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MAKERERE UNIVERSITY BUSINESS SCHOOL

**CREDIT RISK MANAGEMENT, LOAN PORTFOLIO QUALITY AND FINANCIAL
PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVES (SACCOs) IN
MBARARA CITY**

BY

AHABWE RITAH

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UNIVERSITY**

“PLAN A”

OCTOBER, 2025

DECLARATION

I **Ahabwe Ritah**, hereby declare to the best of my knowledge and understanding that this research proposal is my original work and has never been submitted to any University, College or Institution of higher learning for any award. However, any sources of information cited therein are duly acknowledged.

Signed.....

Date:

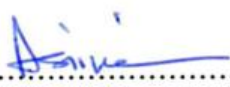
APPROVAL

This is to certify that this research proposal has been submitted with our approval as supervisors.

Signed.....

Dr. Pontius Byarugaba

Date.....22-10-2025

Signed..........Date.....24/10/2025

Ms. Moureen Asiimwe

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ABSTRACT

This study examined the association between management of credit risk, loan portfolio quality and financial performance of SACCOs in Mbarara City, Uganda. The study was conducted because financial performance of the SACCOs in Mbarara has been on the decline as shown by an increase in the trend of written off loans which are non-performing and exceed the acceptable non-performance rate of 5% industrial benchmark. The researcher used an explanatory design, and employed primary data sources with the aid of a structured questionnaire. Data was processed using SPSS software to obtain descriptive statistics and conduct correlation as well as regression analyses to study the association the variables have with each other. Results from correlation analysis showed a positive significant association between management of credit risk, quality of loan portfolio and financial performance. This denotes that the two variables have a direct association with financial performance of SACCOs. Multiple regression analysis indicated that management of credit risk and quality of loan portfolio significantly predict financial performance by 23.1%. The study concludes that, financial performance is determined when management and staff members of the SACCO identify, measure, mitigate and control credit risks. The study suggests that, Risk Departments of SACCOs should always examine risks likely to affect their financial performance. Management of SACCOs should regularly conduct reviews of risks which might affect their financial performance.'

Key words: Credit Risk Management, Loan Portfolio Quality, Financial Performance, Savings and Credit Cooperatives, loan provisioning

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter provides background of the study, articulates the problem statement, delineates the purpose and objectives, research questions, and defines the scope, significance, and conceptual framework of the study.

1.2 Background

The significance of SACCOS across the past years has been realized worldwide (Mmari & Thinyane, 2019). Historically, formal SACCOs can be traced to 1904 when cooperatives were started in Bangladesh as a tool to facilitate agricultural credit system and improve the livelihoods of community members (Mollik, 2022). Despite their benefit and contribution in offering good financial services, SACCOS experience numerous problems that influence their financial performance (Mmari & Thinyane, 2019). In India and Malaysia, SACCOs' financial performance is influenced by challenges like inadequate capital, fraud, corruption and limited managerial skills. On the African continent, studies show that SACCOs in Kenya are faced with major challenges in regard to financial performance (Gichuhi & Omagwa, 2020). In Tanzania SACCOs have also been faced with the challenge of poor financial performance due to lack of working capital and high loan default rates (Kioko, 2018). The Modern Portfolio Theory (MPT), a commonly used theory for portfolio and financial performance, and a framework for investment in regard to determination and establishment of investment portfolio is premised on maximization of the desired returns and the synchronized reduction of risk associated with investment (Markowitz, 1995). However, aspects such as poor management of risk and the quality of loan portfolio can affect economic performance and cause monetary loss to organizations.

In Mbarara City where this study was conducted, SACCOs have experienced several financial challenges. For instance, in 2020, the Return on Equity for Muhame SACCO reduced by 29% while in 2021, Ankole farmers SACCO registered a decline of 33% on Returns on Sales (Muhame SACCO Annual Report 2020, Ankole Farmers SACCO Annual report, 2022).

Table 1 showing SACCOs' performance in 2023

Name of SACCO	Percentage of Non-performing loans	%age of loans written off	%age decline in profitability
EBO SACCO	14%	5%	5%
Muhame SACCO	11%	8%	7%
Ankole Farmers SACCO	9%	4%	3%
Rwanyamabembe SACCO	15%	8%	5%
Nyakayojo SACCO	8%	5%	11%
Rushere SACCO	15%	6%	7%
ISSIA SACCO	5%	3%	5%

Source: SACCOs' Annual reports (2023)

Results in Table 1 show that SACCOs in Mbarara City have a challenge of non-performing loans, loans written off and a drop in profitability which retards their financial performance.

According to Ndiege, Mataba, Msonganzila, & Nzilano (2016), SACCOs may not be able to attain their financial objectives because of poor loan performance. This results into greater losses which can subsequently lead to the closure of the financial institution. However, although SACCOs in Mbarara City have risk management systems in place, there is evidence that their loan portfolio quality is still wanting which has subsequently affected the SACCOs' financial performance. As such, there was need to assess the connection which management of credit risk, quality of loan portfolio have with financial performance of SACCOs in Mbarara City.

1.3 Problem statement

According to Vision 2040, Uganda is aspiring to change from a primarily low income earning to a middle status competitive country within 30 years with a per capita income worth 9,500 USD. Introduction of SACCOs was one of the interventions through which the country targeted to achieve the desired social economic transformation by improving the livelihoods of the poor. In spite of the effort by the government to improve financial performance of SACCOs in Mbarara City their financial performance is still wanting. For instance, the EBO SACCO, Audit Report (2021) revealed an increase in the trend of written off loans from 6% in 2018 to 9% in 2019, and 11% in 2020. In addition, the annual report (2023) indicated that written off loans increased from 13% in 2022 to 15% in 2023. Additionally, Muhame SACCO annual report (2020) showed that the extent of non-performing loans escalated from 16.5% in 2021, to 19% in 2022. The Ankole Farmers SACCOs Annual Report (2023) showed that the SACCOs non-performing loans was at 12%, which is above the acceptable non-performance rate of 5% industrial benchmark. Ankole Farmers SACCO Annual report (2022) also reported that in 2021, the SACCOs profits reduced by 9% in 2020. In addition, in 2020, Muhame SACCO's Return on Equity for reduced by 29% and in 2021, Ankole farmers SACCO's Returns on Assets declined by 33% (Muhame SACCO Annual Report 2020, Ankole Farmers SACCO Annual report, 2022). This may be due to insufficient credit risk and loan portfolio quality management. Yet, there is a dearth of empirical evidence about the combined effect of credit risk management and portfolio quality on financial performance of SACCOs in Mbarara City, an area that is highly understudied. If not attended to, the SACCOs in Mbarara City are likely to opt out of business in the near future.

1.4 Purpose of the study

To examine the association between credit risk management, loan portfolio quality and financial performance of SACCOs in Mbarara City, Uganda.

1.5 Objectives

- i. To examine the association between credit risk management and financial performance of SACCOs in Mbarara City, Uganda
- ii. To assess the association between loan portfolio quality and financial performance of SACCOs in Mbarara City, Uganda
- iii. To establish the predictive power of credit risk management and loan portfolio quality on financial performance of SACCOs in Mbarara City, Uganda

1.6 Research questions

- i. What is the association between credit risk management and financial performance of SACCOs in Mbarara City, Uganda?
- ii. What is the association between loan portfolio quality and financial performance of SACCOs in Mbarara City, Uganda?
- iii. What is the predictive power of credit risk management and loan portfolio quality on financial performance of SACCOs in Mbarara City, Uganda?

1.7 Scope of the study

1.7.1 Geographical scope

The study was done in SACCOs in Mbarara City. These include Muhame SACCO, Ankole Farmers SACCO, EBO SACCO, Rwanyamabembe SACCO, Nyakayojo SACCO, Rushere SACCO and ISSIA SACCO because they registered poor financial performance (EBO SACCO Audit Report, 2021; Muhame SACCO Annual Report 2020, Ankole Farmers SACCO Annual report, 2022; Rwanyamahembe SACCO Annual Report, 2022). The study was conducted only in Mbarara because SACCOs in the area have continuously registered the Return on Equity and low Returns on Assets. In 2021, the Returns on Equity for Muhame SACCO reduced by 29%, Ankole farmers SACCO registered a decline of 33% on Returns on Sales and

Rwanyamahembe SACCO had loans written off amounting to 190 million UGX in 2022 (Ankole Farmers SACCO Annual report, 2022; Muhame SACCO Annual Report 2020; Rwanyamahembe SACCO Annual Report, 2022).

1.7.3 Period scope

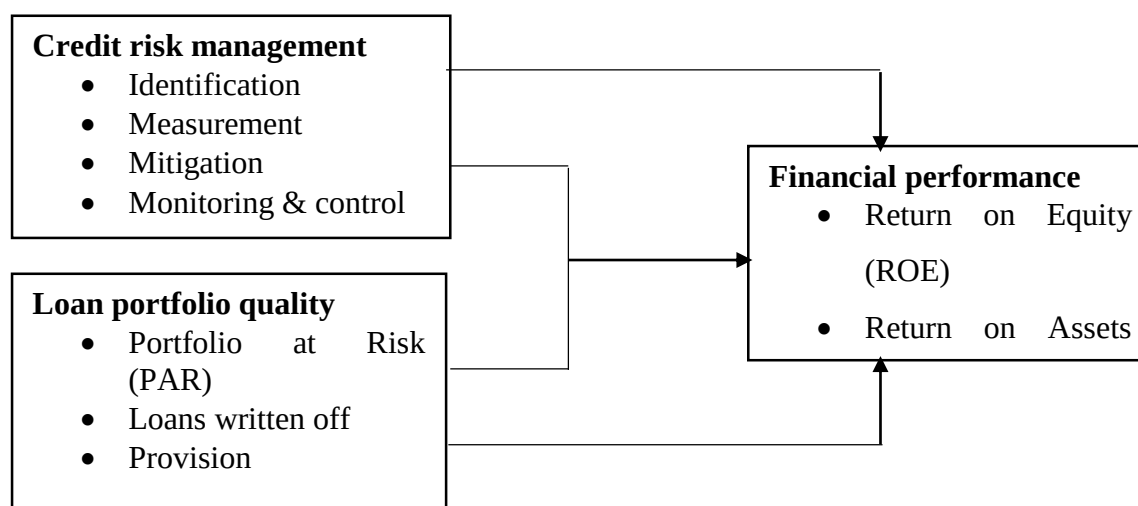
The study used data from 2022 to 2024 because during this period, the SACCOs in Mbarara City registered poor financial performance.

1.8 Significance of the study

The study can enhance the understanding of SACCO management regarding the interplay between managing credit risk, the quality of loan portfolio and their impact on financial performance, thereby facilitating the development of more effective strategies.

The study adds to the extant body literature on credit risk management, loan portfolio quality, and financial performance, thereby offering an important resource for other researchers and scholars. This study gives guidance to the administration of Mbarara City for enhancing the effectiveness of SACCOs' business.

1.9 Conceptual framework



Source: Adopted from Ndyagyenda (2020); Nyadoi&Mapesa (2019); Abdulai et al. (2020), Kule, Kamukama & Kijjambu (2020).

As shown in the conceptual framework, managing credit risk relates to financial performance. Quality of loan portfolio relates to financial performance, and that both credit risk management and the quality of the loan portfolio serve as predictors of financial performance. Therefore, it is posited that effective credit risk management and high-quality loan portfolios enhance financial performance in terms of Returns of Assets and Returns on Equity (Kiptoo et al., 2021; Tian, 2021; Saputra, 2022; Hawaldar et al., 2022).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter entails the theoretical foundation and a review of the literature authored by various researchers with the objective of elucidating the concepts of credit risk management, loan portfolio quality and their correlation with financial performance. Additionally, the chapter will facilitate the identification of research gaps identified for the researcher to address.

2.2 Theoretical review

This study was premised on the Modern Portfolio Theory (Markowitz, 1995). The theory presents a comprehensive framework for investment that informs the portfolio with the objective of maximizing anticipated returns while simultaneously minimizing the associated investment risks (Fabozzi, 2002). The theory is among those commonly employed and broadly tested in regard to portfolio and financial performance. The principal assumption of the PMT is the rationality of investors who yearn to maximize returns and minimize losses; and their prompt reception of appropriate information associated with decisions regarding investment. Elements of loan portfolio quality that affect SACCOs' performance in Uganda encompass the risk of default, delayed payments by customers, limited knowledge about financial analysis by employees and low knowledge regarding effective management of repayments by clients. Hence, when the risk is highly perceived to occur, there is a high likelihood of experiencing poor loan portfolio.

2.3 Financial performance of SACCOs

Financial performance is defined as the degree to which a financial institution achieves its goals and targets (Bashabe, Kalu, & Amu, 2017). Furthermore, financial performance is also conceptualized as the effectiveness with which an institution utilizes property derived from its

primary business model (Asiligwa, 2017). Likewise, SACCOs' financial performance can be ascertained based on returns on equity, returns on sales as well as returns from sales (Hawaldar et al., 2022). Returns on Equity is a pointer regarding the way management is effectively and efficiently utilizing equity financing to finance activities and develop the SACCO. In most cases, higher ratios are better than lower ratios and indicate how better the SACCO is making profits, although they have to be compared with ratios of other companies within the industry (Asiligwa, 2017).

Kiptoo et al. (2021) assert that returns on asset serves as a significant indicator of financial performance. It measures the efficiency which ascertains how well financial institutions employ meagre resources to make profits (Fadun & Silwimba, 2023). Return on assets is broadly employed to compare firm's performance in regard to efficiency and operations, as it considers the returns got from assets funded by the firm (Tian, 2021; Saputra, 2022).

Hasanj and Kuq (2019) asserted that the metrics of financial performance like profitability provides a significant tool for assessment of the SACCO's present and past financial performance. Premised on its important role to improve the country's economy, various studies assessed the various approaches used and their influence on fiscal performance. The increase in financial performance serves as a sign of managerial efficiency and effectiveness in utilization of resources the company has, thereby contributing positively to the overall economic strength of the institution. The financial performance of a Savings and Credit Cooperative Organization (SACCO) reflects its proficiency in leveraging resources from major operations and generating income across specified timelines (Kanan et al., 2022). Financial performance of SACCOs would be measured in various ways like net interest margins of the institution or long term returns which employed to compute an individual company's returns or the general market (Asmar & Trimbath, 2022). Nonetheless, performance measures which

are mostly popular include returns on equity and returns on assets (Alia et al., 2023). Furthermore, return on equity is an important sign of an institution's fiscal operations that takes into account the governance and management policies of Savings and Credit Cooperative Organizations (SACCOs) (Iqbal et al., 2019). Hasanj and Kuq (2019) observed that return on equity is utilized by numerous enterprises globally to evaluate financial success, as it provides shareholders with a straightforward and efficient means of comprehending performance metrics.

2.4 Credit risk management

Management of credit risk entails procedures, systems and controls established by organisations in order to improve efficient payment collections and minimize the possibility of defaulting (Kalui & Kiawa, 2015). Several strategies employed to manage credit risk involve policies designed to mitigate exposure to classifications of credit asset and loan loss provisions. The principal phase in management of credit risks is identifying the risks (Aduda & Obondy, 2020). This process entails deliberate efforts to review, examine as well as forecast likely risks. To ensure effective credit risk management, managers of SACCOs are expected to understand the risks likely to affect the financial institution (Mutua, 2015). Credit risk analysis encompasses the assessment of borrowers' creditworthiness. The analysis of credit risk fosters a broad appreciation of risk and its repercussions for financial institutions, as it facilitates risk-based assessments and comparisons. The final phase in the process of managing risks involves monitoring, which includes the establishment of procedures for identification and reporting likely deficiencies in transactions. This ensures that such shortfalls are systematically tracked, provisioned, and rectified (Anh, 2023).

Effective managing of credit risk is a critical strategy for maintaining fiscal firmness within the banking sector. It encompasses the processes of identification, assessment, and mitigation of

risks associated with lending activities (Alfiana, Judijonto, & Al-Amin, 2024). Financial institutions ought to carefully measure and manage their exposure to credit risk so as to prevent losses. Successful management of risks is dependent on the financial institution's internal procedures, as well as policies and regulations put by financial institutions (Aduda & Obondy, 2020). As such, comprehending strategies of effective management of credit risk and mechanisms is relevant in the effort to uphold stability of financial operations in the banking sector.

Management of credit risk is an essential element in controlling finances, especially for financial institutions like SACCOs and other lending institutions. The purpose is to reduce the chances of making losses that arise from failure by borrowers to fulfil their commitments. Managing risks is a crucial element of upholding the institution's financial health and controlling likely losses from non-payments (Shenghua, Chaoguang, Jing & Chaoming, 2024). Implementation of credit risk management is an important issue that can affect the financial institutions' financial stability both in the long term and short term (Anh, 2023). Credit risk management encompasses several strategies of identifying, assessing, managing and mitigating risks associated with management of credit. One of the main advantages of implementing management of credit risk is the mitigation of potential financial losses. Financial institutions that involved in effective management of credit risk carry a more thorough assessment prior to granting loans (Alfiana et al., 2024). As such, financial institutions such as SACCOs can instantly minimize the number of loans that are non performing in their portfolio. Additionally, financial institutions quickly establish reserves for covering likely losses that can arise because of bad loans (Shenghua et al., 2024).

The application of effective management of risks can enhance the confidence of customers and investors in the financial institution (Scott, Amajuoyi & Adeusi, 2024). When investors and

customers note that the financial institution has a reliable and robust system of managing credit risk, they are likely to consider the institution more reliable and stable. The use of viable techniques to manage credit risk positively impacts on a bank's financial stability. By minimizing the number of loans not performing well, the quality of assets of the bank becomes more stable and stronger. Reliable financial institutions with stable and good systems for managing risks are equally easier to diversify their services and products (Nasir, Oktaviani & Andriyani, 2022). Credit risk management that is effectively done enables banks to easily adhere to regulations in the banking industry. With appropriate management of credit risk, SACCOs and other financial institutions can make sure that they adhere with both the local and international regulatory requirements (Scott et al., 2024).

2.5 Loan portfolio quality

A loan portfolio quality is the major asset possessed by microfinance (Sifrains, 2022). In situations whereby borrowers are not capable of paying back their loans within 30 days, it turns into a default. Such a practice shows the financial institution is prone to credit risk (Madeira, 2023). In the financial industry, there are four indicators often employed in the measurement of loan portfolio quality, that is written-off-ratio, impairment expense ratio, the portfolio exposed to risks and ratio of risk coverage (Sifrains, 2022). The measure of portfolio at risk pertains to its percentage impacted by default relative to the overall portfolio (Abdullaev & Jo'rayev, 2023).

For a SACCO, loans are usually regarded risky if repayment exceeds 30 days. When the PAR 30 ratio is low, the quality of loan portfolio is considered better (Sifrains, 2022). Loan quality determines the risk caused to the financial institution. Good quality loan portfolio is considered to have low nonperforming assets/loans, low default probability and low portfolio at risk (Gjeçi, Marinč & Rant, 2023). Sifrains (2022) argued that financial institutions which have low

levels of portfolio at risk have better loan quality. Regulators and managers of financial institutions utilize the ratio of nonperforming credit facilities to all loans, along with the ratio of loan loss provisioning, as key indicators of loan portfolio. The loan portfolio serves as a critical measure of the quality and structure of loans extended, categorized according to specific criteria (Abdullaev & Jo'rayev, 2023).

As a way to manage loan portfolio quality, SACCOS are continuously expanding their activities, optimising their liabilities and assets to the maximum. Management of loan portfolio quality offers a compromise with acceptable credit risk, liquidity and profitability for the SACCO based on an objective review of the borrowers' creditworthiness, formation of reserves that are adequate for loan portfolio quality to minimize possible loan losses (Abdullaev & Jo'rayev, 2023).

2.6 Credit risk management and financial performance of SACCOs

Institutions that have proper mechanisms to identify credit risk offer a foundation for enhanced financial performance. The severity and frequency of risk mapping aid the institution to keep away from low severe risks and high frequency, but rather pay more attention to high severe risk and low frequency (Ndyagyenda, 2020). As a way of managing credit risk, monitoring risks can be employed to ensure that practices used for to manage risks are consistent and proper. Monitoring risks also aids management of microfinance to unearth mistakes in early stages (Aduda & Obondy, 2021). A robust framework for risk management can significantly enhance institutions' ability to mitigate vulnerabilities to risks and optimize their performance (Ndyagyenda, 2020).

Comprehensive management of risk is essential for optimization of performance of SACCOs (Siriba, 2020). Loans are the most apparent and prime cause of credit risk. Nonetheless, other

causes of risk are also present in the actions of SACCOs. Consequently, the management of the bank should establish a team to supervise credit and make sure that it is properly administered and upheld. Proper management of credit risk encompasses the establishment of a conducive atmosphere, the implementation of a robust process for granting credit, and the maintenance of proper administration of credit for monitoring the process and mitigate exposure to risk (Akomeh et al., 2017). Therefore, SACCO management ought to make sure that there is adoption and implementation of a good framework to manage risks. The credit capability of the borrower can be assessed with the aid of quantitative and qualitative (Werner, 2016).

A credit rating entails a comprehensive assessment of the creditworthiness of the borrower to mitigate the risk of default, which could result in financial loss. The major reason for credit rating is verification of the default risk capacity of the borrower. Information about the borrower is important for loan managers to carry out credit assessment (Ajao & Oseyomon, 2019). Additionally, appraisal of credit merit ought to be undertaken to ascertain the possibility of defaulting loan repayment. Officials responsible for credit rating ought to be objective and balanced in regard to the fiscal situation of the debtor and the capacity to pay back the debt (Cheng et al., 2020).

According to Kheir, Jacoby, and Verwulgen (2022), identifying risks constitutes the initial phase in the process of managing risks. To effectively implement risk management within an institution, it is essential to first analyze the risks and their implications for management practices. The roles then ought then ought to be assigned to departments for identification of particular risks (Bakos & Dumitraşcu, 2021). Hence, it is essential that managing risks is deeply rooted in the entire organisation. Approaches used for identification of risks include risk mapping or visualisation analysis. An institution will be capable of highlighting the strength of

risks through risk mapping, which can steer the institution away from low and high intensity risks (Lagat & Tenai, 2017).

Mitigation of risk entails the actions that target to reduce the impact/severity of risk. For risk mitigation to take place, one ought to first examine the likely impact of the risk (De Bruin et al., 2020). Stakeholders, employees, auditors or employees use the concept of business risk mitigation to show concern about the likely material effect an uncertain environment has on goals of the business. Business risk mitigation enables organisations to establish ways of managing events that can negatively affect the physical, financial or human capital of a firm (Henriques et al., 2022)

In order to control and monitor risk, some requirements are necessary to make sure that risk plans are implemented, and assessment of their efficiency in reduction of risk to keep track of the risks identified, which entails the watch list and updating the process of the organisation. (Kiprop & Tenai, 2017). Monitoring is an essential procedure to make sure that management of risks is effectively practiced by financial institutions. Effective monitoring of risks can help to ensure that managing risks is consistent and also aids management of financial institutions to reveal errors in initial stages (Ewool & Quartey, 2021).

2.7 Loan portfolio quality and financial performance of SACCOs

High default rates in the loan portfolio indicate that financial institutions are failing to meet the internationally permitted portfolio-at-risk level of 3% (Nyadoi & Mapesa, 2019). Portfolio at risk that exceeds 5% causes concern because it erodes attempts instituted by the institution and hinders inclusion of the poor. Management's efforts to ensure adherence to collection procedures help keep debtors attentive and reduce the portfolio at risk (Abdulai, Ogunsanwo, Adeleke & Olowo, 2020). According to Ngumo, Collins and David (2020), high interest rates that are charged to borrowers can lead to loan repayment defaults as well as a high rate of PAR

at risk in lending institutions. Appropriate loan sizes that borrowers can repay help minimize the risk in the overall loan portfolio. Important to note is that non-performing loans negatively impact SACCOs, in regard to losing huge sums of money in the form of written off bad debt, which negatively affects the growth of the institutions (Muiruri, 2019). It further affects dividend since credit losses are deducted before dividends are declared. A debt that a SSACCO deems non-collectible after making reasonable efforts to recover it is known as a bad debt (Abdulai et al., 2020).

Provisioning of loan loss is regarded as important for minimizing the clients' failure to repay liabilities to the financial institution (Pratami, Feriyanto, Sriyana & Pratama, 2022). Due to the crises and challenges that banks experience, provisioning of loan loss has a central duty to enhance SACCOs' financial position. Pham, Dao and Nguyen (2021) examined the determinants of loan loss provisioning for banks in Italy and established a negative association between the levels of loans collateralized, that can minimize credit risk and losses likely to occur in future. In their study on loan provisioning and profitability of banks in Pakistan, Tahir et al. (2020) found a negative connection between profitability and loan provisioning.

Loan portfolio is a principal asset of SACCOs, making it their primary source of risk (Sifrains, 2022). Generally, credit given by MFIs is not supported by mortgage. Consequently, the quality of portfolio is critical to financial institutions. In the microfinance sector, PAR is mostly used in the measurement of portfolio quality because it is comparable across institutions and does not underestimate risk (Tadele, 2021). Like other financial institutions, a loan in a SACCO is regarded to be at risk if it has not been paid for 30 days. Hence, quality of loan portfolio is considered better when the PAR30 ratio is low (Sifrains, 2022).

2.8 Credit risk management, loan portfolio quality and financial performance

The consideration of specific techniques for managing credit risk is often linked with the company's calculative culture and attitudes which major decision makers show while using risk management models to enhance financial performance (Kiptoo et al., 2021). Bouteille et al (2021) held the view that majority indicators that affected banks' financial performance were associated with default rate. Higher vulnerability of the bank to credit risk increases the likelihood for banks to face financial crisis.

A well-conceived credit risk management approach helps financial institutions to get good clients, and avoid wastage of time, costs and the misery of handling defaulting customers, hence increasing income from assets and reducing fraud and credit losses (Ndyagyenda, 2020). In Uganda, factors associated with credit risk management largely influences profitability of SACCOs. According to Kule, Kamukama and Kijjambu (2020), the percentage of loans that are not performing well relative overall loans and advances influence institutions' financial performance in a positive manner. In their study on the growth of lending in Nigerian banks, Al Zadanin and Al Zadanin (2021) discovered that non-performing loans insignificantly influence increase in the bank's lending. Conversely, the ratio of loans to deposits significantly and positively influences the growth of bank lending.

Financial performance offers an independent assessment of how effectively a financial institution utilizes property for generation of income (Bouteille & Coogan-Pushner, 2021). According to Bouteille et al (2021), fiscal performance may be measured based on a company's liabilities, revenues and flow of cash. Indicators of financial performance in the form of ratios encompass liquidity, profitability, investment shareholder ratio as well as the structure of financial utilisation. Profitability is measured through the amount of money after reducing direct costs from sales, and based on the gross profit margin. The margin of operation is between

the measures of net and grow profitability. Liquidity ratios portray the capability to achieve short-term responsibilities. Ratios of efficiency show how well assets of a business are utilised (Tian, 2021). Several ratios can be employed in determination of a firm's rate of return and its sustainable growth rate (Tian, 2021). A firm's financial performance is illustrated through its returns on asset and returns on equity. Profitability is measured based on return on equity, which shows how effectively the firm employs stakeholders' finances to make profits (Fadun & Silwimba, 2023).

2.9 Conclusion

It has been noted that institutions with proper credit risk management mechanisms offer a foundation for enhanced financial performance. It is thus important that managing risks is deeply rooted in the entire organisation. In addition, monitoring risks can be employed to ensure that practices used for to manage risks are consistent and proper. In order to properly manage risks, institutions ought to ensure that risk plans are implemented and assessed to track their efficiency in risk reduction. It has also been noted that appropriate loan sizes that borrowers can repay help minimize the risk in the overall loan portfolio. Whereas the literature highlighted the importance of credit risk management and loan portfolio quality, the scholars do not elucidate the relationship that exists between the study variables and financial performance, a knowledge gap addressed by this study. The next chapter presents the methodology used during the study.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The methodology section encompasses study design, study population, sample size, methods of collecting data, the tools used, procedures employed, and the analyses used in the study

3.2 Research design

The study aimed to explain the association between managing credit risk, loan portfolio quality, and the financial performance of SACCOs in Mbarara City. In order to do this, the study employed the explanatory design. In addition, quantitative techniques were employed because the study variables could be measured and expressed numerically. The use of quantitative techniques was justified since they are more focused and efficient in research (Al Qaisi, 2023).

3.3 Study Population and sample size

The study's population was seven SACCOs in Mbarara City with a total of 100 staff members. These include Muhame SACCO (13), Ankole Farmers SACCO (17), EBO SACCO (21), Rwanyamabembe SACCO (14), Nyakayojo SACCO (16), Rushere SACCO (12) and ISSIA SACCO (07). Simple random sampling was employed for selecting respondents guided by the table of Krejcie and Morgan (1970) to determine sample size.

Table 2 Population and Sample Size

Category or Respondents	Population	Sample size
Loans	56	48
Operations	21	19
Administration	14	14
Total	91	81

3.4 Unit of analysis and inquiry

SACCOs were the unit of analysis while staff members from the selected SACCOs in Mbarara City were the unit of inquiry. Specifically, these included loans officers, staff members from operations, and administration in the SACCOs.

3.5 Sources of data and collection tools

The researcher mainly used first hand data collected from staff members of the selected SACCOs. Data were collected using a structured questionnaire anchored on a 5 point Likert scale. This was enhanced by the computed ratios for each SACCO and present the ratios with the findings. The scale was used in order to objectively capture respondents' views in a standardised manner, yet expressing their varying degrees of responses (Zeng et al., 2025).

3.6 Operationalisation and measurement of variable

Table 3 Operationalization and measurement of variables

Variable	Nature	Operationalization	Authority	Measurement / Rating scale
Credit risk management	Independent variable	Identification, measurement, mitigation, monitoring & control	Ndyagyenda (2020)	5 point likert scale
Loan portfolio quality	Independent variable	Portfolio at Risk (PAR), loans written off, provision	Nyadoi & Mapesa (2019); Abdulai et al. (2020);	5 point likert scale
Financial performance	Dependent variable	Return on Equity (ROE), Return on Assets (ROA), Return on Sales (ROS)	Kule et al. (2020); Asiligwa (2017)	5 point likert scale

Source: Primary data

3.7 Reliability and validity

Reliability was established using Cronbach's Coefficient Alpha (Creswell, 2013). Internal consistency approach was employed to the instruments' reliability, calculating the average

inter-associations among items measuring the concept. A tool is considered dependable for collecting data if it has a Cronbach's Coefficient Alpha of 0.7 or higher (Amin, 2005).

Table 4 Results from validity tests

Variable	CVI	Number of items
Credit risk management	.846	13
Loan portfolio quality	.889	9
Financial performance	.833	6

Source: Primary data (2024)

As indicated in Table 4, all the variables had valid items given that the CVI for each of them was above 0.70.

Table 5 Results from reliability tests

Variable	Cronbachs Alpha	Number of items
Credit risk management	.785	13
Loan portfolio quality	.825	9
Financial performance	.895	6

Source: Primary data (2024)

Table 5 reveals that questions for the variables were dependable as per the Cronbach's alpha for each variable exceeded the 0.70 threshold suggested by Nunnally (1978). To assess content validity, the researcher ensured the evaluation how well the questions represented the concepts they were intended to measure (Kumar, 2014). This evaluation was conducted via professional judgement from two specialists guided by the formula below

$$\text{CVI} = \frac{\text{Number of items rated relevant}}{\text{Total number of items in the instrument}}$$

Amin (2005) and Sekaran (2003) noted that a tool is considered valid for data collection if it has a Content Validity Index (CVI) close to 1 or above 0.7.

3.8 Data analysis

Analysis of data was done using the descriptive option in SPSS version 23. Additionally, factor analysis was conducted to determine the order of significance among the constituents of main items and the parameters that best explain the studied constructs based on their associated

factor loadings. According to Matama (2008), Pearson's correlation statistical techniques were employed to evaluate the association between managing credit risk, loan portfolio quality and financial performance. The use of multiple regression analysis aimed at identifying probable predictors of the dependent variable. The technique of using Pearson was chosen because the independent variable was studied based on the interval data using a five-point scale, allowing for correlation with the independent variables which were also graded on a 5-point scale, treated as legitimate interval data, in line with the approach suggested by Abelson and Tukey (1970).

3.9 Measurement of variables

Credit risk management

Management of credit risk was assessed using the facets of identification, measurement, mitigation, monitoring, and control (Kalui & Kiawa, 2015; Aduda & Obondy, 2020). A five point Lickert scale was employed for responses ranging from strongly disagree to strongly agree.

Loan portfolio quality

Loan portfolio quality was assessed through three dimensions: Portfolio at Risk (PAR), loans written off, and provisions (Sifrain, 2022). This assessment employed a 5 point Likert Scale.

Financial performance

The researcher assessed two dimensions of financial performance: Return on Assets (ROA) and Return on Equity (ROE) (Bashabe et al. 2017). Measurement of these dimensions was premised on a five-point Lickert Scale.

3.10 Ethical considerations

Research assistants were hired to mitigate potential bias in the data collection process. Confidentiality of the findings was emphasised, and anonymity used to protect respondents. This was done by not revealing respondents' names.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter analyzes data and interprets the findings. Examination of the results was done using descriptive analysis, correlation, factor and regression analyses.

4.2 Response rate

The study targeted to collect data from 81 staff members working with SACCOs in Mbarara City. The researcher successfully gathered responses from 71 staff members, resulting in a response rate of 87.6% which is acceptable as per Mugenda and Mugenda (1999). The non-response rate was 12.4%. This was because some staff members were not available at the time of the study while others failed to return the questionnaires given to them. Nonetheless, the data obtained was adequate for the study.

4.3 Demographic characteristics of the respondents

The respondents' demographic characteristic include data on the age, gender, level of education, tenure and department at SACCOs in Mbarara City. These attributes were important for assessment of the ability of respondents to participate in the study and ensure reliability and validity of the collected data. The results are presented as follows:

4.3.1 Age of the respondent

Table 6 Respondents' age group

Variable	Category	Frequency	Percentage
Age	18-29	17	23.9
	30-39	46	64.8
	40-49	8	11.3
	Total	71	100.0

Source: Primary data (2024)

Table 6 illustrates that most participants were 30-39 years, then 18-29 while 50-59 years were the least. This indicates that the study participants belonged to various age groups and at the same time results show that they were mature, with the ability to give data that was reliable.

4.3.2 Gender of respondents

Table 7 Gender of respondents

Variable	Category	Frequency	Percentage
Gender	Male	47	66.2
	Female	24	33.8
	Total	71	100

Source: Primary data (2024)

Table 7 shows that males constituted majority of the study participants in comparison with females. This suggests that findings were derived from a group that was balanced in terms of gender, indicating reliability and a lack of bias.

4.3.3 Respondents level of education

Table 8 Respondents level of education

Variable	Category	Frequency	Percentage
Education level	Certificate	4	5.6
	Diploma	15	21.1
	Bachelors' degree	30	42.3
	Masters' Degree	22	31.0
	Total	71	100

Source: Primary data (2024)

Table 8 above indicates that most study participants held a Bachelors' Degree, followed by those with a Master's Degree, diploma, and certificate. This suggests that participants in the study were educated and capable of understanding and interpreting the questions, thereby providing reliable data.

4.3.4 Respondents' Departments

Table 9 Respondents' Departments

Variable	Category	Frequency	Percentage
Department	Loans	42	59.2
	Operations	18	25.4
	Administration	11	15.5
	Total	71	100.0

Source: Primary data (2024)

As shown in Table 9, majority of the study participants were from the Loans Department which is responsible for identifying customers to give loans and make follow ups to ensure loan repayment. Operations and administration followed, indicating that they had more information about managing credit risk, loan portfolio quality and fiscal performance of the SACCOs.

4.3.5 Respondents' duration of service at the SACCO

The researcher sought respondents' duration of service at the SACCO and findings are shown in Table 10

Table 10 Duration of service at the SACCO

Variable	Category	Frequency	Percentage
Years served	Less than 1 Year	8	11.3
	1-2 Years	11	15.5
	3-4 Years	13	18.3
	5 Years and above	39	54.9
	Total	71	100.0

Source: Primary data (2024)

Table 10 indicates that most study participants were employed for over five years, followed by those with three to four years of experience, then one to two years, and finally, those with less than one year. These statistics suggest that a big number of study participants had significant experience at the SACCOs, which equipped them with a deeper comprehension of managing credit risk, loan portfolio quality, and SACCOs financial performance. As a result, they were well-positioned to give authentic data for the study.

4.4 Factor analysis

4.4.1 Factor structure for credit risk management

In Table 11 findings illustrate the principal factor structure for credit risk management, highlighting the combination of its key constructs.

Table 11: Factor structure for credit risk management

	Identifica tion	Measure ment	Mitigatio n	Monitori ng & control
Our SACCO engages in risk mapping to minimize severe risks	.740			
Management examines the risks likely to affect financial performance of our SACCO	.820			
The SACCO conducts a review of risks which might affect its financial performance	.832			
Management predicts possible risks likely to affect financial performance of our SACCO	.718			
Our SACCO measures the magnitude to which risks can affect its financial performance		.484		
The SACCO assesses the dimensions of financial performance likely to be affect by risks		.643		
The SACCO always makes an assessment of the intensity of risks in relation to financial performance		.706		
The SACCO has remedial measures to prevent risks from affecting its financial performance			.748	
The SACCO has mechanisms to lessen the impact of risks on financial performance			.724	
Mitigation of risks enhances SACCOs financial performance			.646	
The SACCO collects data regarding its financial transactions				.788
Supervisors effectively supervise activities of their subordinates				.739
Management controls the amount of credit disbursed to clients				.681
Eigen value	3.162	2.560	1.349	1.178
Variance (%)	24.324	19.688	10.381	7.843
Cumulative Variance (%)	24.324	44.013	54.394	63.452
Extraction Method: Principal Component Analysis, Rotation Method: Varimax with Kaiser Normalization, Rotation converged in 4 iterations.				

Table 11 shows that out of four constructs of credit risk management, identification (Eigen value = 3.162 Variance = 24.32%) was the protuberant accounting for 24.3% disparity, then measurement, (Eigen value = 2.560, Variance = 19.688%) explaining 19.7% variation, then mitigation (Eigen value = 1.349, Variance = 10.381%), then monitoring and control (Eigen value = 1.178, Variance = 7.841%) responsible for 7.84%. All four constructs explained approximately 63.4% of the variance. Additionally, the table summarizes the items that contributed to each construct, listed in order of significance based on their corresponding factors. The value of the items is shown by factor loadings with greater values indicating higher significance.

4.4.2 Loan portfolio quality

Table 12 reveals that the fundamental factor structure of loan portfolio quality, highlighting the combination of its constructs, namely: Portfolio at Risk, loans written off and provision.

Table 12 Factor structure for loan portfolio quality

	Portfolio at Risk (PAR)	Loans written off	Provisio n
Our SACCO has mechanisms to control portfolio at risk	.723		
Our SACCO has controls in place to prevent issuance of fraudulent loans to customers	.710		
Management conducts due diligence to control loan portfolio at risk	.728		
Our SACCO has cases of written off loans		.680	
Management writes of loans that are overdue for repayment		.649	
Management reduces for clients the amount of money to pay back when the loan is overdue		.619	
Our SACCO engages in loan provisioning			.635
The SACCO uses loan provisioning to strengthen its financial position.			.710
Provisioning increases the SACCOs financial performance			.591
Eigen value	3.353	1.551	1.142
Variance (%)	37.254	17.229	12.690
Cumulative Variance (%)	37.254	54.483	67.174
Extraction Method: Principal Component Analysis, Rotation Method: Varimax with Kaiser Normalization, Rotation converged in 4 iterations.			

Source: Primary data (2024)

As illustrated in Table 12, out of the three constructs of loan portfolio quality, as per the conceptual framework, Portfolio at Risk (Eigen value = 3.353; Variance = 37.254%) was the most outstanding 37.2% change, followed by loans written off, (Eigen value = 1.551, Variance = 17.229%) explaining 17.2% variation, then Provision (Eigen value = 1.142, Variance = 12.690%) which contributes 12.7%. All three constructs explained approximately 67.2% of the variance. Additionally, findings give a summary of items that contributed to each construct, listed based on how significant they are, and the corresponding factors. The magnitude of each

item's importance is shown by the factor loadings, with greater values indicating higher significance.

4.4.3 Financial Performance

Table 13 reveals results of the important factor structure of financial performance, highlighting the combination of its key constructs:

Table 13 Factor structure for conflict management

	Return on Equity (ROE)	Return on Assets (ROA)
The SACCO has registered an increase in the returns on equity ratio	.595	
The SACCO receives adequate returns on equity ratio	.719	
The SACCO always has enough liquid cash to serve its customers	.641	
The SACCO's assets are a source of revenue		.745
Assets generate adequate ratio of revenue for the SACCO		.660
The SACCO has registered an increase in the ratio of revenue from assets		.775
Eigen value	3.005	1.129
Variance (%)	50.085	18.816
Cumulative Variance (%)	50.085	68.902
Extraction Method: Principal Component Analysis, Rotation Method: Varimax with Kaiser Normalization, Rotation converged in 4 iterations.		

Source: Primary data (2024)

As indicated in Table 13, out of the two constructs of financial performance as indicated in the conceptual framework, Return on Equity (ROE) (Eigen value = 3.005; Variance = 50.085%)

was the most outstanding, with 50.08% changes, then Return on Assets (ROA), (Eigen value = 1.129; Variance = 18.816%) explaining 18.82% variation. Both constructs explained approximately 68.9% of the variance. Additionally, findings provide a summary of the items which contributed to each construct, ordered by their significance relative to their corresponding factors.

4.5 Correlation analysis

Correlation analysis was used for establishing whether there is an association between the variables studied. This aimed at facilitating study objectives and subsequently, answers to research questions.

Table 14 Correlation analysis

1	Credit risk management	1	2	3	4	5	6	7	8	9	10
2	Identification	.744**	1								
3	Measurement	.735**	.350**	1							
4	Mitigation	.725**	.502**	.310**	1						
5	Monitoring & Control	.612**	.113	.485**	.225**	1					
6	Loan portfolio quality	.460**	.429**	.369**	.437**	.036	1				
7	Portfolio at Risk	.282*	.348**	.279*	.266*	.136	.822**	1			
8	Loans written off	.286*	.167	.157**	.334**	.156	.527**	.161	1		
9	Provision	.357**	.336**	.299**	.266*	.087	.609**	.367**	.099	1	
10	Financial performance	.463**	.242**	.317**	.332**	.442**	.328**	.144	.311**	.213	1
Correlation is significant at 0.01 level (2-tailed)											

Source: Primary data (2024)

4.5.1 Credit risk management and financial performance

Objective number one of the study was establishing the association between credit risk management and financial performance. As indicated in Table 14, Pearson correlation coefficient ($r = .463^{**}$, $p < .01$) was less than 0.5, which signifies a moderate positive association between the two variables. The positive connection suggests that enhancing

management of credit risk results in improved fiscal performance, indicating a significant association between the two.

4.5.2 Loan portfolio quality and financial performance

Objective two of the study was to establish the association between loan portfolio quality and fiscal performance. As shown in table 14, Pearson correlation coefficient ($r = .328^{**}$, $p < .01$) was below 0.5 which shows that the quality of loan portfolio moderately associates with fiscal performance in a positive direction. The positive relationship suggests that an improvement in loan portfolio quality enhances financial performance, indicating a significant link between the two.

4.6 Multiple regression analysis

Objective three of this study was to establishing the predictive power of managing credit risk and loan portfolio quality on fiscal performance of SACCOs in Mbarara City, Uganda. As such, multiple regression analysis was employed to establish the predictive power of managing credit risk and loan portfolio quality. Results are shown in Table 15 below.

4.7 Multiple regression analysis

Table 15 Regression Analysis of the component variables

Model	Un standardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.272	.543		4.181	.000
Credit risk management	.338	.102	.396	3.310	.001
Loan portfolio quality	.151	.124	.146	1.216	.028
R = 0.481 R- square = 0.231 Adjusted R-Square = .209 F= 10.238 Sig = 0.000					

Source: Primary data (2024)

As shown in Table 15, the elements of credit risk management are; identification, measurement, mitigation and monitoring & control, then components of loan portfolio quality

that is Portfolio at Risk, loans written off and provision which predicts financial performance in a significant manner as indicated by the level of significance (.000). Regression analysis indicated that the variables moderately related with financial performance ($r = .481^{**}$). The findings further revealed that credit risk management (Beta = .396, Sig. < .001) and loan portfolio quality (Beta = .146, Sig. < .028) are significant predictors of financial performance since their P-value is less than 0.05. The results further show that credit risk management and loan portfolio quality combined influence financial performance by 23.1% (R Square .231) with a significance value of 0.000. This signifies that both management of credit risk and quality of loan portfolio significantly predict financial performance of SACCOs in Mbarara City.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This change entails the discussion of major findings, conclusions and recommendations based on objectives of the study as further shown in the following sub sections.

5.2 Discussion of the findings

5.2.1 Credit risk management and financial performance of SACCOs

From the findings, there was a significant positive relationship between credit risk management and SACCO's financial performance. This implies that, when credit risk management is strong, there is a likelihood that financial performance of SACCOs will improve. For instance, when SACCOs rightly identify risks, appropriately measure the magnitude of the risk, mitigate as well as monitor and control SACCOs activities, they will help to ensure their improved financial performance. The findings are consistent with Ndyagyenda (2020) who asserted that 'organizations with proper credit risk identification provide ground for financial performance. Further, a vigorous framework for managing credit risk can support organizations to minimise their vulnerability to risks, thereby improving their financial performance. Likewise, Fadun and Oye (2020) asserted that effective risk management is paramount for attaining improved financial soundness. The findings are further consistent with Siriba (2020) who asserted that rigorous management of credit is important for optimization of performance of financial institutions. Therefore, integrating appropriate management of credit risk into the SACCOs strategic and operations framework is essential (Kuma & Kishor, 2019).

5.2.2 Loan portfolio quality and financial performance of SACCOs

Study findings also showed a significant association between loan portfolio quality and financial performance. This implies that strong loan portfolio quality will ensure sound

financial performance. For example, if clients pay back the loan in time, there will be low Portfolio at Risk, low number of loans written off, and provisioning, which enhances fiscal performance. The strong association that quality loan portfolio has with fiscal performance aligns with the findings of Nyadoi and Mapesa (2019), who indicated that a decrease in the rates of defaulting suggests that microfinance institutions can lower their portfolio at risk, leading to improved financial performance. Similarly, Muiruri (2019) emphasized that a decline in loans that are non performing supports the growth of financial institutions. This perspective is further supported by Pratami et al. (2022), who highlighted that loan loss provisions are crucial in mitigating the risk of customers defaulting on their liabilities, thus enhancing financial performance. In essence, loan loss provisions are vital tools used to minimize the risk of customer defaults to the bank (Pratami et al., 2022). On the contrary, non-performing loans negatively impact SACCOs since they lead to increase sums of money in the form of written off bad debt, which negatively affects the growth of the institutions (Muiruri, 2019). Hence, non-performing loans jeopardize a SACCO's stability and profitability by resulting into loss of interest income and potential write-offs of the loan amount.

5.2.3 Credit risk management, loan portfolio quality and financial performance of SACCOs

Findings showed that credit risk management which constitutes identifying, measurement, mitigation and monitoring & control, then components of loan portfolio quality that is Portfolio at Risk, loans written off and provision significantly predict financial performance of SACCOs. The findings are supported by Ndyagyenda (2020), who argued that a well-designed credit risk management approach enables financial institutions to attract good customers while minimizing the time, costs, and frustrations associated with late-paying clients. This, in turn, enhances returns on asset loans and reduces credit and fraud losses. Similarly, Kule et al. (2020)

emphasized that credit risk management factors significantly influence a financial institution's profitability. In contrast, Al Zaidanin and Al Zaidanin (2021) noted that non performing loans have an insignificant influence on growth of bank lending; however, they found that the loans to deposit ratio impacts positively on bank lending growth.

5.3 Conclusion

Based on findings from the study, the conclusions drawn are; First, managing credit risk is significantly associated with financial performance. Effective financial performance occurs when the management and staff of the SACCO identify, measure, mitigate, and control credit risks. Second, the quality of loan portfolio is significantly associated with financial performance. Improved financial performance is observed when the portfolio at risk is low, with few or no loans written off and minimal provisions. Third, both management of credit risk and quality of loan portfolio are significant predictors for financial performance of SACCOs.

5.4 Recommendations

The study recommends that Risk Departments of SACCOs should always examine risks likely to affect their financial performance. Management of SACCOs should regularly conduct reviews of risks which might affect their financial performance. Management of SACCOs should make assess the intensity of risks in relation to financial performance.

Management of SACCOs should always collect data regarding financial transactions. Supervisors should always effectively supervise subordinates' activities. In addition, Management in conjunction with the Credit Section should always control the amount of credit disbursed to clients.

SACCO Management should always conduct due diligence to control loan portfolio at risk. SACCO Management should use loan provisioning to strengthen their financial position.

5.5 Suggested areas for further study

It is essential to carry out a study regarding how managing credit risk impacts the quality of loan portfolios in SACCOs.

5.6 Limitations of the study

Some of the respondents hesitated to participate in the study due to concerns about management reprimanding them for disclosing financial details of their SACCOs to a third party. This issue was addressed by first obtaining authorization from management which permitted them to offer the information necessary.

Additionally, respondents were worried about the confidentiality of the financial performance data of their SACCOs. This concern was alleviated by research assistants who explained that the study was for academic purposes and assured respondents that their information would be kept confidential.

Some respondents were difficult to reach during the times the researcher needed them because of their busy work schedules. To resolve this, the researcher made appointments to arrange meetings at more convenient times.

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Questionnaire

Appendix i: Questionnaire for employees of SACCOs in Mbarara Municipality

My name is Ritah Ahabwe, a student at Makerere University Business School, pursuing a Master's Degree in Business Administration. Currently, I am carrying out research as part of my Degree requirements. I kindly request your time and honest answers to ensure the success of this study.

Section A: Back ground characteristics of respondents

1. Age of the respondent

a) 18-29 ☐ b) 30-39 ☐ c) 40-49 ☐ d) 50-59 ☐ e) 60 and above

2. Gender: Male ☐ 1 Female ☐ 2

3. Highest level of education: Certificate ☐ Diploma. ☐ Bachelor Degree ☐ Masters' ☐
Degree ☐ PhD ☐ Other (Specify.....)

4. Department

Years served in the SACCO Less than 1 year ☐ 1-2 years ☐ 3-4 Years ☐
5-above ☐

In the following section, tick what you consider appropriate about credit risk management, loan portfolio quality, financial performance.

5	4	3	2	1
Strongly Agree (SA)	Agree (A)	Not Sure (NS)	Disagree (D)	Strongly Disagree (SD)

Section B: Credit risk management

Sl	Item	SA	A	NS	D	SD
	Identification					
1	Our SACCO engages in risk mapping to minimize severe risks					
2	Management examines the risks likely to affect financial performance of our SACCO					
3	The SACCO conducts a review of risks which might affect its financial performance					
4	Management predicts possible risks likely to affect financial performance of our SACCO					
	Measurement					
5	Our SACCO measures the magnitude to which risks can affect its financial performance					
6	The SACCO assesses the dimensions of financial performance likely to be affected by risks					
7	The SACCO always makes an assessment of the intensity of risks in relation to financial performance					
	Mitigation					
8	The SACCO has remedial measures to prevent risks from affecting its financial performance					
9	The SACCO has mechanisms to lessen the impact of risks on financial performance					
10	Mitigation of risks enhances SACCOs financial performance					
	Monitoring and Control					
11	The SACCO collects data regarding its financial transactions					
12	Supervisors effectively supervise activities of their subordinates					
13	Management controls the amount of credit disbursed to clients					

Section C: Loan portfolio quality

Sl	Item	SA	A	NS	D	SD
	Portfolio at Risk (PAR)					
1	Our SACCO has mechanisms to control portfolio at risk					
2	Our SACCO has controls in place to prevent issuance of fraudulent loans to customers					
3	Management conducts due diligence to control loan portfolio at risk					
	Loans written off					
4	Our SACCO has cases of written off loans					

5	Management writes of loans that are overdue for repayment					
6	Management reduces for clients the amount of money to pay back when the loan is overdue					
	Provision					
7	Our SACCO engages in loan provisioning					
8	The SACCO uses loan provisioning to strengthen its financial position.					
9	Provisioning increases the SACCOs financial performance					

Section D Financial Performance

Sl	Item	SA	A	NS	D	SD
	Returns on equity ratio					
1	The SACCO has registered an increase in the returns on equity ratio					
2	The SACCO receives adequate returns on equity ratio					
3	The SACCO always has enough liquid cash to serve its customers					
	Returns on assets ratio					
4	The SACCO's assets are a source of revenue					
5	Assets generate adequate ratio of revenue for the SACCO					
6	The SACCO has registered an increase in the ratio of revenue from assets.					