 years and 12 (13.7%) falling above 46 years of age. The implication of this age distribution amongst the respondents is that; a majority of the SACCO members are composed of adult youth aged between 26-35 years (31.8%) followed by those aged 36-45 years (28.4%) and those falling below 25 years (26.1%). The statistics also shows that there is very low participation of old adults in SACCOs evident with 12 (13.7%) aged above 45 years.

4.5 Descriptive analysis of the education level of the respondents

This analysis was carried out using frequency distribution and pie chart as seen below.

Table 4. 4: Descriptive analysis of the education level of the respondents

Education level	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Primary	9	10.2	10.2	10.2
O' level	14	15.9	15.9	26.1
A 'level	28	31.8	31.8	58.0
Diploma	18	20.5	20.5	78.4
Bachelor's Degree	19	21.6	21.6	100.0
Total	88	100.0	100.0	

Source: primary data analysis of the instrument, 2019

From the above table it reveals that a majority of the respondents attained their UACE certificates (A 'level) 28 (31.8%), Bachelor's degree 19 (21.6%), Diploma level 18 (20.5%), Ordinary level certificate 14 (15.9%), and Primary level 9 (10.2%). This therefore implies that the SACCO membership is dominated or composed of people with low academic qualifications i.e. from Diploma below 69 (78%) with little or no skills to make correct investment decisions, make budget forecasts correctly and manage debtors so as to improve on their financial performance.

Besides the bachelor's and diploma holders in this case are employees of the SACCOs with no absolute authority over the issues of the SACCOs since the major decisions are agreed upon during the annual general meeting by the shareholders/owners/members of the SACCOs. The decision making process in the SACCOs is thus worsened by very few expertise i.e. Bachelor's degree 19 (21.6%) with no representation at Master's or PhD level which brings a lot of trial and error method in decision making process of SACCO activities thus explaining the failure of most SACCOs in Kumi district.

4.6 Descriptive analysis of marital status.

The respondents involved in the study exhibited different marital status as seen in the table below;

Table 4.5: Descriptive analysis of marital status of respondents

Marital status	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Married	39	44.3	44.3	44.3
Single	43	48.9	48.9	93.2
Divorced	3	3.4	3.4	96.6
Separated	2	2.3	2.3	98.9
Widowed	1	1.1	1.1	100.0
Total	88	100.0	100.0	

Source: primary data analysis of the instrument, 2019

Accordingly in the above statistics they reveal that a majority of the respondents were single 43 (48.9%), 39(44.3%) were married, 3 (3.4%) divorced, 2 (2.3%) and 1(1.1%). This implies that people with ample time i.e. the single and those with responsibilities are majorly involved in SACCO activities. The divorced, widowed and separated are overwhelmed with a lot of domestic stress and unable to join the SACCOs.



4.7 Effect of Debt management literacy on financial performance of SACCOs in Kumi County.

The researcher also established the effect of Debt management literacy on financial performance of SACCOs, since the research was based on effect establishment, the researcher used a five Likert scale to measure the relationship where; Strongly-Disagree (SD) = 1, Dis-agree (D) =2, Neutral/Not sure (N) = 3, Agree (A) = 4, Strongly Agree (SA) = 5. The correlation and Regression analyses were equally carried out to establish significance levels and relationship of the two variables. The descriptive characteristics were as follows:

Table 4.6: Status of the effect of debt management literacy on financial performance of SACCOs in Kumi County.

Parameter	SD %	D (%)	N (%)	A (%)	SA (%)	Mean	Comment
Comprehensive knowledge of debt management policy	13	7	9.7	38.4	31.9	3.76	High
Contractual legal knowledge	6.6	7.6	11.9	43.7	30.2	3.92	High
Knowledge of client evaluation	8	2.3	10.3	57.5	21.8	4.00	High
Relationship management skill	4.6	3.4	16.1	49.4	26.4	3.93	High
Knowledge of cash management	3.4	0	5.7	43.7	47.1	4.08	Very high
Average mean						3.94	High

Legend: 0.0-1.0, Very low; 1.1-2.0, Low; 2.1-3.0, Moderate; 3.1-4.0, High; 4.1-5.0, Very High

Source: Primary Data (2019)

The descriptive statistics shows that: knowledge of cash management greatly enhances financial performance of SACCOs evident with $\mu=4.08$ with 90.8% positive response rate. This means that for any Sacco to improve on its financial performance, the Sacco members have to improve on their knowledge sets in cash management especially in areas that reduce cash outflows e.g. by cutting down expenditure, addressing the problem of late payments, conducting regular cash analysis and increasing the sales volume as a means of controlling cash out flows and enhancing cash inflows. It should be noted that with a reduction in an expense account automatically leads to higher liquidity and improves on the solvency levels of the Sacco. Late payments incapacitate the Sacco financially and may force the cooperative to apply for financial help inform of a loan from other money lending institutions at a cost which affects both liquidity, solvency and profitability levels of the Sacco. Coupled with cutting down expenditure and addressing delayed payments, the Sacco members should also improve on their knowledge in sales and marketing strategy development so as to improve on profitability, liquidity, solvency and membership. One board member reportedly said; “we have been able to sustain our Sacco by categorically reducing on extra-ordinary expenditures especially on weekly loan monitoring trips and reduction in Sacco management team members to a manageable one”. With a very high $\mu=4.08$, means that - among the key knowledge sets that should be acquired and instilled among the Sacco members is; on cash management as this may be a great loophole for causing financial losses amidst efficient loan recovery rates. It should be noted that the initial research problem that prompted this study were double standards of high working capital that had increased by almost 50%, high debt recovery rate at 98% and a very mild profit growth at 4%. This therefore implies that most Saccos in Kumi County are suffocated by exorbitant expenditures evident with growing rate of working capital as members have insufficient cash management knowledge. The statistics also reveal that Knowledge of client and supplier evaluation with $\mu=4.00$ and 79.3% positive response rate among Sacco members is an important knowledge set that can propel financial performance of Saccos. This therefore means that with a very good evaluation of Sacco clients it reduces on bad debts, delayed payments and increases the profitability, liquidity and solvency levels while reducing losses arising from poor client evaluation. A good client evaluation therefore may focus on; borrowers application, originality in documents provided, history of loan repayment, analysis of information provided by the prospective client prior to extend or not to extend loan decision to a client. This ability among Sacco members is very important as reversing transactions may be impossible. Lack of or poor client evaluation may result in; bad debts written off, long and costly debt collection periods, high cost of capital and low or poor investments thus affecting liquidity, solvency and profitability. Yet another



aspect of debt management literacy observed having great effect on financial performance of Saccos is Relationship management skills among Sacco members. The statistics reveal that relationship management skill is a very crucial aspect in influencing financial performance evident with a high mean of $\mu=3.93$ and a 75.8% positive response rate. To this when Sacco members are literate losses and extra ordinary expenses arising from bad debts written off, delayed payments can be avoided by reducing and simplifying payment terms, pledging and committing discounts for early payments and provision of alternative payment options for clients thus increased sales and profitability levels due to continuous cash inflow. One Sacco member said; “I think our Sacco would be doing well but some of our clients delay their payments due to long distance and the fact that we have a policy all debts should be paid in money terms to the accountant in the office or to our bank account and this sometimes delays loan recovery from clients who cannot convert tangible assets to money easily”. Contractual legal knowledge was yet another aspect assessed amongst Sacco members and based on the descriptive statistics, it reveals that the parameter had a high mean (μ) =3.92 supported by 73.9% response rate. This therefore means ; the presence of legally informed and knowledgeable members in the Sacco avoids the cooperation from entering into void contracts that may tantamount to losses arising due to non-compliance to laws and increasing costs due to a series of law suits. Contractual legal Knowledge may cover literacy on use of right documents for loan processing, clarity in payment terms, dealing with the right client, following cooperative loan processing procedure, issuing of permissible amounts to clients as stipulated by the policy and laws of the country to avoid contract cancellation or nullification. With amounts saved meant for settling law suits and amounts lost due to void contracts can increase liquidity, solvency and profitability levels of the cooperation. Lastly the descriptive statistics reveal that Comprehensive knowledge of debt management policy is equally an important aspect depicted with a high $\mu = 3.92$ and a positive response rate of 70.3%. This means that for any Sacco to survive the Sacco members should be able to embrace the need for a comprehensive debt management policy that controls all the actions of the Sacco. The Sacco debt management policy can cover; client categories to benefit, amounts for each category, required documentation for each client category, disqualification factors for a client and other debt management issues can be enclosed under the policy to avoid misconduct that may tantamount to unwarranted losses which affects liquidity, solvency and profitability. The overall mean value of 3.94 means that debt management literacy is one of the key performance indicators of financial literacy and its absence or presence among Sacco members can greatly affect financial performance negatively or positively.

4.8 Regression analysis of debt management literacy and financial performance

Table: 4.7 Model Summary on Regression analysis of Debt management literacy and financial performance of SACCOs in Kumi County.

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.666 ^a	.444	.437	1.06808	.444	66.329	1	83	.000

a. Predictors: (Constant), Debt management literacy

The regression analysis statistics shows that; there is a very strong positive relationship between debt management literacy and financial performance of SACCOs in Kumi County since $R=0.666^a$. This therefore means that improvement in debt management literacy levels amongst SACCO members will lead to an increase in financial performance by 44.4% or 0.43.7% as depicted by R Square value of 0.444 and Adjusted R Square value of 0.437 respectively. It’s therefore correct to conclude that debt management literacy explains 44.4% of financial performance of SACCOs and the remaining percentage 55.6% is explained by other factors. It should therefore be noted that debt management literacy explains and contributes to financial performance by a margin less than 50%. This therefore means; Saccos should not only concentrate on ensuring Debt management literacy amongst



Sacco members as the only explaining variable to boost their financial performance. Conclusively debt management literacy significantly influences financial performance since $p < 0.01$ i.e. $p = 0.000$.

4.9 Status of financial performance of SACCOs in Kumi County

Table: 3.8. Descriptive statistics of the status of financial performance of SACCOs in Kumi County

No	Statements	SD %	D %	N %	A %	SA %	Mean	Comments
1	SACCOs in Kumi have high cash inflow levels	1	50	30	6	1	2.55	Moderate
2	SACCOs have a high debt recovery rate	4	30	40	11	3	2.95	Moderate
3	There is high level of liquidity and solvency	3	9	30	40	6	3.54	High
4	SACCOs have increased profitability and returns	5	5	2	43	35	4.46	Very high
5	SACCOs have enough working capital to improve their performance in Kumi district	3	5	2	22	56	4.67	Very high
Overall Mean							3.63	High

Legend: 0.0-1.0, Very low; 1.1-2.0, Low; 2.1-3.0, Moderate; 3.1-4.0, High; 4.1-5.0, Very High.

Source: Primary Data (2020)

The descriptive statistics above shows that financial performance level among the currently operating Saccos in Kumi County is high depicted by the overall mean of $\mu = 3.63$. However, based on the Legend Scale there is still a big gap between the current financial performance of Saccos in Kumi County and a very high financial performance i.e. 5.0. The ultimate mean gap is 1.37 as expected of any organization to be a going concern. Literary based on these statistics it can be deduced that the currently operating Saccos in Kumi County have some measurable element of debt management literacy amongst Sacco members that still needs to be reinforced coupled with other financial management skills so as to attain the expected level of financial performance. It's therefore right to conclude that, a majority of the Saccos and other cooperatives that saw their demise around 2012-2017 lacked the architect of debt management literacy among Sacco members.

5. DISCUSSIONS

This chapter presents the discussion of the major findings, it brings and highlights those areas where the research findings related to or agreed and dis-agreed with the previous findings of other authors in relation to the topic of study.

The researcher carried out regression analysis to determine the effect of debt management literacy on financial performance of SACCOs in Kumi County. The analysis showed that there is a significant strong positive relationship between debt management literacy and financial performance of SACCOs evident with $R = 0.666$ with significance at $p = 0.000$. The analysis also revealed that debt management literacy explains 44.4% of financial performance of SACCOs evident with $R^2 = 0.444$. These results are in line with the findings of [29] who asserted that in the long run trade credit might give future profits by establishing and maintaining permanent customer relationships. The findings also concurs with [18] who reported that, the three characteristics of receivables includes the element of risk; economic value and futurity explain the basis and the need for efficient management of receivables. These results also upholds the findings of [20] who found that; the primary objective of accounts receivable management is to maximize the value of the enterprise by striking a balance between liquidity, risk and profitability.



With further analysis of items that assessed debt management literacy it was discovered that the item, knowledge of cash management greatly enhances financial performance of SACCOs evident with $\mu=4.08$ and 90.8% positive response rate. This means that for any Sacco to improve on its financial performance, the Sacco members have to improve on their knowledge sets in cash management especially in areas that reduce cash outflows e.g. by cutting down expenditure, addressing the problem of late payments, conducting regular cash analysis and increasing the sales volume as a means of controlling cash out flows and enhancing cash inflows. These results concurs with the findings of [19] who discovered that Trade credit influences preferences of both sellers and the customers and that the functions of accounts receivables management are intended to set out credit terms, selection of credit worth customers, installing an appropriate collection and monitoring system and financing the receivables for maximizing the firm's value.

The study also revealed that Knowledge of client and supplier evaluation with $\mu=4.00$ and 79.3% positive response rate among Sacco members is an important knowledge set that positively influences financial performance of Saccos since it reduces on bad debts, delayed payments and increases profitability, liquidity and solvency levels while reducing losses arising from un credit worthy customers due to poor client evaluation. A good client evaluation therefore may focus on; borrowers application, originality in documents provided, history of loan repayment, analysis of information provided by the prospective client prior to extend or not to extend loan decision to a client. These results are in tandem with the findings of [26] who wrote that; Credit analysis seeks to determine who will receive credit and under what conditions. Thus, a firm must beware and cautious in its credit decision making so as to guard against losses and exorbitant expenses. Furthermore the study results agrees with [20] who stated that; a significant part of accounts receivables management involves the proper selection of customers, because every credit sale involves the risk of delayed payment or non-payment of the value involved which in turn affects financial performance.

The research also revealed that relationship management skill is a very crucial aspect in influencing financial performance evident with a high mean of $\mu=3.93$ and a 75.8% positive response rate. It's believed that when Sacco members are literate losses and extra ordinary expenses arising from bad debts written off, delayed payments can be avoided by reducing and simplifying payment terms, pledging and committing discounts for early payments and provision of alternative payment options for clients ultimately leads to increased sales and profitability levels due to continuous cash inflow. These result relates well with the findings of [29] who concluded that in the long run trade credit might give future profits by establishing and maintaining permanent customer relationships. Additionally, these results correlates well with the findings of [24] who concluded that discount amounts play two major roles i.e. it leads to price reduction which stimulates sales. Secondly, discounts encourage customers to pay earlier than they otherwise would, which shortens the cash conversion cycle thus increased liquidity, solvency and profitability.

The researcher also discovered that Comprehensive knowledge of debt management policy is equally an important aspect depicted with a high $\mu = 3.92$ and a positive response rate of 70.3%. This means that for any Sacco to survive the Sacco members should be able to embrace the need for a comprehensive debt management policy that controls all the actions of the Sacco. The Sacco debt management policy may cover; client categories to benefit, amounts for each category, required documentation for each client category, disqualification factors for a client and other debt management issues can be enclosed under the policy to avoid misconduct that may tantamount to unwarranted losses which affects liquidity, solvency and profitability. These results agrees with the findings of [27] who reported that accounts receivable management includes establishing a credit and collection policy. On the same note these results also upholds the findings of [28] who asserted that when establishing a credit policy, finance managers must consider three main variables; credit standards and analysis, credit terms, and collection policy and procedures. The study also upholds the findings of [25] who stated that; in a liberal or lenient credit standard/policy the firm relaxes its minimum conditions to be met by the credit applicant. A firm with a liberal credit standard may likely portray the following indicators: The firm stimulates sales and attracts more customers; and extension of credit facility to less credit worthy customers; the average collection period may be long and increased profit due to increased sales. In a Restrictive or strict credit standard/policy, the firm raises the minimum required condition for the credit applicant which decreases sales as few customers are attracted; Extension of credit facilities to only more credit worthy customers hence reduced profits due to reduced sales but lower costs.

Contractual legal knowledge was yet another aspect assessed amongst Sacco members and based on the descriptive statistics, it reveals that the parameter had a high mean (μ) =3.92 supported by 73.9% response rate. This therefore means ; the presence of legally informed and knowledgeable members in the Sacco avoids the cooperation from entering into void contracts that may



tantamount to losses arising due to non-compliance to laws and increasing costs due to a series of law suits. Contractual legal Knowledge may cover literacy on use of right documents for loan processing, clarity in payment terms, dealing with the right client, following cooperative loan processing procedure, issuing of permissible amounts to clients as stipulated by the policy and laws of the country to avoid contract cancellation or nullification. With amounts saved meant for settling law suits and amounts lost due to void contracts can increase liquidity, solvency and profitability levels of the cooperation. These findings concurs with [22] who found that the global market runs on credit, goods and services are routinely delivered with the expectation that payment will be made according to the agreed payment terms. These results are also in line with [21], he found that: If a firm decides that it is in its best interest to allow delayed payment then it needs to set up a system of rules and guidelines which will amount to a debtor's policy.

5.1 Summary of the study findings

From a sample population of 108 respondents, the researcher received responses from 88 respondents representing 82% of the response rate. Out of 88 respondents 40 (45.5%) were males, 47(53.8%) were females and 1 (1.1%) missed out of the system and this was represented a $\mu=1.54$ and $\sigma=0.504$. A majority of the respondents were aged between 26-35 years 28 (31.8%), followed by those falling between 36-45 years 25 (28.4%), below 25 years 23 (26.1%), very few between 45-55 years 10 (11.4%) and very low above 55 years 2 (2.3%). However, in reference to the education level, a majority of the respondents had attained A' level 28 (31.8%), 19 (21.6%) Degree level, 18 (20.5%) Diploma level, 14 (15.9%) O'level and 9 (10.2%) had completed their primary level of education. Of all these respondents 43 (48.9%) were single majority females, 39 (44.3%) were married with a majority being males and a total of 6 (6.8%) falling under others. There is a strong positive relation between debt management literacy and financial performance of Saccos in Kumi County represented by R value = 0.666.

5.2 Conclusions

There is a strong positive relationship between debt management literacy and financial performance of SACCOs evident with $R=0.666$. This means that improvement in debt management literacy leads to increased financial performance levels of SACCOs. Knowledge of cash management among Sacco members is a very important knowledge set that can greatly improve financial performance of Saccos among other factors.

Client evaluation is a necessity in Sacco operations so as to avoid illicit cash outflows. This was supported by a high $\mu=4.00$.

Possession of good relationship management strategies and skill among Sacco members is a very vital asset that leads to increased cash inflows through increased sales and low risk of bad debts written off.

The nucleus of effective debt management is the possession of sound knowledge of debt management and a strong Debt management policy that can be navigated upon for easy decision making.

Contractual and legal knowledge among Sacco members is a major lubricant that smoothens the operations of the Sacco without major hiccups that affects cash inflows.

5.3 Recommendations

Cooperative member education should be undertaken to awaken the need for credit management policy and strategy so as to determine and control cash flows. The need for debt management policy must clearly and exhaustively be explained to the shareholders for buy-in and create a clear line of authority to avoid conflict of interest in decision making.

Documentation and implementation of a comprehensive credit or debt management policy. Most credit policies that are submitted to the UCSCU Limited are not exhaustive by the nature of articles of association i.e. limited by scope. This means that they do not cover all the aspects that pertain a SACCO business and in most cases the discretion on some matters pertaining the debtors is left in the hands of the SACCO management team. The credit or debt management policy must cover among others, who qualifies to get the loan, type of security needed, minimum and maximum repayment periods, interest rates for different types of loans, who should guarantee, when do we give a non-member, minimum and maximum credit amount for non-members, etc. so as to avoid malpractices in financial decisions.

There must be a clear line of authority as to who authorizes and approves what in the Sacco so as to avoid conflict of interest which may lead to non-binding contracts that tantamount to losses and exorbitant expenditures hence affecting the profit margin. A policy on relationship management strategies must also be put in place that clearly stipulates how the Sacco can maintain beneficial and long lasting relationships with her clients without having to lose them or suffer from increased debt collection costs.



Loan processing and client evaluation procedures must be put in place and approved by over 95% of the Sacco members. This will avoid serving customers by instinct which in most cases may lead to legal battles that disorganize the general operations of the Sacco and ultimately its financial performance.

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