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CREDIT RISK MONITORING AND FINANCIAL PERFORMANCE OF SACCOS: A CASE OF SELECTED SACCOS IN IBANDA MUNICIPALITY

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ABSTRACT : The study determined the effect of credit risk monitoring on financial performance SACCOs in Ibanda municipality. The study anchored of an objective; to determine the effect of credit risk monitoring on the financial performance of SACCOs in Ibanda municipality. The researcher used a cross sectional descriptive survey design with quantitative approaches of data collection and analysis. The study population comprised of employees of SACCOs in Ibanda municipality. In this study credit supervisors and loans officers were the key respondents. A sample of 88 respondents was used determined with the help of Yamane (1967) formula. Data was majorly collected using a questionnaire as a tool for quantitative data collection and analysis was done used a data management tool SPSS (Version 23) where descriptive and correlational statistics were derived to find out the relationship between the two variables under the study. The study results indicated a moderate significant positive relationship between credit risk monitoring and financial performance of SACCOs ($r = 0.473^{**}$, $p<.01$). The study recommended that there is a need for SACCOs to put in place credit risk strategy which can be followed to ensure that finances are not lost in courtesy of credit risk monitoring.

Keywords Creditrisk monitoring, Financial Performance, Sacco

I. INTRODUCTION

SACCOs are referred to as cooperative financial institutions that play the role of mobilizing the savings from the community members for safe custody at the same time giving out credit to those who look at money multiplier concept (Ndiege et al., 2016). SACCOS all over the world have played a great role in bridging the gap between the surplus spending units and the deficit spending units by ensuring the smooth circulation of money from one hand to another (Ajibola et al., 2020). SACCOS globally have led to economic growth and development by ensuring that the community members understand the concept of financial management and literacy hence improving the people's standards of living as a result of SACCO evolution globally (Ajibola et al., 2020).

In African countries, SACCOs have been looked as competing financial institutions with commercial banks and the community members credit the SACCOs because they are community based and therefore considers the locals in most case (Gaitho, 2010). In the same vein, SACCOs major aim is to make profits and keep sustained in the market of SACCO business and this calls for SACCOs to maintain strategies to ensure that the profitability level is granted at all time (Essendi, 2013). The profitability of the SACCO is mostly determine by the portfolio quality which grantees a SACCO to receive loan payments together with interest at the agreed time (Maina et al., 2016).

For SACCOs in east African countries, have lied strategies to ensure portfolio quality and loan repayment on time because it is basically what brings in profits to the SACCOs (Ssekiziyivu& Nabeeta, n.d.) these strategies are mostly concerned with the credit risk measures because it is through credit that the SACCO is able to earn profits (Hesborn et al., 2016). These credit risk measures have played a very big role in the financial sector regarding the SACCO financial operations to minimize the risks involved (Keben&Maina, 2018) credit risk management strategies are mostly implemented by the credit officers of a given financial institution to ensure that their minimum loan delinquency and that credit is only extended to capable clients to pay back their loans to the SACCO (Bwoma et al., 2017).

In east Africa currently, there is a rapid growth of SACCO business because has highly been adapted by the natives (Yitayaw, 2021). Therefore, the SACCOs are trying hard to maintain their status quo of financial performance too remain sustainable in the market and this has been as a result of managing credit related risks that would be compromising the profitability of the SACCOs (Magali, 2013)

In Uganda, the performance of SACCOs have remained undesirable (Nalusiba, 2019). According to Micro Finance Support Centre, the portfolio at risk of many SACCOs raised from 87% to 90% in 2015-2018 respectively. This was quite below the standard of less than 10%. For the same period, the coverage risk ratio reduced from 39% to 28% which indicates a worsening situation. This is quite below the recommended 50% and above. However, in only 2 years, over 20 SACCOS closed of their businesses after getting loans from MSC as a result of poor management (AMFIU report, 2018). Despite allot of effort made by Uganda Government and some stake holders to enhance Governance and management competency of SACCOS, the SACCOS performance in general remained low (Kule et al., 2020). The performance of SACCOS in Uganda continued to deteriorate, MSC reports, (2018-2020). The coverage risk ratio, the portfolio at risk and profitability continued to reduce for the years from 2017 to 2020. This portrayed a picture of SACCO performance below the required standards and there a need to find out the cause and the solution before the SACCO sector gets more financial challenges. In Ibanda district out of registered 94 SACCO's majority of them have collapsed due to poor management of credit risk a case in a point is Rushango SACCO in Rushango town council sub country which started with 400 members, but eventually they reduced to about 150 members only (UCA, report, 2017). And if these challenges are not given an in depth understanding and solutions, the financial sector is likely to collapse hence this study therefore determined the effect of credit risk monitoring on the financial performance of SACCOs in Ibanda Municipality.

II. STATEMENT OF THE PROBLEM

SACCOs in Uganda continues to register poor financial performance manifested by a high loan defaulting rate and poor portfolio quality (Performance Monitoring Tool 2016/2019/). Portfolio quality has deteriorated more rapidly in SACCOs than in traditional financial institutions due to the short-term and unsecured nature of micro lending, micro loan portfolios which tend to be more volatile (Lagat et al., 2013). According to the AMFIU Report (2018) most SACCOs in Uganda had large portfolios in arrears, with overdue loan repayments stretching back into the distant past mainly because lending policies were usually poorly enforced and systems to track and manage arrears hardly existed. During the period 2014-2018, SACCOs experienced a declining trend where loan recovery rate dropped by 38%, loan default standing at 42%, drop in profitability by 5%, portfolio at risk raised to 27%, rate of membership dropout at 31% (AMFIU,2018). This could all be blamed on the weaknesses in the credit risk management strategies utilized by the institutions. And if these challenges are not given an in depth understanding and solutions, the financial sector is likely to collapse hence this study therefore determined the effect of credit risk monitoring on the financial performance of SACCOs in Ibanda Municipality.

Study Purpose

This study purposed to determine the effect of credit risk monitoring on financial performance of SACCOs in Ibanda Municipality.

III. THEORETICAL LITERATURE REVIEW

The study was pinned on the modern portfolio theory which clearly shows how a given credit risk management strategy ensures minimization of loan default and encourages portfolio qualify for the better financial performance of an institution. Credit risk monitoring is one of the management strategies in relation to credit risk that helps much in controlling the risks faced by the SACCOs (Hesborn et al., 2016). The theory is very clear that portfolio can be termed as quality if the loan repayment rate is in accordance to the loan agreement between the lender and the borrower (Njogu&Omagwa, 2018). Credit monitoring in this case is very relevant in controlling and minimizing the default rate by the borrowers since it involves supervising the borrowers and perhaps guiding them on the usage of the loan to ensure timely payment (Makori&Sile, 2017). The theory clearly stipulates how no single business starts without projecting risks a head and therefore, must take and plan for the risk to continue in operation and for the case of SACCOs, credit risk management strategies are inseparable from the Sacco operations if it is to realize profits at the end of the period (Kariuki, 2017). When modern portfolio theory is well used and incorporated in all SACCO operations, then risks will be controlled to open clear ways for profitability to manifest itself in the possible time (Mamet, 2018)

The management of the SACCO should in relation to the modern portfolio theory, look into ways and strategies on how to control credit related risks in order to maximize profitability of the financial institutions (Shieler et al., 2017). Credit risk monitoring is one of the strategies a SACCO can used to control the loan default and financially realise profits (Juma et al., n.d.)

Credit Risk Monitoring and Financial Performance of Saccos.

Risk monitoring is the process of keeping a track record of risks regularly in order to set a risk management plan to minimize the severity of the risk in the long run (Riasi, 2018). Credit risk monitoring needs to be given a special attention by the risk management strategy implementer of a given financial institution since the SACCOs are mostly affected by credit risk (Kibui& Moronge, 2014). A credit risk management plan can be effectively implemented if the monitoring is very effective since it really makes ease for the financial institution to understand the nature of the risk hence finding appropriate measures of handling it (Fatma& others, 2018). Credit risk monitoring is very relevant in minimizing the loan default percentage among the borrowers hence it needs to be given ultimate attention to ensure that the clients pay the loans on the agreed time thus realizing profitability of the financial institution (Otieno et al., 2013). SACCOs mostly realize their profits through giving out credit and the borrowers pay on the stipulated time in the lending agreement. This grantees the profitability of the institution whenthe default rate is reduced and finally the interest earned on credit counts as the profits on loans (Essendi, 2013).

Economically, there is no business which can operate at zero rate of risk. This means it is only about taking calculated risks into a business and for the case of SACCOs, most risks are credit related thus credit risk monitoring reveals the extent to which an organization can handle the risks involved in operations (Faboyede et al., 2020). Identifying the risk in business is very important for guidance on how to come up with the risk management plan to ensure that it is minimized for the smooth operations of the business (Wanjala, 2020).Kalu et al., (2018), carried out a study on credit risk management and financial performance of micro finance institution in Kampala and found out that credit risk monitoring moderately affects financial performance of financial institutions and recommended that financial institution should take credit risk monitoring as a priority if they are to control and minimize the risks in favour of making profits for the institution. Shieler et al., (2017), conducted an undertaking on credit risk management and financial performance of microfinance institutions in Uganda an clearly found out that credit risk monitoring when given much attention by the implementers of credit risk management strategies, would contribute much towards ensuring a better financial performance of financial institutions and recommended that credit risk monitoring should be done regularly for batter financial performance of SACCOs.Every SACCO needs to have a credit risk manager whose role is to identify, monitor and control the risks to minimize operational loses and encourage profitability instead (Chege, 2016). It should be the risk manager on the fore front of risk control to ensure that all risks are monitored and controlled before they overwhelm and compromise the profitability of the financial institutions (Riasi, 2018). Magali(2013), carried out a study on the impact on credit risk management and profitability of rural savings and credit cooperatives and the finding recommended that there is a need for creditrisk monitoring together with follow up on the clients who take the loan to ensure they back on time. Credit should only be extended to clients who have been monitored to ensure that they have the capacity to pay back the loans for the benefit of the SACCO (Mwangi&Muturi, 2016). Credit assessment and monitoring should be done inclusively by the risk manager of a given institution to ensure that the client assessment report matches with the monitoring reports to no falsification of reports basing on individual relationship between the assessor and the client being assessed (Maina et al., 2016). When clients are well monitored concerning credit, their repayment rate is also stimulated hence they become compliant for the best of the financial institution (Isanzu, 2017). Risk management strategies need to be tailor made to suite the interest of the organization towards a better financial performance and this can only be achieved if there is proper risk monitoring (Yegon, 2014).

IV. METHODOLOGY

Research design: The study adopted a descriptive and analytical cross sectional survey design based on only a quantitative approach of data collection and analysis a questionnaire was employed to capture quantitative data from the respondents concerning the subject matter under study. The study population comprised of employees of SACCOs in Ibanda municipality. In this study credit supervisors and loans officers were the key respondents. There are 19 registered SACCOs in Ibanda municipality (Ibanda municipal council commercial office, 2019). However, for the purpose of this study, only SACCOs that have been in existence for the period greater than five years were considered due to the experience they are having in the business of credit risk management and how it has influenced their performance. This helped the researcher to get reliable and dependable information. The study considered employees of ISSIA SACCO, Ankole farmers SACCO, Bisheshe SACCO, Nyabuhikye SACCO, Allied entrepreneurs' SACCO; Kagongo peoples SACCO, Ibanda young entrepreneurs SACCO, EBO SACCO and Ibanda Begyesa SACCO. Target populations of 113 respondents were used in this study and weredetermined use random sampling techniques where the target population was stratified into strata of managerial and operational staff from whom the sample was gotten using simple random sampling by the help of krejcie and Morgan standard table of sample size determination which finally led to a sample of 88 respondents who participated in the study.

Data Collection Tool.

A five point Linkert scale questionnaire was employed by the study to collect data. It was self-administered to the respondents where it had statements to rate regarding credit risk monitoring and the financial performance as the variables of the study which were under consideration. The role of the respondents was to give their opinion on the statements given to them on the variables under consideration.

Measurement of Study Variables.

The variables of the study were credit risk monitoring as the independent variable and financial performance as the dependent variable. Credit risk monitoring was measured through identifying new risks, loan portfolio analysis and review credit collection policy whereas financial performance was measured through; profitability, financial sustainability, portfolio quality and market share.

Analysis of data collected.

Data was majorly collected using a questionnaire as a tool for quantitative data collection and analysis was done used a data management tool SPSS (Version 23) where descriptive and correlational statistics were derived to find out the relationship between the two variables under the study. The study findings were presented in form of mean and standard deviation, Pearson correlation was also used to derive conclusions on how credit risk monitoring affects financial performance of SACCOs.

Study results on credit risk monitoring and financial performance of SACCOs in Ibanda Municipality.

Findings on how participants responded and rated the questions presented to them on a five point Linkert scale are presented in a way that the mean of 3 and below indicated the level of disagreement by the respondents to the statements presented to the concerning the subject matter where as a mean above 3 clearly indicated the level of agreement with the statements presented to the respondents in the questionnaire given.

The descriptive statistical expression is here presented below about the credit risk monitoring and financial performance of SACCOs.

Credit risk monitoring	**Mean**	**Std.**
Our credit staff regularly make onsite visits to the loan clients	3.09	0.837
This SACCO ensures that there are effective clients -bank relationship to ensure effective credit monitoring	3.28	0.694
This SACCO tracks financial covenants of borrowers to ascertain their credit worthiness	3.67	0.866
This SACCO works handin handwith guarantorsto ensure effective loan monitoring	3.73	0.816
This financial institution constantly monitors collateral value against credit outstanding	3.07	0.654
This financial institution increases the frequency of monitoring business performance according to the seriousness of problem loans	3.06	0.681
This financial institution adequately monitors whether the terms and conditions stipulated at the time of loan approval are observed	3.91	0.772
This SACCO has an effective credit default assessment on the loans	3.85	0.565
Total score	27.66	5.885
Average score	3.46	0.736

Source: Primary Data, 2020

From the study findings indicate that the respondents were subjects to rating eight statements concerning credit risk monitoring and they were all rated by the respondents meaning the statements were easily understood and clearly interpreted. Concerning the mean, the total scores were taken to find out the average score which amounted to 3.46 above the minimum indicating that majority of the respondents agreed to the statements administered to them with a standard deviation of 0.736. Indicating that respondents deviated from the statements administered to them with a standard deviation of 0.264.
The above description shows that a relationship exists between credit risk monitoring and financial performance of SACCOs (Mean=3.46, Standard deviation 0.736)
The descriptive statistical expression is here presented below aboutthe financialperformance of SACCOs.

Financial performance of the SACCO	**mean**	**Std.**
The loan issuing capacity of this SACCO is steadily growing	3.56	0.599
This SACCOs has sufficiently enough operating income to cover the operational costs	3.25	0.585
This SACCO has capacity to finance its creditors	3.1	0.653
Our client base of the SACCO has increased in the last three years	3.04	0.671

Interest income on loans for this SACCO has increased for the last three years.	3.89	0.766
We reward our best performing Credit officers.	3.66	0.886
Our Clients are given rewards for the good loan repayments	3.04	0.698
This SACCO profits have increased for the last three years	3.18	0.584
Our Operation costs have reduced for last three years	3.04	0.652
Dividends for the shareholders have increased for the last three years	3.33	0.712
Total score	33.09	6.806
Average mean score	3.309	.6806

Source: Primary Data, 2020

From the study findings indicate that the respondents were subjects to rating ten statements concerning financial performance of SACCOs and they were all rated by the respondents meaning the statements were easily understood and clearly interpreted. Concerning the mean, the total scores were taken to find out the average score which amounted to 3.309 above the minimum indicating that majority of the respondents agreed to the statements administered to them with a standard deviation of 0.6806. This descriptive statistics indicate that there is financial performance among SACCOs in Ibanda Municipality (Mean=3.309, Standard deviation 0.6806).

Result Pearson correlation statistics.

		Credit risk monitoring	**Financial performance of SACCOs**
Credit risk monitoring	Pearson Correlation	1	.473**
	Sig. (2-tailed)		.000
	N	67	67
Financial performance of SACCOs	Pearson Correlation	.473**	1
	Sig. (2-tailed)	.000	
	N	67	67
****. Correlation is significant at the 0.01 level (2-tailed).**			

Source: Primary Data, 2020

Correlation results indicated a significant and moderate positive relationship between credit risk monitoring and financial performance of SACCOs (r = 0.473**, p<.01). This clearly implies that when credit risk monitoring strategy is well implemented by the credit risk manager and other considered SACCO administrators; it has the capacity to positively affect financial position by47.3%. This implies that a significant improvement in credit risk monitoring strategies positively impacts on financial performance of SACCOs.

V. DISCUSSION OF STUDY FINDINGS

Credit Risk Monitoring and Financial Performance of SACCOs in Ibanda Municipality.

From the findings of the study, it is revealed that credit risk monitoring positively affects financial performance of SACCOs in Ibanda municipality. Meaning that when credit risk monitoring strategy is well implemented, it has the capacity to positively affect the financial performance of the SACCO Business. Indicating that the monitoring of clients and SACCO business operation then there is minimum levels of loan default and hence granting profitability. The findings are in agreement with (Shieler et al., 2017) who conducted a study on credit risk management and financial performance of microfinance institutions in Uganda and found out that the construct of credit risk monitoring positively affects the financial performance of financial institutions.

Hesborn et al., (2016) also concluded that credit risk monitoring has a positive relationship with the financial performance of SACCOs and recommended for strengthening the credit risk strategies in order to realize profits for the financial institution.A study by (Kule et al., 2020) on credit risk management systems and financial performance also revealed finds which are in agreement with the present study findings that credit risk management systems positively affects the financial performance. This means that if SACCOs are to maintain the status quo of performing financial well, then the concept of credit risk needs to be given attention. (Korir& others, 2012) and (Muriki, 2017) also emphases the monitoring of borrowers so that there is minimum loan default for the better financial performance of financial institution through registering good portfolio quality for profitability purposes towards the performance of the institutions financially.

VI. CONCLUSION

From the study findings, it can be concluded there credit risk monitoring positively affects financial performance of SACCOs in Ibanda Municipality ($r = 0.473^{**}$, $p<.01$). it can therefore be noted that among the credit risk management strategies, credit risk monitoring play a great and positive role towards improving the financial performance of financial institutions.it does so simply because it's through monitoring the credit risk that the SACCOs can best select potential clients to access credit.

VII. STUDY RECOMMENDATIONS

Credit risk monitoring need to be given ultimate consideration by the SACCO management to ensure the quality of borrowers will grant portfolio quality and eventually a better financial performance for the sustainability and development of the financial institution. Information about the clients who intend to borrow from the SACCO should fully and critically be collected for proper credit assessment to minimize the default rates that may compromise the profitability of the SACCOs.

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