International Journal of Academic Pedagogical Research (IJAPR)
ISSN: 2643-9123
Vol. 6 Issue 8, August - 2022, Pages: 109-113

Contribution of Credit Risk Management on Financial Performance of Saccos in Rubanda District: Empirical Studies from Hakashenyi Sacco Rubanda Branch Rubanda District.

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Abstract: *The purpose of the study was to assess the contribution of credit risk management on financial performance of Saccos in Rubanda district specifically Hakashenyi SACCO Rubanda district. Its aims were to examine the causes of credit risk management, to discover risk management mitigation measures on lending portfolio among Savings and credit cooperatives and to find out the effect of risk management on financial performance of Saccos .The methodology adopted a cross sectional research design Both qualitative and qualitative research designs were used in the collection of data during the study. Data collection instruments included the questionnaire, documentary review and interview guide. The findings revealed that there is there is a strong correlation between Credit risk management and the financial performance at Hakashenyi SACCO Rubanda Branch. The Loans department at Hakashenyi SACCO do not conduct a clear risk assessment exercise which therefore indicates that the high level of Non Performing Loans which is responsible for more losses. The study hence recommends that there is need by the SACCO to conduct technical training for its staff, Monitor and evaluate the Clients in need to find out whether they qualify for the loans and provide investment advice to the customers. This may also be realized by recruiting skilled and competent staff to enable the SACCO achieve its overall goals and objectives.*

Keywords: Credit policy, financial institutions

1.0 INTRODUCTION

1.1. Background of the study

According to ICA, (2002), SACCOs are very fundamental in providing financial services and cover a wider area in both rural and urban centers than other financial institution. The services they render include deposits, withdraws, loans and insurance services to a large portion of the population.

They are registered and regulated under the Co-operative Societies Act and also treated as producer or marketing cooperatives. They do not have to have any capital in order to be registered.

The theory of Stakeholder analysis (R Edward Freeman 1984) was used to explain the study. It explains that different parties such as owners, management, employees, clients and members of the public are very necessary for the efficient operation of any enterprise. This is because policy formulation relating to credit can also be made which promotes financial performance and also addressing all the problems that are faced by Organisations.

Chijoriga (1997) defines Credit risk as the probability that a borrower will not be able to perform his credit obligations in line with the terms and conditions set. This makes it the most expensive risk in financial institutions since it can lead to insolvency. Hakashenyi Sacco Rubanda branch is located in Rubanda district in south western Uganda. It is one of the big SACCOS with over 2000 customers. It has been established that most SACCOS are performing badly due to issues relating to management and also high number of non-performing Loans making it necessary to conduct this research (Uganda Cooperative Alliance Report 2020).

2.0 REVIEW OF RELATED LITERATURE

2.1Credit Risk Management and Performance of Financial Institutions

Effective review

According to Angbazo, et al ,(1998) reviewing credit effectively not only helps to detect poorly underwritten credits, it also helps prevent weak credits from being granted, since credit officers are likely to be more diligent if they know their work will be subject to review. The failure by many banks and SACCOs to properly monitor their borrowers and also ascertain the value of collateral security provided became a very big problem. Various banks also just gave out loans without obtaining information about the performance of their borrowers.

Quality of portfolio

The performance of any sacco was based on the quality of its portfolio since it is determined by management and structures of governance. The main objective is to maximize benefits members by extending credit services to help in improving livelihoods. In order to do this effectively, lenders need to carry out an effective assessment of the borrower's ability to meet the terms and conditions in order to minimize default.

High loan recovery

Kablan, (2010) mentioned that A Sacco's sustainability and levels of development basically depend on high recovery of its loan portfolio. This means different strategies and policies should be put in place in order to ensure that recovery of loans is high. This task is mainly the responsibility of top management and officers charged with giving out these loans.

Uncertainties.

According to Malimba and Ganesan (2009), Credit risks appear in banking institution because of the uncertainties plagued the financial system. The uncertainties remain a major challenge in every country. But still the major approaches applied are the continuing efforts on research and close monitoring.

2.2 Causes

Problems in a family

Adisu, et al (2006) , Problems in a family could divert attention and cause psychological and emotional distress. Death of a family member and ill health for instance could cause strain on a person leading to stress, apathy and substantially undermine commitment and concentration. Death and ill health places requirements for medical treatment and burial both of which require money which could probably come from loan funds constraining ability to repay loans. They also have a direct negative bearing on the capacity of an individual to productively engage in .This assertion may not however hold for all cases. For instance socio-cultural practice in Northern Uganda compels clansmen to contribute money and food for funerals and burial to ease financial burden and also providing psychosocial support using informal community networks to the bereaved.

Level of education

Brehanu & Fufa, 2008) states that education of a borrower is an important factor to be taken into consider when making any decisions. As borrowers' level of education increases from primary to secondary and tertiary level the probability of defaulting should decrease. This stems from the assumption that, the more educated an individual is the more ability one has to plan and evaluate their businesses well before taking the credit. In many empirical studies, it was found that more intelligent beneficiaries tend to use the loan funds for the intended purpose than non-educated borrowers .

Loan Repayment and Schedule

Larger household sizes motivate loan repayment when household members assist in production activities that help the borrower repay loans or contribute towards loan repayment.

2.3 Risk management mitigation measures

Lending Procedures

Angkinand, & Wahlberg,(2010) revealed that A Sacco's sustainability and financial viability depends on use of proper procedures in lending and effective management of credit risk which involves procedures of understanding risk and risk management. It is a process that encompasses independent, moderating and dependent variables. They urged that, Risk identification**,** are the methods and mechanisms which the Sacco has to point out the existing and potential risks in a Sacco's loan products and lending activities, it also includes the development and implementation of clearly defined policy that sets out the lending philosophy that effectively manages and controls these risks.

Innovation , creativity and supervision

Pazarbasioglu (1999) As the banking sector continues to embrace innovations, the intensity and variety of risks that the players are exposed also continue to grow and this makes risk management crucial.

3.0 METHODOLOGY

3.1 Research Design

The research used a cross sectional descriptive survey. This was because collection of data was done once. The sampling technique adopted was Purposive sampling simply because only respondents with the right and required information were chosen to participate in the research exercise.

3.2 Study area.

It was carried out in Hakashenyi Sacco Rubanda Branch is located in Rubanda.

3.3. Study Population

This focused on manager, loan's officer/ Board members and bank clients. 200 respondents were targeted comprising of Hakashenyi Sacco employees.

3.4 Sample Size and selection

The sample size was composed of 200 respondents, derived from access population of 72 respondents. The expected sample comprised of 1 manager, 3 loans officer, 18 members of the board plus 178 clients of the institutions. The details of the target population, sample size and sampling techniques for the study are shown in the table.

Table one showing the sample size and selection

Category of respondents	**Total population**	**Sample size**	**Sampling procedures**
Manager	1	1	Purposive
Loan's officer	3	3	Purposive
Board members	20	18	Simple random
Clients	280	178	Simple random
Total	302	200	

3.5 ***The respondents were chosen using both simple random sampling and purposive sampling. Purposive sampling was the most reliable because it involved choosing respondents who***

possess the required qualities as specified by great researchers (Amin 2015).

3.6 Data sources

Data was collected from primary and secondary sources.

3.7. Validity and reliability

Validity

This is the ability of a research instrument to measure its overall intention. The research instrument should be relevant for the research objectives to be realized. The researchers had a consultative discussion to minimize errors and mistakes. Much of the concern was put on the questionnaire to ensure that the questions for the respondents were applicable to the r**esearch study.**

3.8.5 Data Processing

Collected data was edited coded and coded using SPSS V,20 and was later presented using percentages, figures and tables.

4.0 PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1.1 Gender of respondents

The study investigated the gender of respondents because gender may influence performance. The findings are presented in table below.

Gender	Frequency	Percentage%
Female	120	60
Male	80	40
Total	200	100

From the table above it is noted that the highest number were females represented by 60% and the males were represented by 40%.

4.2.2 Age of respondents

The study investigated the age of borrowers because age of borrowers may influence loan repayment. The findings are presented in table below

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Age	21 – 30	40	20
	31 – 40	60	30
	41 – 50	50	25
	51 – 60	30	15
	60 +	20	10

Primary data 2022
The above clearly states that 21 – 30 respondents were represented by 20%, 31- 40 respondents were shown by 30%, 41 – 50 were shown by 25%, 51 – 60 were stipulated by 25% and 60+ were expressed by 10%.

4.2.3 Household size

The research was carried out to investigate how the household size of respondents influences loan repayment. The results are presented in Figure 6.

Household size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	up to 3	34	28.8	28.8	28.8
	4 - 6	58	49.2	49.2	78.0
	7 - 9	19	16.1	16.1	94.1
	10 and above	7	5.9	5.9	100.0
	Total	200	100.0	100.0	

4.2.4 Education Level

Table 3

Education	**Frequency**	**Percentage**
Primary	**50**	25%
Secondary	**70**	35%
Post-Secondary	**80**	40%
Total	**200**	**100**

Source: Primary data 2022
The table above the respondents with primary were 25%, Secondary 35% and majority of the respondents were Post-secondary with 40%.

4.3 Causes

Response	**Frequency**	**Percentage**
Problems in a family	60	30
Level of education	75	38
Loan repayment schedule	65	33
Total	200	100

Source Field Source 2022

From the table above, problems in a family affect credit risk management as represented by 30%, Level of education by 38% and loan repayment as stipulated by 33%. From the table it is stipulated that the level of education had the biggest number of participants.

4.4 Risk management mitigation measures on lending portfolio among Savings and credit cooperatives

Response	**Frequency**	**Percentage**
Lending procedures	55	28
Supervision	80	40
Innovation and creativity	65	32
Total	200	100

According to the table above, 28% of respondents suggested Lending procedures, 40% of respondents suggested that Supervisions , 32% of respondents put forward that Innovation and Creativity as a mitigation measure.

4.5 Risk management and financial performance

Response	**Frequency**	**Percentage**
Facilitate review	40	20
Improves the quality of portfolio	50	25
Increases high levels of loan recovery	50	25
Helps in addressing uncertainties in the system	60	30
Total	**200**	**100**

The findings in the table above indicate that Credit risk management helps in facilitating review as represented by 20%, Improves the quality of Portfolio stated by 25%. Increases loan recovery expressed by 25% and helps in addressing uncertainties in the system stated by 30%.

5.0 CONCLUSIONS AND RECOMMENDATIONS

This research established that there were more problems encountered by the Hakashenyi SACCOO because credit risk management policies were not put in place and adhered to. This was because some credit management policies were not followed which paused great loan recovery problems at Hakashenyi SACCO Rubanda branch.

5.1 Recommendations

Management of Hakashenyi SACCO Rubanda branch needs to ensure proper timing of disbursement of loans so as to increase client satisfaction. Borrowers may also be advised to invest in the most viable entrepreneurial activities in order to generate more returns which will facilitate their ability and capacity to pay back the borrowed funds.

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