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Effect of Credit Risk Management on The Growth of Umurenge Saccos in Rwanda

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ABSTRACT

The study established the effect of credit risk management on the growth of Umurenge SACCOS in Kigali City and the Eastern province sectors in Rwanda. This study adopted a quantitative approach, and data were collected using Self-administration. A sample size of 84 participants. The results indicate that the independent variable has a positive high correlation to the dependent variable. The limitations include bias from the respondents and the study being conducted in only Umurenge SACCO'S in Rwanda in a few Sectors this, generalizes results difficult. Managers should establish strategies and prioritize risk management practices by implementing policies in place. The findings contribute to the literature on credit risk management in terms of the Central Bank of Kigali. The study also recommends that policymakers in the financial sectors develop guidelines on how SACCOs can go about managing credit risk as credit risk management to be able to enhance the growth of wealth in SACCOs. Previous similar research only studied how credit risk management affects loan performance and the growth of SACCOs in general and particularly in other countries. The ones carried out in Rwanda did not look at Umurenge SACCO's growth.

INTRODUCTION

Saving and credit cooperative societies (SACCOS) are organizations where members regularly pool their savings and consequently obtain loans which they may use for different purposes. The drive behind the establishment of SACCOS is to promote savings and make credits available to the members. They are important microfinance institutions that mobilize financial resources for various development activities, especially in rural areas where the majority of marginalized reside and earn their living from agriculture (Adeyemo, 2021). SACCOS are also vital in soothing the income of their members' households allowing members to borrow funds to augment their consumption or purchase household items that they are not able to afford right away and build capital that can be lent out at more affordable interest rates.(Anania & Gikuri, 2016) . Today SACCOs empower low-income earners to express their needs while also improving their living conditions. Most Sacco's in Uganda face poor financial results, shown by low return on assets, insufficient liquidity challenges, and high levels of risk in their loan

portfolio(Mmari & Thinyane, 2019). Most of the studies indicate that improper management, fraud, inadequate capital, business misconduct, and Non-Performing Loans (NPL) are the problems facing cooperatives and SACCOS in Rwanda. The challenges facing SACCOs are increasing day to day and these challenges are both internal and external. These challenges are preventing many SACCOs from gratifying the expectations that members have and which motivated their establishment. The possible impacts of such challenges are; poor provision of financial services, loss of members' funds, poor participation and commitment of members, withdrawal of members and members using services of other financial institutions, failure to face competition, internal conflicts, loss of SACCOS autonomy and excessive external dependency as well as feeling of lacking ownership and control by SACCOS members. (Benon et al., 2024). Risk management helps the SACCOs to grow and remain economically and financially viable. This growth is enhanced through effective credit risk management practices. Before the establishment of Umurenge Saving and Credit Cooperative in each administrative sector, the remote area of Rwanda experienced financial exclusion where many citizens had no access to financial services like savings and loans from financial institutions. However, since 2008, Umurenge Sacco has considerably boosted financial literacy in every corner of Rwanda.

LITERATURE REVIEW

Endogenous Growth Theory

Growth can be based on endogenous growth theory or neo-classical growth model. The neo-classical growth theory argues that the growth rate is exogenously determined using the Harrod Damar or the Solow model. Solow-Swan class growth theory, which focuses on capital and labor, indicates that capital is added when SACCOs invest but is lost due to depreciation. Thus, according to (Gardner, 2019) this implies that there is capital growth in wealth only when the investment exceeds depreciation investment should insist on keeping the capital growing to achieve capital growth. That increase in capital yields leads to an increase in the growth of SACCOs' Wealth. The theory explains growth as a factor of accumulation of capital. This model is strongly supported by Harrod Damar's Model of Development Economics (1946) which explains the growth rate in terms of saving and productivity of capital. It explains that increase in investment leads to the accumulation of capital. Therefore, this theory is very useful in the present study since the growth of Sacco is measured through the increase in membership as well as in savings. The capital of a Sacco comes from its members which means that both capital and members increase in the same direction. Their savings also facilitates Saccos to accumulate capital that enables the offering of credit and generating interest income as well as retained earnings that boost up their capital. However, this is possible when credit risk management practices are effectively implemented.

Credit Risk Theory

Although people have been facing credit risk ever since early ages, credit risk has not been widely studied until the last 30 years. Early literature (before 1974) on credit risk uses traditional actuarial methods of credit risk assessments, whose major difficulty lies in their complete dependence on historical data. Up to now, there are three quantitative approaches of analyzing credit risk: structural approach, reduced form appraisal and incomplete information approach (Chen, 2022).

Melton (1974) introduced the credit risk theory otherwise called the structural theory which emphases that the default event derives from a firm's asset evolution modeled by a diffusion process with constant parameters. Such models are commonly defined as "structural models "and are based on variables related to a specific issuer. An evolution of this category is represented by a set of models where the loss conditional on default is exogenously specific. In these models, the default can happen throughout the life of a corporate bond and not only in maturity (Long staff, 2020). Credit Risk theory also is another essential theory in this study since it deals with the effect of credit risk management practice on the growth of saving and Credit Cooperatives in Rwanda.

RELATED LITERATURE

Roselyne (2017) conducted a study to review the relationship between credit risk analysis and financial performance of Savings and Credit Cooperative Societies using descriptive design. She concluded that credit risk analysis has a positive relationship with the financial performance of SACCOs. The study also showed that the growth of SACCOs was related to the control of loan default by the stewards. The study did not explain how the growth of wealth would be achieved. The findings of this study relate to those of Kinuthia's (2017) management of loan default problems in SACCOs in Nairobi province that reported that the growth of SACCOs was related to the control of loan default by the stewards. Their study was conducted in Kenya whereas this current study is carried out in Rwanda which is a different context.

Wambugu (2020) conducted a study on credit risk management practices in SACCOs with Front Office Service Activity in Kenya, using exploratory and descriptive methodology. The study concluded that loan portfolio management, risk identification, risk analysis, and assessment as well as risk monitoring were instrumental in the credit risk management process. The study findings do not relate to our current study carried in Rwanda and focus on Umurenge SACCOs.

Olando, (2023) conducted study on determinants of the growth of SACCO's wealth. The study findings indicated that the Growth of Sacco's wealth depended on financial stewardship, capital structure, and funds allocation strategy. The study further found that SACCOs inadequately complied with their by-laws; incomes from investments did not adequately cover their costs. The study recommended that SACCO should; continuously review credit policies, establish irrecoverable loan provision policies, develop sound staff recruitment policies, and use an appropriate financing mix. It was also suggested that the Government should review the legal framework to ensure that institutional capital is used to grow SACCO's wealth.

Karekezi, (2018) investigated the relationship between credit risk management and loan performance with the case of Saccos in Kigali. The study findings show that there is a strong positive relationship between credit risk management and loan performance of Umurenge SACCOs ($r=0.704$, $p=0.000$). The study also reveals that credit risk management influences loan performance ($R2 =0.548$). Credit terms and collection policy are statistically significant, whereas client appraisal is statistically insignificant. SACCOs should maintain a high level of performance by applying all credit risk management practices. As much as this study looked at Umurenge SACCOs in Rwanda, it focused on loan performance, which differs in terms of the dependent variable, whereas the current study looks at SACCOs' Growth; thus, the findings will not be generalized.

METHODOLOGY

This study adopted both qualitative and quantitative research approaches (mixed-method research). The study used a sample size of 84 respondents to Krejcie and Morgan's (1970) table of Sample determination. Quantitative designs, such as a descriptive design, were adopted to describe the nature of the phenomenon under study. According to Levy (2009), a correlational design was adopted to explain the extent of the relationship between study variables. Statistical Package for Social Science

(SPSS version 20.0) was used for data analysis. Qualitative data were analyzed using content analysis, and common themes were generated.

Table 1. Sample size table determination of the Umurenge SACCO's

Provinces	**Districts**	**SECTOR/SACCO**	**Sample**	**Sampling technique**
Kigali	Gasabo	15	1	Simple random sampling
	Kicukiro	10	1	Simple random sampling
	Nyarugenge	10	1	Simple random sampling
Sub-total		**35**	3	Simple random sampling
Eastern Province				Simple random sampling
	Bugesera	15		Simple random sampling
	Kayonza	12		Simple random sampling
	Gatsibo	14		Simple random sampling
	Nyagatare	14	2	Simple random sampling
	Rwamagana	14	2	Simple random sampling
	Ngoma	14		Simple random sampling
	Kirehe	12		Simple random sampling
Sub-total		**95**	4	Simple random sampling
Total		**130**	**7**	Simple random sampling

RESULT

Under this section, researchers assessed and presented the profile of respondents in terms of age, gender, education, occupation, and length of experience.

Table 7 Demographic characteristics of respondents

Age	Frequency	Percent
Less than 30	15	17.9
31-40	37	44.0
41-50	20	23.8
51 and above	12	14.3
Total	84	100.0
Gender	Frequency	Percent
Male	51	60.7
Female	33	39.3
Education level	Frequency	Percent
Secondary level	34	40.5
Bachelor's degree	46	54.8
Master's level	4	4.8
Total	84	100.0
Occupation	Frequency	Percent
Senior manager	4	4.8
Manager	11	13.1
Loans officer	27	32.1
Members	42	50.0
Total	84	100.0
	Frequency	Percent
Less than 1 year	4	4.8
Between 1&2 years	17	20.2
3 years and above	63	75.0

Total	84	100.0

It was clear on table 7 that the majority of respondents 60.7% are male and 39.3% are female. The results demonstrate that 44% of the total respondents are in the range of 31-40. This is followed by between 41-50 years old, less than 30 years as well as 51 years old and above with 23.8%; 17.9%, and 14.3% respectively. The majority of respondents, representing 54.8%, have bachelor's degrees, followed by Secondary with 40.5%. Only 4.8% have a master's degree. The majority of respondents were members (50%). This is followed by loan officers; managers and senior managers with 32.1%; 13.1% and 4.8% respectively. The majority of respondents (75%) have been working with the studied Sacco's for 3 years or above. This is followed by those with working experience of 1 & 2 years (20.2% of the total respondents). Only 4.8% spent less than 1 year. Therefore, this proves the quality of the data provided by respondents since they know Sacco's understudy since they have worked with them from a long time ago.

Table 2. The effect of credit risk analysis practices

	Mean	**Std. Deviation**
A deep analysis of credit applicants' characters helps our Sacco to grant credit to the faithful person	4.7500	.43561
A deep analysis of loan repayment capacity helped our Sacco to recover almost all the granted amount together with interest	4.5357	.61008
Through the effective Collateral analysis, our Sacco easily gets back the granted amount together with interest when the borrower defaults on the loan	4.6548	.47830
Effective credit risk analysis boosts members' savings and number	4.4524	.50072
Valid N		

Table 8 show The perception of respondents towards the effects of credit risk analysis practices on SACCOs' growth in Rwanda. The majority of them confirmed that a deep analysis of credit applicants' characters helps their Sacco's to grant credit to the faithful person (mean=4.7500, STD=0.43561). This implies that loan officers as well as credit committees in the Sampled Sacco's carefully analyzed the characters of loan applicants with the main purpose of detecting their behaviors, especially on the issues of paying back the credit. This, in turn, helped Sacco to grant the loan to the right people who would bring back both the principal amount and interest. Consequently, this promotes the growth of SACCO by encouraging members to deposit more and attracting new members.

Table 9 The effect of credit risk monitoring practices

	Mean	Std. Deviation
Our Sacco has a continuous monitoring or early warning system built around key credit risk indicators	4.6548	.47830
Our Sacco always evaluates compliance with Credit prudential regulations to ensure members' deposit safety	4.5833	.49597
Periodic reviews of loan portfolios help our Sacco to identify high-risk accounts as early as possible	4.7500	.43561

Effective credit risk monitoring practices assure the security of members' deposits, which in turn motivates new membership and savings	4.5000	.50300
Valid N		

Relationship between Credit Risk Management and Growth of Saccos in Rwanda

Table 10 The relationship between the studied variables was done through correlation analysis and multiple regulations. Therefore, the results are presented in this section.

Table 10. The relationship between credit risk management practice and Sacco's Growth

		Credit risk management practice	Sacco's growth in Rwanda
Credit risk management practice	Pearson Correlation	1	.985**
	Sig. (2-tailed)		.000
	N	84	84
Sacco's growth in Rwanda	Pearson Correlation	.985**	1
	Sig. (2-tailed)	.000	
	N	84	84

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Primary Data 2025

Table 10. show The relationship between credit risk management practice and Sacco's Growth in Rwanda, whereby the respondent *N* is 84 and the significant level is 0.01. The results indicate that the independent variable has a positive high correlation to the dependent variable (equal to .985** and the p-value is .000, which is less than 0.01). When the *p-value* is less than the significant level, it proves that the variables are correlated. This means that there is a significant relationship between credit risk management practice and the growth of SACCO in Rwanda.

Table 11. Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	**T**	Sig.(p)
	B	Std. Error	Beta		
(Constant)	.347	.112		1.973	.106
Credit risk analysis	.162	.009	.444	1.815	.009
Credit risk monitoring	.282	.050	1.231	3.616	.036
Credit risk mitigation	.194	.017	1.075	3.159	.025

The results from the table 11 above regression equation demonstrate that holding Credit risk analysis, credit risk monitoring, and credit risk mitigation to a constant, Sacco's growth would be 0.347. A unit increase concerning credit risk analysis would lead to an increase in growth of Saccos by a factor of 0.162. A unit increase in credit risk monitoring would lead to an increase in Sacco's growth by a factor of 0.282, and also unit increase in credit risk mitigation would lead to an increase in Sacco's growth by a factor of 0.194. The study also found that all the p-values are less than 0.05, an indication that all the variables were statistically significant in influencing the growth of SACCO in Rwanda.

DISCUSSION OF THE FINDINGS

Regarding the effect of credit risk analysis practices on SACCOs' growth in Rwanda, it is clear that a deep analysis of loan applicants in Rwandan SACCOs is done, and this, in turn, leads to the growth of SACCOs in Rwanda. This helps Sacco's to grant the loans to the right person since they can screen the characters, background, capacity of paying back the loans granted, as well as collaterals. Consequently, this motivates members to save more and attract new members because the savings are effectively protected against any kind of risks and used to generate interest income. On the issues of the effects of credit risk monitoring practice on Sacco's growth in Rwanda, the results prove that Sacco's have a continuous monitoring system and this warns them on time about the credit risks that would affect the performance of granted loans. This is essential since it helps Sacco to always ensure compliance with central bank regulations against credit risks. This implies that credit risk monitoring helped the Sacco's under study to be prepared against credit risks as early as possible. On the matters of the effects of credit risk mitigation practices on SACCOs' growth in Rwanda, through risk mitigation strategies, SACCOs in Rwanda can avoid insolvency risk, and keep up their images, and all this ensures the security of members' savings. This, in turn, motivates members' savings and boosts the registration of new members.

After an analysis of the findings, researchers conclude that credit risk management practice is an essential determinant of the growth of SACCO in Rwanda. Through this, Sacco can detect the right person to grant the loan to and expect the payback. It also alerts the Sacco's about the risks that may occur as early as possible and prepares the strategies against them. Therefore, as a result, this increases the trust of members vis-a-vis how their savings are secured and used to generate interest, which in turn motivates them to save more. On the other side, new members are attracted by what the existing members gain from their savings and shares. Also, both correlation analysis and multiple regulation analysis show a positive relationship between the studied variables. Therefore, it is from that researcher confirmed that there is a significant relationship between credit risk management practice and Sacco's' growth.

CONCLUSION

The study concludes that credit risk management, with its concepts of credit risk analysis, credit risk monitoring, and credit risk mitigation, impacts the growth of Umurege SACCO. It is, therefore, imperative that SACCO's managers put in place Clear methods and policies to ensure effective risk analysis activities. This is because risk analysis assesses the level of an organization to credit risks. It is also important that the SACCOs take a critical look at their risk analysis approaches to ensure the outcomes of risk analysis are realistic.

Recommendations

From the foregoing discussion, the study makes the following:
Clear methods and policies to should be put into place to ensure effective risk analysis activities. This is because risk analysis assesses the level of an organization to credit risks. It is also important that the SACCOs take a critical look at their risk analysis approaches to ensure the outcomes of risk analysis are realistic. Risk monitoring, being a continuous process, should be implemented in a progressive manner that allows the SACCOs to understand their potential risk and hence guide in the use of other risk management activities.Lastly, the study recommends that policy makers in the financial sectors develop guidelines on how SACCOs can go about managing credit risk, as credit risk management can enhance the growth of wealth in SACCOs.

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