LOAN APPRAISAL PRACTICES AND LOAN PORTFOLIO PERFORMANCE AMONG SELECTED SACCOs IN NAKAWA DIVISION

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NOVEMBER, 2025

DECLARATION

I hereby declare that this dissertation is my original output and it has never been submitted to any other institution of learning for any award.

Signature:..... Date:.....

APPROVAL

This is to certify that this dissertation titled "*The relationship between loan appraisal practices and loan portfolio performance among selected SACCOs in Nakawa Division in KCCA*" has been done under our supervision and we now approve it for data collection.

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DEDICATION

I dedicate this dissertation to my beloved father Mr. Kiringa Nathan, my mother Mrs. Kiringa Betty, my husband Mr. Ojok Richard for their financial and moral support rendered to me throughout my academics.

ACKNOWLEDGEMENT

I invested a lot of effort in this dissertation since the inception level, however, it would not have been successful without the kind of support and help from my University Supervisors. I would like to convey my sincere gratitude to Dr. Nabukera Madinah and Dr. Omeke Michael for their professional guidance in developing this dissertation.

TABLE OF CONTENTS

DECLARATION ..... **i**

APPROVAL ..... **ii**

DEDICATION ..... **iii**

ACKNOWLEDGEMENT ..... **iv**

TABLE OF CONTENTS ..... **v**

LIST OF TABLES ..... **x**

LIST OF FIGURES ..... **xi**

LIST OF ACRONYMS ..... **xii**

ABSTRACT ..... **xiii**

CHAPTER ONE: INTRODUCTION **1**

1.1 Introduction 1

1.2 Background to the Study 2

1.2.1 Historical Background 2

1.2.2 Theoretical Background 4

1.2.3 Conceptual Background 5

1.2.4 Contextual Background 6

1.3 Problem Statement 8

1.4 General Objective of the Study 9

1.5 Objectives of the Study 9

1.6 Research Questions 9

1.7 Study Hypotheses 10

1.8 Conceptual Framework 10

1.9 Justification of the Study 13

1.10 Scope of the Study 13

1.10.1 Geographical Scope 13

1.10.2 Content Scope 14

1.10.3 Time Scope 14

1.11 Significance of the Study 14

1.12 Operationalized Definition of Key Terms 15

CHAPTER TWO: LITERATURE REVIEW 17

2.1 Introduction 17

2.2 Theoretical Review 17

2.3 Conceptual Review 18

2.3.1 Loan Appraisal Practices 18

2.3.2 Loan Portfolio Performance 20

2.4 Empirical Review 21

2.4.1 Borrower's Collateral and Loan Portfolio Performance of SACCOs 21

2.4.2 Borrower's Character and Loan Portfolio Performance of SACCOs 23

2.4.3 Borrower's Capacity and Loan Portfolio Performance of SACCOs 25

2.4.4 Borrower's Capital and Loan Portfolio Performance of SACCOs 27

2.5 Literature Gap 29

CHAPTER THREE: METHODOLOGY 31

3.1 Introduction 31

3.2 Research Design 31

3.3 Study Population 31

3.4 Sample Size Determination 32
3.5 Sampling Techniques and Procedure 32
3.6 Data Collection Method 33
3.7 Data Collection Instrument 33
3.8 Data Collection Procedure 34
3.9 Data Quality Control 34
3.9.1 Validity 34
3.9.2 Reliability 35
3.10 Data Analysis and Presentation 36
3.11 Measurement of Study Variables 37
3.11.1 Loan Appraisal Practices 37
3.11.2 Loan Portfolio Performance 37
3.12 Ethical Considerations 37
3.13 Limitations to the Study 38

CHAPTER FOUR: PRESENTATION, ANALYSIS AND INTERPRETATION OF STUDY FINDINGS 39

4.0 Introduction 39
4.1 Response Rate 39
4.2 Findings on the Bio-data of the Respondents 40
4.4 Descriptive Statistics Basing on the Study Variables 42
4.4.1 Responses for Loan Portfolio Performance of SACCOs 42
4.4.2 The responses for Collateral used by the Borrowers 44
4.4.3 The Responses for Borrower's Character 47

4.4.4 The Responses for Borrower's Capacity 49

4.4.5 The Responses for Borrower's Capital 52

4.5 Correlation Analysis 54

4.6 Regression Analysis 56

4.6.1 Linear Regression Analysis 56

4.6.2 Multiple Regression Analysis 59

CHAPTER FIVE: SUMMARY, DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS 61

5.1 Introduction 61

5.2 Summary of the Study Findings 61

5.2.1 Borrower's Collateral and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority 61

5.2.2 Borrower's Character and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority 62

5.2.3 Borrower's Capacity and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority 62

5.2.4 Borrower's Capital and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority 63

5.3 Discussion of the study findings 63

5.3.1 Borrower's Collateral and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority 63

5.3.2 Borrower's Character and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority 65

5.3.3 Borrower's Capacity and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority 66

5.3.4 Borrower's Capital and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority 67

5.4 Conclusions 69

5.5 Recommendations 70

5.6 Areas for further research 71

REFERENCES 72

APPENDICES 82

Appendix I: Consent form for participants 82

Appendix II: Questionnaire for Data Collection 84

LIST OF TABLES

Table 3. 1:Validity Test of Tools....35

Table 3. 2: Reliability Test of Tools....36

Table 4.1:Gender of Respondents....40

Table 4.2:Age Bracket of Respondents....41

Table 4.3: Education Level Attained by Respondents....41

Table 4.4: Period Spent Working with the SACCO....42

Table 4.5: Responses for Loan Portfolio Performance....42

Table 4.6: Responses for Collateral used by the Borrowers....45

Table 4.7: Responses for Borrower's Character....47

Table 4.8: Responses for Borrower's Capacity....50

Table 4.9: Responses for Borrower's Capital....52

Table 4.10: Correlation Results on Relationship Between Variables....55

Table 4. 11: The Predictive Potential of Collateral on Loan Portfolio Performance....56

Table 4. 12: The Predictive Potential of Character on Loan Portfolio Performance....57

Table 4. 13: The Predictive Potential of Capacity on Loan Portfolio Performance....58

Table 4. 14: The Predictive Potential of Capital on Loan Portfolio Performance....58

Table 4. 15: Multiple Regression Analysis....59

LIST OF FIGURES

Figure 1. 1: Conceptual Framework 11

LIST OF ACRONYMS

CAR	Capital Adequacy Ratio
CVI	Content Validity Index
KCCA	Kampala Capital City Authority
ROSCAs	Rotating Savings and Credit Associations
SACCOs	Savings and Credit Cooperative Societies
SPSS	Statistical Package for Social Scientists
UCSCU	Cooperative Savings and Credit Union
VSLAs	Village Savings and Loan Associations

ABSTRACT

This study examined the relationship between loan appraisal practices and loan portfolio performance among selected Savings and Credit Cooperative Societies in Nakawa Division in Kampala Capital City Authority. Specifically, the study was guided by four objectives which included examining the relationship between collateral and loan portfolio performance among selected SACCOs, the relationship between borrower's character and loan portfolio performance among selected SACCOs, the relationship between borrower's capacity and loan portfolio performance among selected SACCOs and relationship between borrower's capital and loan portfolio performance among selected SACCOs. A cross sectional survey utilizing quantitative approach was adopted. The study targeted 242 participants but 207 responded to the study adequately. Questionnaire was used to collect and data was analyzed using SPSS Ver.23. The findings revealed that the combined factors of loan appraisal practices, including collateral (B=.909, $p = .000 < 0.05$), character (B = .813, $p = .000 < 0.05$), capacity (B= .926, $p = .000 < 0.05$), and capital (B=.931, $p = .000 < 0.05$), had a significant positive influence on loan portfolio performance. The study recommended that SACCOs implement stringent insurance requirements for all collateral assets, SACCOs revise their loan approval processes to incorporate these critical evaluations and SACCOs need to implement rigorous assessment protocols to thoroughly review the employment status and job nature of loan applicants to better understand their income stability and repayment capacity. It was also recommended that SACCOs should effectively evaluate the borrower's net worth, which includes assets and liabilities it will provide a clearer picture of their financial stability and ability to repay the loan.

CHAPTER ONE: INTRODUCTION

1.1 Introduction

This study examined the relationship between loan appraisal practices and loan portfolio performance in SACCOs in Uganda focusing on selected SACCOs in Nakawa Division in Kampala Capital City Authority. Loan appraisal Practices was the independent variable whereas loan portfolio performance was the dependent variable. World over, credit has proved to be the most critical of all risks faced by financial institutions especially Savings and Credit Cooperative Societies. A study of financial institutions failures in New England found that, of the 62 financial institutions in existence before 1984, which failed from 1989 to 1992 in 58 cases it was observed that loans and advances were not being repaid in time (Caprio & Kilngbiel, 2012). Credit management in the SACCOs sector today has taken a different dimension from what it used to be. The financial industry has adopted a lot of strategies in checking credit management in order to stay in business. Though the financial industry over the years has lost large amount of money as a result of the turning source of credit exposure and taken interest rate position. Savings and Credit Cooperative Societies worldwide are now being required in the market because of their competence to provide financial inclusion, market knowledge and funding capability. To perform these roles, SACCOs act as the most important participants in their transaction process of which they use their own balance sheet to make it easier and making sure that their associated risk is absorbed (Besley, 2008). This chapter therefore presents the background to the study, problem statement, general objective of the study, specific objectives of the study, research questions, research hypotheses, conceptual framework, justification, scope of the study, significance of the study and operationalized definition of key term used in the study.

1.2 Background to the Study

The background to the study was presented following the order of historical background, theoretical background, conceptual background and contextual background;

1.2.1 Historical Background

The concept of lending has a long history, dating back thousands of years, with evidence of lending activities in ancient civilizations. In ancient Mesopotamia, for example, loans were extended to farmers for agricultural purposes (Jaggi, 2018). These early lending practices established the foundation for modern loan portfolio evaluation and management. With the rise of commercial banking in the 16th to 18th centuries, particularly in England during the time of King George VI, the importance of assessing loan portfolio performance became critical. As banks aimed to maximize profits through extending credit, the need for effective credit risk management became evident (Brownbridge, 1998). The development of methods to evaluate loan portfolio quality allowed banks to better manage risks and measure loan performance (Hendricks & Mistrulli, 2016).

By the 19th century, during the Industrial Revolution, the banking industry had evolved significantly, focusing on credit innovations to enhance loan portfolio performance. However, weaknesses in credit management became evident. In New England, for instance, of the 62 banks that existed before 1984 and experienced failure between 1989 and 1992, 58 struggled with timely loan repayments, which negatively impacted their loan portfolios (Caprio & Klingbiel, 2012). The inefficiencies in credit risk management led to substantial changes in the 1990s, including the establishment of credit management divisions aimed at assessing and mitigating risks, which directly contributed to improved loan portfolio performance (Economic Intelligence Unit Report, 2009).

The lack of proper credit risk management systems remained a challenge, as seen in the volatility of financial markets in the late 1990s, where banks without strong credit risk management experienced significant loan portfolio losses (Bofondi & Gobbi, 2003). In Sub-Saharan Africa, the increasing credit risks in financial institutions have threatened loan portfolio performance since the early 20th century (Jean-Philippe, 2016). Poor credit management practices contributed to the rise in non-performing loans across the region. By 2017, 23% of loans in banking sectors in Ghana, Nigeria, and Angola were classified as non-performing, significantly impacting overall loan performance (Nsobilla, 2015). Similarly, in Kenya, the Portfolio at Risk (PAR) increased from 12.7% in 2019 to 13.1% in 2020, illustrating how inadequate credit risk management can result in poor loan portfolio performance (Central Bank of Kenya, 2020).

In Uganda, the collapse of banks like Greenland Bank in 1998 and Crane Bank in 2016 has been largely attributed to poor credit risk management and a surge in non-performing loans, which severely affected their loan portfolios (Bank of Uganda Report, 1999; Senyonyi, 2018). Crane Bank's non-performing loans surged by 122.9% from Shs.19.36 billion in 2014 to Shs.142.3 billion in 2015, leading to its downfall (Senyonyi, 2018). These trends have not only impacted banks but also Savings and Credit Cooperative Societies (SACCOs) in Uganda, where inadequate loan appraisal practices have been linked to declining loan portfolio performance. This context underscores the critical importance of understanding the relationship between loan appraisal practices and loan portfolio performance among SACCOs, particularly in Nakawa Division, In Kampala Capital City Authority, where effective loan appraisal is key to enhancing loan portfolio quality and mitigating the risk of non-performing loans.

1.2.2 Theoretical Background

The study was anchored on the credit risk theory. The theory was advanced by Edward Altman in 1968. The theory incorporates financial ratios to assess a borrowers' creditworthiness and the likelihood of default. Theory contributed to the understanding of credit risk assessment and its implications for loan portfolio performance (Altman, 1968). It assumes that lending involves an inherent risk of default, which can lead to financial losses for the lender. It posits that credit risk arises from the uncertainty surrounding the borrower's ability to repay the loan and fulfill their contractual obligations (Altman, Sabato & Esentato, 2016). This theory takes into account various factors that affect credit risk, including the borrower's financial health, industry conditions, macroeconomic factors, and the terms and conditions of the loan agreement (Altman, Sabato & Wilson, 2017b). One of the strengths of the Credit Risk Theory is its ability to provide a structured framework for assessing and managing credit risk. By analyzing the factors that influence credit risk, lenders can make informed decisions about loan approvals, pricing, and risk mitigation strategies (Altman, Sabato & Wilson, 2017b). The theory helps in the development of credit scoring models and credit risk measurement techniques, which enable lenders to quantify and monitor the credit risk in their loan portfolios.

However, the Credit Risk Theory has also faced criticisms and limitations. One criticism is that it assumes a stable and efficient market, which may not always reflect reality. In times of economic turmoil or financial crises, credit risk can be amplified, and the assumptions of the theory may not hold (Ijaz et al., 2013). Additionally, the theory assumes that all relevant information is known and available, which may not always be the case (Ijaz et al, 2013). As a result, credit risk assessment can be subject to informational asymmetry and moral hazard problems. However, this theory is relevant in this study since it provides a framework to

understand the credit risk associated with loans granted by SACCOs and to evaluate the effectiveness of their loan appraisal practices. By analyzing the factors that contribute to credit risk and evaluating the loan portfolio performance, SACCOs can identify areas for improvement in their lending practices.

1.2.3 Conceptual Background

The study considered two concepts of loan portfolio performance and loan appraisal practices. Loan portfolio performance refers to the measurement and evaluation of the overall quality, profitability, and risk associated with a financial institution's portfolio of loans (Ben Naceur, 2018). It assesses the effectiveness of lending activities and the ability of borrowers to repay their loans. The performance of a loan portfolio is critical for financial institutions as it directly impacts their profitability, stability, and ability to fulfill their financial obligations (Lambert, 2018). In this study, loan portfolio performance is looked at loan portfolio growth, loan recovery rate and returns on loans.

According to Dummer et al. (2018) loan appraisal practices refer to the systematic evaluation and assessment of loan applications and borrowers to determine their creditworthiness and the associated risks. These practices involve the collection and analysis of information to make informed decisions regarding loan approval, terms, and conditions. In this study, loan appraisal practices were looked in form of collateral security, borrower's character, borrower's capacity and borrower's capital.

According to Moosa (2018) collateral security refers to assets or property provided by the borrower as a form of security or guarantee for the repayment of a loan. In the event of default, the lender can seize and sell the collateral to recover the outstanding loan amount. In this study,

it will be looked at in form of assets market value, risk of depreciation and asset stability. Petri (2015) defined borrower's character as the borrower's reputation, integrity, and creditworthiness. It reflects the borrower's willingness to meet financial obligations and fulfill contractual commitments. In this study, it was looked at in form of credit history, employment stability and recommendation of the borrowers. Dummer et al., 2018) defined borrower's capacity as borrower's ability to repay the loan based on their income, cash flow, and financial resources. Lenders evaluate the borrower's capacity by analyzing their financial statements, income sources, debt-to-income ratio, and other financial obligations. However, in this study it was looked at as income stability, debt-to-income ratio and business cash flow. Furthermore, borrower's capital, also known as equity, represents the borrower's financial stake or investment in a project or business. It refers to the borrower's own funds or assets contributed to the venture (Moosa, 2018). Lenders consider the borrower's capital as an indicator of their commitment to the loan and their ability to absorb potential losses. Higher levels of borrower's capital can provide additional security to lenders (Petri, 2015). In this study, it was taken as business equity, business assets and business network.

1.2.4 Contextual Background

The study was conducted in Savings and Credit Cooperative Societies (SACCOs) in Nakawa Division in Kampala Capital City Authority. SACCOs in Uganda have their roots in the cooperative movement, which gained momentum during the colonial period. The first recorded SACCO in Uganda, St. Joseph's Co-operative Credit Society, was established in 1904 in Masaka District (Kyazze, 2013). The cooperative movement continued to grow, and by the 1960s, there were several agricultural and marketing cooperatives operating in the country (Kasiita, 2011). However, it was in the 1970s and 1980s, during the economic hardships and political instability,

that SACCOs gained prominence as a means to provide financial services to rural and urban populations (Nyende & Bamwenda, 2017).

The regulatory framework for SACCOs in Uganda has evolved over time. The enactment of the Cooperative Societies Act of 1991 provided a legal foundation for the operations of SACCOs (Nyende & Bamwenda, 2017). Subsequently, the government established the Uganda Cooperative Savings and Credit Union (UCSCU) in 2005 as the apex body responsible for supervising and promoting SACCOs (Kasiita, 2011). SACCOs in Uganda serve as important financial intermediaries, mobilizing savings from members and providing affordable credit facilities. They play a significant role in poverty reduction, financial inclusion, and socio-economic development by offering accessible financial services to individuals, micro and small enterprises, and other cooperative societies (Nyende & Bamwenda, 2017; Kasiita, 2011). SACCOs also provide other services such as insurance, education, and entrepreneurship training (UCSCU, 2018).

In Uganda, most Cooperative Societies have registered huge non-performing loans over time since 2011 and has been even worsened due to Covid-19 pandemic thus adversely affected Uganda's banking industry (Matovu, 2020). Total assets of credit extending institutions grew by 18.2 percent from Uganda shillings 30.1 trillion in 2019 to Uganda shillings 35.8 trillion in 2020 largely due to increased lending activity, loans and advances increased by 14% from 13.6 trillion in 2019 to 15.5trillion in 2020 while at the same time non-performing loans increased from 3.8% to 6.0% as a result of huge non-performing loans and increased bad loans written off (Bank of Uganda, 2020). Hence a need to carry out a study to examining the relationship between loan appraisal practices and loan portfolio performance among selected SACCOs while using SACCOs in Nakawa division in In Kampala Capital City Authority as a case study.

1.3 Problem Statement

Savings and Credit Cooperative Societies (SACCOs) play a vital role in promoting financial inclusion and providing access to credit for low-income individuals and small businesses across the Globe. Savings and Credit Cooperative Societies like other financial institutions, rely heavily on loans extended to clients as a primary source of income to sustain their operations (Semwogere, 2020)

However, SACCOs, face challenges of low recovery rates, low returns on loans, due to poor loan portfolio management (Uganda Debt Network, 2019), which can impact their sustainability and effectiveness.

Reports indicate that the non-performing loan rate among Uganda SACCOs increased from 5.8% in 2018 to 7.6% in 2020, further threatening the survival of many institutions (Bank of Uganda, 2020). In Nakawa Division, in Kampala Capital City Authority, the problem is even more alarming. SACCOs in the area have one of the highest collapse rates in Uganda, with 47% of SACCOs in Nakawa ceasing operations due to poor loan portfolio performance (Uganda Debt Network, 2019).

Loan recovery rates in SACCOs within Nakawa declined from 6.0% to 3.8%, with some SACCOs like Nakawa Community SACCO reporting average loan recovery rates of 10-20%, an indicator of poor loan portfolio performance (Uganda Debt Network, 2019). Despite SACCOs' efforts to improve loan appraisal practices by evaluating borrowers using the 5Cs (collateral, character, capacity, and capital) to mitigate risk, these SACCOs continue to struggle with high rates of loan defaults and delinquencies (Muhirwe & Byaruhanga, 2019). Therefore, this prompted the researcher to examine the relationship between loan appraisal practices and

loan portfolio performance among selected Savings and Credit Cooperative Societies in Nakawa Division in Kampala City Authority.

1.4 General Objective of the Study

To examine the relationship between loan appraisal practices and loan portfolio performance among selected Savings and Credit Cooperative Societies in Nakawa Division in Kampala Capital City Authority.

1.5 Objectives of the Study

The study was guided by the following objectives;

1) To examine the relationship between collateral and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority
2) To examine the relationship between borrower's character and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority
3) To examine the relationship between borrower's capacity and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority
4) To examine the relationship between borrower's capital and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

1.6 Research Questions

The study was guided by the following research question;

1) What is the relationship between collateral and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority?
2) What is the relationship between borrower's character and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority?

3) What is the relationship between borrower's capacity and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority?

4) What is the relationship between borrower's capital and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority?

1.7 Study Hypotheses

H_{o1}. There is no significant relationship between collateral and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

H_{o2}. There is no significant relationship between borrower's character and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

H_{o3}. There is no significant relationship between borrower's capacity and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

H_{o4}. There is no significant relationship between borrower's capital and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

1.8 Conceptual Framework

Below is the conceptual framework show the link between constructs of loan appraisal practices and loan portfolio performance.

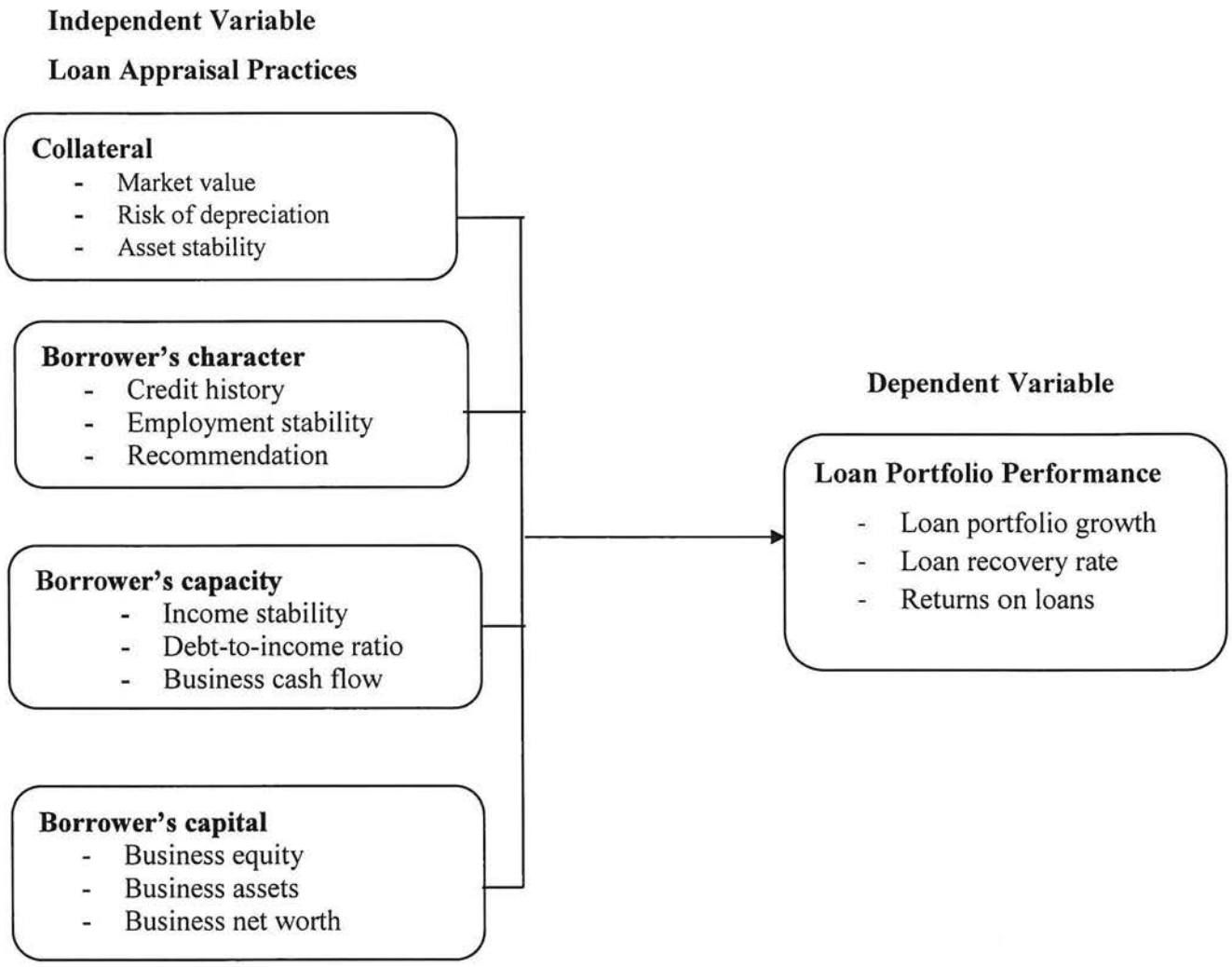

Figure 1.1: Conceptual Framework

Sources: Adapted from Pandey (2010) and Gichuhi & Omagwa (2020) with modification by the Researcher (2023

The conceptual framework presented identifies loan appraisal practices as the independent variable, encompassing key components such as collateral, character, capacity, and capital. Each of these elements plays a crucial role in the lending process. For instance, collateral is often emphasized as a significant factor influencing loan performance. According to Amugsi and Adjasi (2019), the presence of collateral significantly reduces loan default rates in SACCOs,

enhancing overall loan portfolio performance. By securing loans with collateral, borrowers demonstrate a commitment to repayment, thereby improving the likelihood of loan recovery. This underscores the importance of collateral in effective loan appraisal practices.

Character, another critical aspect of loan appraisal, refers to the borrower's creditworthiness and reliability. Research by Mambo and Ncube (2018) indicates that lenders who assess a borrower's character are better positioned to predict repayment behavior. This study suggests that understanding the borrower's past financial behavior and personal integrity can lead to better loan portfolio outcomes. Character assessments can help SACCOs minimize risks associated with lending, thereby enhancing loan recovery rates and overall portfolio performance.

Capacity, which assesses a borrower's ability to repay a loan based on income and existing debt levels, is also integral to loan appraisal. In their study, Karimov, Khan, and Ibragimov (2018) found that evaluating a borrower's financial capacity significantly correlates with loan repayment success. By understanding a borrower's financial situation, SACCOs can make informed decisions regarding loan approvals and amounts, leading to improved loan portfolio growth. This highlights the necessity of capacity assessments in effective loan appraisal practices.

Capital which focuses on borrower's net worth or financial stability, is another vital component influencing loan performance. Research by Kaur (2020) emphasizes that borrowers with stronger capital positions tend to have better repayment rates, contributing to healthier loan portfolios. The study illustrates that assessing a borrower's capital provides insights into their financial resilience, which is crucial for lenders aiming to optimize loan portfolio performance. Thus, capital evaluation is a key factor in ensuring comprehensive loan appraisal practices.

1.9 Justification of the Study

SACCOs like other financial institution strive to achieve good loan portfolio performance, and to ensure this, they employ various loan appraisal practices, commonly known as the 5Cs, to ensure loans are allocated to suitable borrowers and achieve 100% loan recovery. However, numerous SACCOs in Uganda have been grappling with loan defaults and delinquencies. Although several studies have examined loan appraisal practices (such as; Thapa, Sapkota, & Pradhan, 2021; Jaiswal, Chandran, & Prasad, 2021; Dewan and Das, 2020; Kaur et al., 2020; Amugsi & Adjasi, 2019; Karimov, Khan, and Ibragimov, 2018; Yee, Kueh, and Liew, 2018; Cull, Demirgüç-Kunt, & Morduch, 2018; Amankwah-Amoah, 2018; Latif et al., 2017; Hassan, Hossain, & Mahdee, 2016), most of them were conducted outside Uganda. Moreover, the limited studies carried out within Uganda mainly focused on SACCOs in In Kampala Capital City Authority more specifically in Nakawa Division. As a result, there was a dearth of information regarding loan appraisal practices and loan portfolio performance in Uganda, creating a significant literature gap in this area. Therefore, it was necessary to loan appraisal practices and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

1.10 Scope of the Study

1.10.1 Geographical Scope

The study was carried out among the selected SACCOs in Nakawa Division in Kampala Capital City Authority. Nakawa Division is one of the five divisions that make-up In Kampala Capital City Authority. Nakawa Division lies in the eastern part of the city, bordering Kira Town to the east, Wakiso District to the north, Kawempe Division to the north-west, Kampala Central Division to the west, Makindye Division across Murchison Bay to the south-west and Lake

Victoria to the south. The coordinates of the division are 0°20'00.0"N, 32°37'00.0"E (Latitude: 0.333333; Longitude: 32.616667). The study was conducted in Nakawa Division of in Kampala Capital City Authority, because it had majority of SACCOs that experiences poor loan portfolio performance in In Kampala Capital City Authority (Co-operative Societies of Uganda Report, 2022).

1.10.2 Content Scope

The study examined the relationship between loan appraisal practices and loan portfolio performance among selected SACCOs. However, specific attention was put on how collateral security, borrower's character, borrower's capacity and borrower's capital related with loan portfolio performance. This helped SACCOs to know where gaps are during loan appraisal. This was awake them up to bridge such gaps to promote good loan portfolio performance.

1.10.3 Time Scope

The study was conducted between the months of April 2024 to November 2024. The study focused on literature between the period 2018-2022. This was the period when there have been increased cases of loan defaults and delinquency in many SACCOs in Nakawa Division despite having loan appraisals practices in place.

1.11 Significance of the Study

The study may be of significance in the following ways:

Policy Makers: The findings of the study may provide valuable insights to policy makers in shaping regulatory frameworks and policies related to loan appraisal practices in SACCOs. Understanding the factors that contribute to loan portfolio performance by Bank of Uganda,

Ministry of Trade and Microfinance Support Center may help in formulating effective guidelines and regulations that enhance the stability and sustainability of SACCOs.

SACCOs: The study may directly benefit SACCOs by offering evidence-based recommendations to improve their loan appraisal practices. By understanding the impact of different appraisal practices on loan portfolio performance, SACCOs may enhance their risk management strategies, reduce loan defaults, and improve their overall financial health.

Development Partners: The study's findings may inform partners such as funders about the key aspects of loan appraisal practices that influence loan portfolio performance. This knowledge may guide their support programs and interventions, leading to better outcomes and improved financial services for SACCO members.

Academia: The study contributes to the existing academic literature by exploring the relationship between loan appraisal practices and loan portfolio performance specifically in SACCOs. It may add to the knowledge base and serve as a reference for future research in this field.

1.12 Operationalized Definition of Key Terms

Borrower's Capacity: This refers to the borrower's ability to repay a loan, considering their income, cash flow, and existing financial obligations.

Borrower's Capital: This refers to the financial resources or equity that a borrower has invested in their business or assets.

Borrower's Character: This refers to the borrower's creditworthiness based on their reputation, past loan repayment behavior, and personal integrity.

Borrower's Collateral: This refers to the tangible or intangible assets that a borrower pledges as security for a loan.

Loan Appraisal Practices: These are specific actions and criteria employed by the SACCOs to evaluate the creditworthiness and risk associated with potential borrowers before granting them a loan.

Loan portfolio performance: This refers to the measurable indicators and metrics used to assess the effectiveness and profitability of the SACCO's loan portfolio.

SACCO: This is a member-based financial cooperative institution that mobilizes savings from its members and provides credit and other financial services to its members.

loan repayment capacity (Altman, Sabato & Wilson, 2017b). By incorporating the credit risk theory, the study gained valuable insights into the assessment of loan appraisal practices and their impact on loan portfolio performance among selected Savings and Credit Cooperative Societies.

Nonetheless, the Credit Risk Theory has encountered criticisms and limitations. One critique suggests that the theory assumes the existence of a stable and efficient market, which may not always align with reality. During periods of economic turmoil or financial crises, credit risk can escalate, challenging the validity of the theory's assumptions (Ijaz, Hunjira, Hameed & Maqbool, 2013). Furthermore, the theory assumes the availability of all pertinent information, which may not consistently hold true (Ijaz et al., 2013). Consequently, credit risk assessment can be susceptible to issues of informational asymmetry and moral hazard. Nevertheless, in the context of this study, the theory remains pertinent as it offers a framework to comprehend the credit risk associated with loans extended by SACCOs and assess the effectiveness of their loan appraisal practices. Through an examination of the factors influencing credit risk and an evaluation of loan portfolio performance, SACCOs can identify areas for enhancing their lending practices.

2.3 Conceptual Review

This section captures a brief review on the study variables.

2.3.1 Loan Appraisal Practices

Loan appraisal practices are an essential part of the lending process, enabling financial institutions to assess the creditworthiness of borrowers and make informed decisions regarding loan approvals Amidu, M., Abor, J., & Issahaku, H. (2018). The loan appraisal practices

consider the 5Cs which include Collateral, Capacity, Character, Capital and Condition. These loan appraisal practices when utilized effectively contribute to the overall quality of loan portfolios by minimizing credit risk and reducing the likelihood of loan defaults.

Collateral

Collateral is an important concept in lending and refers to assets or property that borrowers pledge to secure a loan. It serves as a form of security for lenders, providing a means to recover their funds in case of borrower default (Bester, 2019). Furthermore, Bester (2019) revealed that it provides lenders with a form of assurance or recourse in case of borrower default. It acts as a risk mitigation tool, enabling lenders to recover a portion or the entire loan amount by liquidating the pledged assets and helps to protect the lenders against potential losses and reduces the overall credit risk associated with lending. Collateral can take various forms, depending on the nature of the loan and the borrower's assets. Common types of collateral include real estate, vehicles, equipment, inventory, accounts receivable, and cash deposits (Bester, 2019). The acceptability and valuation of collateral depend on factors such as market liquidity, legal enforceability, and potential.

Borrower's character

The borrower's character is a crucial factor in determining their creditworthiness. Lenders assess the borrower's character to gauge their trustworthiness, reliability, and commitment to meeting loan obligations. The borrower's character can be looked at inform of personal attributes, integrity, and reputation, which are considered in the lending process to assess their creditworthiness and willingness to repay loans (Coleman, 2013). Positive character traits indicate a borrower's willingness and likelihood of repaying the loan, thus reducing the risk of default

Borrower's capacity

Lenders evaluate the borrower's income and cash flow to determine their capacity to service the loan. The borrower's capacity shows the ability to generate sufficient income or cash flows to repay a loan. It is a critical factor considered by lenders during the loan appraisal process to assess the borrower's creditworthiness and repayment capability (Coleman, 2013). This analysis involves reviewing the borrower's income statements, tax returns, bank statements, and other financial documents (Amidu, Abor & Issahaku, 2018). Lenders assess the stability, consistency, and adequacy of the borrower's income to meet the loan repayment obligations.

Borrower's capital

Lenders appraise the borrower's capital contribution to assess their commitment and financial stake in the loan. Borrower's capital is looked at in form the financial resources and equity that a borrower contributes to a loan transaction. It is an essential factor considered by lenders during the loan appraisal process to assess the borrower's financial strength and ability to support the loan. The capital contribution can be in the form of cash, savings, investments, or equity in assets (Coleman, 2013). A higher capital contribution demonstrates the borrower's financial strength and reduces the lender's risk.

2.3.2 Loan Portfolio Performance

Loan portfolio performance is a crucial indicator of the effectiveness of a lender's lending practices and the creditworthiness of its borrowers. It considers the overall quality and profitability of a lender's loan portfolio (Bannier et al., 2018). Furthermore(Bannier et al., 2018)opines that it looks at the number of clients applying for a loan, how much they are borrowing, timely payments of installments security pledged against the borrowed funds, rate of arrears recovery and the number of loan products on the chain. Nonetheless, (Borio et al.2020)

suggests that the survival of any financial institution depends entirely on successful lending program that revolves around loan repayment management made to them by the clients through use of a restrictive credit control system to restrain from unnecessary lending thus improving on loan portfolio growth, loan recovery rate and returns on loans.

2.4 Empirical Review

The literature under study was reviewed according to the study objectives

2.4.1 Borrower's Collateral and Loan Portfolio Performance of SACCOs

According to Amugsi and Adjasi (2019) highlight that collateral security significantly affects loan default rates in SACCOs, as it provides an additional layer of security. When borrowers pledge collateral, they become more responsible and are less likely to default to avoid losing their assets. The provision of collateral reduces credit risk and enhances loan portfolio performance. Similarly, Mambo and Ncube (2018) found that in Kenyan SACCOs, collateral plays a vital role in minimizing default rates, thereby improving loan portfolio performance. Likewise, Muhirwe and Byaruhanga (2019) demonstrated that in Ugandan SACCOs, collateral improves portfolio performance by reducing the risk of default. This information is highly relevant to the study of collateral and loan portfolio performance in SACCOs, as it underscores how collateral can mitigate credit risk and improve repayment discipline.

Kioko (2016) emphasizes the role of collateral in credit risk management, especially within SACCOs that often rely on mutual trust among members. Collateral serves as an essential tool for risk mitigation, protecting SACCOs from potential loan losses. Effective credit risk management entails evaluating the quality and value of collateral to ensure that it adequately covers the loan amount. Similarly, Karimov et al. (2018) reveal that collateral offers tangible

security, enabling SACCOs to mitigate credit risks by setting appropriate loan-to-value (LTV) ratios. The relevance of this information to collateral and loan portfolio performance is clear, as it highlights the protective measures that SACCOs employ to safeguard their financial health through proper collateral evaluation and management.

Amankwah-Amoah (2018) discusses group-based lending methodologies in African SACCOs, such as VSLAs and ROSCAs, where social collateral plays a critical role in ensuring loan repayment. Unlike physical collateral, social collateral relies on peer pressure and joint liability, which helps maintain repayment discipline. The effectiveness of these social collateral mechanisms influences the loan portfolio's performance. While this information is somewhat relevant, it deviates from the focus on physical collateral but still provides insights into alternative forms of collateral that SACCOs use to manage credit risk and loan performance.

Mujasi-Misaga and Isanga (2018) note the challenges in valuing and monitoring collateral in African SACCOs, especially when it involves movable assets or agricultural products. Assessing the value of such collateral can be difficult, and logistical constraints hinder regular monitoring. This adds to the cost of loans, making collateral management more complex. In Uganda, SACCOs often deal with agricultural collateral, whose value can fluctuate due to factors like crop prices, weather, and disease. Akello, Ssendi, and Okello (2019) found that these fluctuations affect the loan portfolio performance in agricultural SACCOs. This information is relevant to the topic, as it addresses the practical challenges of using certain types of collateral and how these challenges impact loan portfolio performance.

2.4.2 Borrower's Character and Loan Portfolio Performance of SACCOs

Research by Latif et al. (2017) in Bangladesh found that borrower's character was a significant factor affecting loan repayment performance in SACCOs. SACCOs place importance on assessing a borrower's character by considering factors such as past repayment behavior, references from other members, and the borrower's involvement in the community. Relatedly, Koomson and Annim (2019) revealed that in African SACCOs, trust and social capital play a significant role in determining loan portfolio performance. Borrowers with good character are more likely to earn the trust of the SACCO and fellow members. This trust enhances cooperation and reciprocity among members, leading to timely loan repayments and reduced default rates. Similarly, Nalunkuma et al. (2017) in their study in Uganda, it was revealed that trust fosters cooperation and reciprocity, leading to timely loan repayments and reduced default rates. Borrowers with a reputation for honesty and integrity are more likely to honor their loan obligations, thus contributing to better loan portfolio performance.

A study by Jaiswal et al. (2021) in India found that character assessment played a significant role in credit scoring models used by SACCOs, leading to better loan portfolio performance. SACCOs employ credit scoring models that incorporate character assessment as a component. These models assign scores to borrowers based on various factors, including repayment history, references, and community involvement. The character assessment component helps SACCOs evaluate the borrower's integrity, financial discipline, and reliability. Similarly, Muhumuza, Nkundabanyanga & Aribariho (2020) in Uganda considering SACCOs consider factors such as past repayment behavior, references, and community involvement. The borrowers with a history of responsible financial behavior and positive character traits are more likely to receive favorable credit scores, leading to better loan portfolio performance.

According to Adebayo et al. (2020) in their study in some Asian countries, it was revealed that SACCOs have a strong emphasis on ethical and moral principles, aligning with the cultural and religious values of the community. They revealed that borrowers with good character are expected to uphold these values and exhibit responsible financial behavior which SACCOs focus on during loan appraisal to ensure borrowers are committed to ethical financial conduct. Similarly, a study by Alemu et al. (2021) in Ethiopia found that ethical principles of borrowers and assessed before giving out the loan. Only clients prove certain levels of trustworthiness and honesty are given loans. This positively influenced loan repayment performance in SACCOs as these clients not only pay back the loan but also pay in time. Furthermore, Muhumuza et al. (2020) found out that giving out a loan in many SACCOs is linked to the level of integrity of the borrower in financial dealings and their results found that borrowers' character significantly influenced loan repayment performance in SACCOs.

Economides, Fitch-Roy and Proud (2018) revealed that cultural factors play a significant role in shaping the relationship between a borrower's character and loan portfolio performance in most SACCOs in Zimbabwe. Different cultures have varying expectations and norms regarding financial obligations and trustworthiness. For example, the concept of "ubuntu" in some African cultures emphasizes mutual support, trust, and a sense of community. Borrowers with good character that embody these cultural values, are more likely to exhibit responsible financial behavior which makes them pay back the loan hence contributing to better loan portfolio performance (Economides et al., 2018). Accordingly, Nalukenge et al. (2019) in their study on SACCOs in Uganda revealed that maintaining a good reputation is essential as it impacts social standing and access to future credit. The fear of damaging one's reputation can create social

pressure, motivating borrowers to prioritize loan repayments and maintain their integrity within the community which contributes to better loan portfolio performance.

2.4.3 Borrower's Capacity and Loan Portfolio Performance of SACCOs

The borrower's capacity, particularly their income level and financial stability, plays a significant role in loan portfolio performance. SACCOs assess the borrower's capacity to determine their ability to repay the loan. Research by Dewan and Das (2020) in India found that borrowers with higher income levels and stable cash flows were more likely to meet their loan repayment obligations, resulting in better loan portfolio performance. Capacity assessment helps SACCOs ensure that borrowers have sufficient income to repay the loans. Relatedly, studies by Ajefu and Ojiya (2019) in Nigeria and Kizza and Ssekatawa (2017) in Uganda both revealed that borrowers with higher income levels were more likely to meet their loan repayment obligations, resulting in better loan portfolio performance. The borrower's capacity to generate a stable income is crucial for timely loan repayment.

Kaur (2020) opines that the borrowers' capacity includes their financial literacy and management skills. SACCOs in Asia often provide financial education and training to their members to enhance their financial knowledge and skills. Borrowers with higher financial literacy and better financial management practices are easily given loans because they are more likely to make informed financial decisions, budget effectively, and manage their cash flows hence paying their loans back in time (Kaur, 2020). Mambo and Ncube, (2018) also report most SACCOs in Africa assess the financial literacy of a borrower before extending any loan facility. Clients with low financial literacy are either trained or dropped. Those with financial knowledge easily accesses the loan because they have the capacity of manage their cash flows effectively which puts in a good position to manage paying back their loans.

SACCOs in Nepal consider the borrower's debt-to-income ratio as an indicator of their capacity to handle additional debt (Thapa et al., 2021). A lower debt-to-income ratio suggests that the borrower has a higher capacity to take on additional loans and manage their debt burden effectively. Borrowers with a favorable debt-to-income ratio are more likely to meet their loan repayment obligations, leading to better loan portfolio performance (Thapa et al., 2021). Similarly, Muhumuza et al. (2020) in his study in Uganda found out SACCOs consider the borrower's debt-to-income ratio. Those favorable debt-to-income ratios are usually given loans as longer as they meet as other requirements.

For SACCOs that provide loans for business purposes, the borrower's capacity to run a viable and sustainable business is crucial. According to Amankwah-Amoah (2018) SACCOs tend assess the borrower's business plan, market understanding, and entrepreneurial skills to evaluate the potential success of the business. Borrowers with a higher capacity to run a sustainable business are more likely to generate sufficient income to repay their loans and contribute positively to the loan portfolio performance. This was similar to a study Shih (2019) in Taiwan who found that for the SACCOs to approval the client's loan, he/she must provide the business plan when applying for a business. This plan proves that the business will invest the borrowed money hence making profits to services his or her loan.

The size of the loan granted to borrowers should align with their capacity to repay Haryani Siregar and Siregar (2021 revealed that SACCOs in Asia consider the borrower's capacity to handle the loan size without straining their financial resources. Providing loans that are affordable and within the borrower's capacity enhances the likelihood of timely repayments and contributes to better loan portfolio performance. Similarly, Kizza & Ssekatawa, (2017) revealed that in Uganda SACCOs only offer borrowers loans that match their ability to repay to ensure

that their financial resources are not overly burdened. In Uganda, SACCOs take into account the borrower's capacity to manage the loan amount comfortably. Furthermore, Kizza and Ssekatawa, (2017) revealed that offering loans that are affordable and within the borrower's means increases the chances of prompt repayments and improves the overall performance of the loan portfolio.

2.4.4 Borrower's Capital and Loan Portfolio Performance of SACCOs

Dewan and Das (2020) revealed that assessing of the borrower's capital is key before extending the loan. Borrower's capital such as savings or other valuable assets, can be used as collateral for loans in SACCOs. The availability of capital as collateral enhances the borrower's capacity to secure loans and contributes to better loan portfolio performance. SACCOs consider the value of the borrower's capital when assessing the risk associated with the loan, as it provides a form of security and reduces the risk of default. Similarly, Hassan et al. (2016) revealed in SACCOs, borrowers often provide their own capital or valuable assets as collateral for loans. Capital serves as security for the loan and reduces the risk of default. The availability of capital as collateral enhances the borrower's ability to secure loans and contributes to better loan portfolio performance.

According to Shih (2019) financial institutions assess the borrower's capital before extending the loan because it also serves as an indicator of their financial stability and capacity to meet loan obligations. SACCOs assess the borrower's capital position, including savings, investments, and assets, to evaluate their financial strength. Borrowers with higher capital are perceived to have a stronger financial position, which positively influences their loan repayment behavior and contributes to better loan portfolio performance for the SACCO. Similarly, a research by Abuka and Kasibante (2020) in Uganda found a positive relationship between

borrower's capital injection and loan portfolio performance in SACCOs. It was revealed that borrowers who inject additional capital into their businesses demonstrate commitment and financial capacity. Capital injections improve the borrower's financial stability and business viability, leading to better loan portfolio performance. This suggests that borrowers who invest additional capital are more likely to have successful loan repayment.

According to Haryani et al., (2021) in their SACCOs in Asia found out that SACCOs often consider the borrower's capital position and liquidity when assessing loan applications, as it indicates the borrower's ability to repay the loan. Borrowers with sufficient capital have a greater ability to repay their loans. Capital can serve as a source of repayment when borrowers face temporary financial difficulties. It provides a cushion to meet loan obligations and reduces the likelihood of default. Relatedly, Kasibante et al. (2019) revealed that SACCOs in Uganda also focus on maintaining an adequate level of capital to support their loan portfolios and ensure financial stability. In their study, they revealed that SACCOs considered capital adequacy ratio (CAR) which measures the SACCO's capital strength relative to its risk exposure. SACCOs with higher CARs are better positioned to absorb potential losses from loan defaults, maintain the health and growing their loan portfolios.

Research by Yee et al. (2018) in Malaysia found a positive relationship between borrower's capital injection and loan portfolio performance, suggesting that borrowers who invest additional capital have a higher likelihood of successful loan repayment. SACCOs encourage borrowers to inject additional capital into their businesses as a way to improve loan portfolio performance. Increased capital injections enhance the borrower's financial capacity and the viability of their businesses. In additional, Baryamureeba and Mugisha (2017) revealed that the borrower's capital position, including savings, investments, and assets, is an indicator of their

financial strength and capacity to meet loan obligations. SACCOs assess the borrower's capital to evaluate their financial stability and ability to repay loans because extending the loan facility. Borrowers with higher capital are perceived to have a stronger financial position, which positively influences their loan repayment behavior hence leading to better loan portfolio performance. Furthermore, Baryamureeba and Mugisha (2017) revealed that SACCOs consider the borrower's capital position when assessing the risk associated with the loan. Borrowers with higher capital are seen as more financially stable and are more likely to fulfill their loan repayment obligations, leading to better loan portfolio performance.

2.5 Literature Gap

The literature reviewed indicates that several studies have examined the relationship between loan appraisal practices and loan portfolio performance. However, the majority of these studies, including notable works such as Thapa et al. (2021), Jaiswal et al. (2021), Dewan and Das (2020), Kaur (2020), Amugsi and Adjasi (2019), Karimov et al. (2018), Yee et al. (2018), Amankwah-Amoah (2018), Fitch-Roy and Proud (2018), Latif et al. (2017), and Hassan et al. (2016), were conducted outside Uganda.., primarily in countries that are more developed. This presents a significant geographical gap, as findings from these contexts may not be directly applicable to the Ugandan environment. Additionally, the existing literature lacks a comprehensive conceptualization of the relationship between loan appraisal practices and loan portfolio performance, as no single study has integrated all four constructs relevant to this investigation. This indicates a conceptual gap, suggesting that the relationship has not been fully explored in a holistic manner. Theoretical gaps are also evident, as the majority of studies may not have employed frameworks that adequately address the specific dynamics of SACCOs in developing contexts like Uganda.

Furthermore, methodological gaps are apparent, with many studies relying on qualitative methods that overlook the quantitative aspect which critical to understanding loan appraisal practices and their impact on loan portfolio performance. Given these gaps, the literature does not provide an empirical foundation for understanding the specific circumstances in Uganda. Therefore, the goal of this research is to address these deficiencies by examining the relationship between loan appraisal practices and loan portfolio performance among selected SACCOs in Nakawa Division, In Kampala Capital City Authority. This study aims to contribute to a more nuanced understanding of these constructs within the Ugandan context, filling the existing literature gap.

CHAPTER THREE: METHODOLOGY

3.1 Introduction

The section presents the study research design, population, study sample size & sampling techniques, data collection method & tool, research procedures, data quality control, data analysis, ethical considerations and anticipated study limitations.

3.2 Research Design

In this study, correlation research design was utilized. Correlational research design is a scientific approach used to examine the relationship between two or more variables. This research design was relevant in study since the study aims to test, rather than develop theories. The study considered quantitative research approach. This was the approach that facilitates collection of numerical data. The researcher used the quantitative approach to yield unbiased result that can be generalized to larger population. The approach further facilitates the extraction of relationship between loan appraisal practices and loan portfolio performance among selected SACCOs.

3.3 Study Population

The study was limited to only registered and active SACCOs in Nakawa Division in Kampala Capital City Authority. Nakawa Division has 614 SACCOs that are registered (Ministry of Trade, Industries and Cooperatives, 2022). Nakawa Division was selected because it had majority of SACCOs that experienced poor loan portfolio performance in Kampala Capital City Authority (Co-operative Societies of Uganda Report, 2022).

In this study, the unit of analysis was the SACCOs while the unit of inquiry was the staff of the selected SACCOs.

3.4 Sample Size Determination

Kumar (2019) defines a sample size as a subset of the population from which a researcher collects data to gather the necessary information for a study. In this particular research, one respondent was selected from each SACCO chosen, resulting in a sample size of 242 participants. To determine the sample size, the researcher employed Yamane's formula, which was developed in 1967.

$$\mathbf{n=\frac{N}{1+N\,(e^2)}}\text{, Where}$$

N– Population = 614

e - Standard error = 5%

n- Sample size =?

$$n=\frac{614}{1+614(0.05^2)}$$

$$n=\frac{614}{1+1.535}$$

$$n=\frac{614}{2.535}$$

242 Participants

3.5 Sampling Techniques and Procedure

In this study, the sampling technique was simple random sampling, which is a probabilistic method that ensures every potential respondent has an equal chance of being included. By using this technique, the study aimed to minimize the risk of selection bias (Bryman, 2018). This approach was implemented to select SACCOs that were included in the study. Regarding the participants to take part in the study, the Credit Officer of each SACCO was selected. The Credit Officer was considered because of their extensive knowledge regarding loan appraisal practices and loan portfolio performance in the SACCO.

3.6 Data Collection Method

The data collection in this study involved the use of a survey questionnaire. According to Amin (2005) a questionnaire survey employs a series of concise questions, including both open-ended and closed-ended items, to elicit prompt responses from participants. However, for this particular study, a closed-ended questionnaire was developed to gather data from the field. Surveys are widely employed and convenient (Iwaniec, 2019), making them preferred for investigating relationships. The use of questionnaire as a method is common in surveys to encourage a high response rate (Creswell, 2018). This method was appropriate for studies with large samples, such as this one, and particularly suitable when participants are geographically dispersed (Bryman, 2018). The questionnaire method saved time and ensured broad coverage, making it highly appropriate for this study.

3.7 Data Collection Instrument

The data collection tool was employed in this study was the questionnaire. Questionnaires are widely utilized for collecting quantitative data (Bryman, 2018). To ensure focused and relevant responses, a closed-ended questionnaire format was used, preventing respondents from providing ambiguous or unrelated information. The questionnaire encompassed general participant information and address the study objectives, utilizing a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). According to Leavy (2017), questionnaires employing a Likert scale are user-friendly and offer a suitable basis for analysis. The selection of a questionnaire as the data collection method was based on its convenience, potential for achieving a high response rate, and the confidentiality it affords during the data collection process.

3.8 Data Collection Procedure

Once the research proposal and data collection tool were approved, the researcher acquired an introductory letter from Kyambogo University. This letter served to introduce the researcher and seek permission from relevant authorities, such as the Kampala Capital City Authority, which governs operations in the In Kampala Capital City Authority where Nakawa Division is found. With the necessary approvals obtained, the research tool underwent a pre-test to ensure its validity and reliability. The pre-testing phase involved administering the study tool to 10 SACCOs that were not included in the main study and these SACCOs were from Central Division. Following the pre-test, the researcher proceeded to recruit and train five research assistants who assisted in the data collection process. Subsequently, the questionnaires were distributed to the selected SACCOs and collected after a period of two days.

3.9 Data Quality Control

Data quality control measures how valid and reliable the data tools were in order to collect accurate and reliable data to support decision making (Yin, 2014)

3.9.1 Validity

The validity, according to Amin (2005) is defined as how well a test measures what it is intended to assess. The validity of the research tool was assessed using face validity and content validity index. The supervisor reviewed the tools to ensure face validity, which examines how well the questions or items on the scale appear to measure what they are intended to measure (Bhandari, 2022). Similarly, content validity focuses on the relevance and appropriateness of the questionnaire items in capturing the intended constructs (Bhandari, 2022). Two supervisors reviewed the tool and provide feedback and guidance to ensure that the tools effectively measure their intended concepts. Based on their comments, the researcher revised the tools accordingly.

The revised tools were then reviewed by two research experts, who were at the level of research supervisors at Kyambogo University and possess expertise in the subject matter under study. These experts rated each item in the tool as either Relevant (R) or Irrelevant (IR) based on the content of the questions. The Content Validity Index (CVI) was calculated using the formula: CVI = R / (R + IR). The tool was considered valid because the items attained a CVI above 0.7 as recommended by (Mugenda & Mugenda, 2013).

Table 3.1: Validity Test of Tools

Construct	Total Items	Relevant Items	Irrelevant Items	CVI
Collateral	07	07	00	**1.000**
Character	07	06	01	**0.857**
Capacity	07	06	01	**0.857**
Capital	07	05	02	**0.714**
Loan Portfolio Performance	07	06	01	**0.857**

However, necessary modifications were made to enhance the tool's validity concerning the items that ranked irrelevant.

3.9.2 Reliability

The reliability of a research tool refers to its capacity to produce consistent and dependable results across different situations and circumstances (Creswell, 2018). To assess the reliability of the research tool in this study, a pre-test was conducted on 10 SACCOs that were not part of the main study. The results of the pre-test were entered into Statistical Package for the Social Sciences (SPSS) for analysis. The Cronbach's alpha test was employed to measure the internal consistency of the test items. The variable construct was regarded reliable since their Cronbach alpha value were 0.7 as recommended (Mugenda & Mugenda, 2013).

Table 3.2: Reliability Test of Tools

Construct	Item tested	Alpha values
Collateral	07	.976
Character	07	962
Capacity	07	.980
Capital	07	.984
Loan Portfolio Performance	07	.985

Source: Field data, 2024

3.10 Data Analysis and Presentation

The quantitative data that was gathered using the questionnaire was entered into SPSS Ver. 23 for analysis. Various statistical techniques were employed, including descriptive statistics, correlations, and regression. The descriptive statistics were used because they helped in understand the basic characteristics of the data, such as distribution and variability. The relationship between the dependent variable (Y), which is Loan Portfolio Performance and Loan Appraisal Practices which independent variables (X) with constructs of Collateral, Character, Capacity and Capital was run using the Pearson Correlation. Correlation analysis helped in identifying whether an increase in one variable is associated with an increase or decrease in another variable. This method was useful to determine the degree of association between factors, which can inform further analysis or hypothesis testing. A multiple regression model was used to determine the predictability of Loan Appraisal Practices on Loan Portfolio Performance. Regression analysis quantified how changes in the independent variables affect the dependent variable. It allowed the researcher to make predictions, assess the impact of specific factors, and control for confounding variables, providing a more in-depth understanding of the relationships within the data. Following the data analysis, the study results was presented using tables.

3.11 Measurement of Study Variables

3.11.1 Loan Appraisal Practices

The loan appraisal practices in this study were measured basing of constructs of collateral, character, capacity and capital as put forward by (Pandey, 2010). The items measuring the variable were ranked on a five-point scale, where "5-strongly agree, 4-agree, 3-neutral, 2-disagree and 1-strongly disagree".

3.11.2 Loan Portfolio Performance

In this study, loan portfolio performance was measured item such as loan portfolio growth, loan recovery rate and return on loans as suggested by (Gichuhi & Omagwa, 2020). The tool solicited responses basing on a five (5)-point Likert scale anchored: "5-strongly agree, 4-agree, 3-neutral, 2-disagree and 1-strongly disagree".

3.12 Ethical Considerations

The study took ethical considerations very important while considering obtaining informed consent, ensuring confidentiality and privacy, and addressing plagiarism issues as raised by (Sekaran& Bougie, 2016; Yin, 2018).

Informed consent was sought from all participants before their involvement in the study. The purpose and objectives of the study was clearly communicated, allowing participants to ask questions for further clarification. A consent form was provided, and only those who provide their explicit consent were included in the study.

The privacy of participants was treated with utmost care. Individual questionnaires were used, and no group questionnaires were employed. The confidentiality of all official documents accessed and reviewed was strictly maintained. The study ensured that all private data, details,

and opinions shared by respondents remain anonymous. Participants were not required to provide their names when answering the questionnaire, only relevant information pertaining to the study objectives were obtained.

Plagiarism, being a serious academic offense, was strictly avoided throughout the research process and documentation. All reviewed literature was appropriately acknowledged and cross-referenced. The research proposal and report underwent thorough checks to ensure that the similarity index was within acceptable limits set by Kyambogo University. Minimal tolerance for plagiarism was upheld to maintain the highest standards of academic integrity.

3.13 Limitations to the Study

The following limitations were encountered;

The study utilized self-reporting measures, which were susceptible to response bias, as participants may have provided inaccurate or socially desirable responses, potentially leading to distorted results. To address this concern, the study employed survey method that ensures anonymity or confidentiality thereby minimizing socially desirable bias.

It was important to note that the research findings may not be directly applicable or generalized to all SACCOs beyond the specific ones included in the study.

CHAPTER FOUR: PRESENTATION, ANALYSIS AND INTERPRETATION OF STUDY FINDINGS

4.0 Introduction

This chapter captures the presentation, analysis and interpretation of the study findings. The chapter includes the presentation of the descriptive statistics of the study, specifically on the bio-data of the respondents and then study objectives which include examining the relationship between collateral and loan portfolio, the relationship between borrower's character and loan portfolio performance, the relationship between borrower's capacity and loan portfolio performance and the relationship between borrower's capital and loan portfolio performance among selected SACCOs in Nakawa Division In Kampala Capital City Authority.

4.1 Response Rate

The figure 4.1 below shows the number of respondents who successfully completed the survey and those who did not.

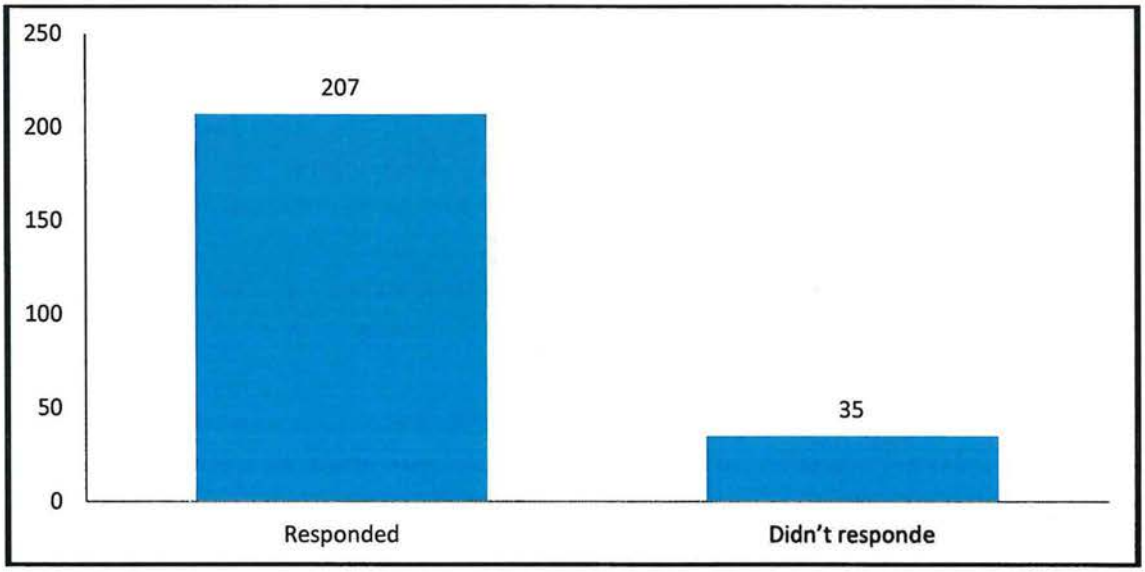

Figure 4.1: Showing the Response Rate
Source: Field data, 2024

Based on the data in Figure 4.1, out of the 242 targeted participants, 207 (85.5%) responded, while 35 (14.5%) did not. This response rate exceeds the 70% threshold recommended by the Guttmacher Institute (2006), indicating that the study's response rate is satisfactory.

4.2 Findings on the Bio-data of the Respondents

The study gathered respondents' bio-data to analyze various aspects such as gender, age, education, and years of experience working with SACCOs. The results, shown as frequencies and percentages, are displayed in the tables below.

Table 4.1:Gender of Respondents

Category	Frequency	Percent
Male	116	56.0
Female	91	44.0
Total	**207**	**100.0**

Source: Field data, 2024

As shown in Table 4.1, 56.0% of the respondents were male, while 44.0% were female, indicating a slight predominance of male perspectives in the study. However, the 44.0% female representation was considered adequate to incorporate a gender perspective. This distribution may be due to the higher number of male Credit Officers employed by SACCOs. Given that, loan issues are demanding, most SACCOs tend to employ more male employees who and energetics and strong to effective execute the SACCOs' loan demanding operations.

Table 4.2:Age Bracket of Respondents

Category	Frequency	Percent
18-29 Years	32	15.5
30-39 Years	70	33.8
40-49 Years	82	39.6
50 Years & Above	23	11.1
Total	**207**	**100.0**

Source: Field data, 2024

According to Table 4.2, 50.7% of respondents were over 40 years old, while 49.3% were under 40 years. This indicates that both youths and adults participated in the study, providing a balanced perspective. The results suggest that SACCOs aimed to balance their operations by hiring both energetic and flexible youths as well as skilled and experienced adults to effective carry loan appraisals to select only client qualify to get the loans from the SACCOs.

Table 4.3: Education Level Attained by Respondents

Category	Frequency	Percent
Masters	6	2.9
Bachelors	147	71.0
Diploma	42	20.3
Certificate	12	5.8
Total	**207**	**100.0**

Source: Field data, 2024

According to the data in Table 4.3, 71.0% of the respondents held bachelor's degrees, 20.3% had diplomas, 5.8% had certificates, and 2.9% had master's degrees. This indicates that all participants in the study possessed formal education. This enabled them to efficiently conduct loan appraisals, ensuring that only eligible clients receive loans from SACCOs.

Table 4.4: Period Spent Working with the SACCO

Category	Frequency	Percent
Less than 1 year	9	4.3
1-5 years	80	38.6
6-10 years	82	39.6
11 years and above	36	17.4
Total	**207**	**100.0**

Source: Field data, 2024

The results in Table 4.4 show that 57.0% of the respondents had worked with SACCOs for more than 6 years, while 43.0% had less than 6 years of experience. This suggests that most respondents had substantial experience with SACCOs, placing them in a strong position to effectively conduct loan appraisals and ensure that loans were given only to qualified clients.

4.4 Descriptive Statistics Basing on the Study Variables

4.4.1 Responses for Loan Portfolio Performance of SACCOs

The respondents in the study were asked to provide their feedback loan portfolio performance of their SACCOs and were guided to rank their responses under five-point Likert scale. To interpret the results, means, and standard deviations were used and mean scores were compared to the grand mean.

Table 4.5: Responses for Loan Portfolio Performance

Statement	Min.	Max.	Mean	Std. Dev
SACCO's non-performing loans has been reducing every year	1	5	**3.28**	**1.321**
SACCO's loan recovery rate is always higher than 95%	1	5	**2.66**	**1.297**
The amount of bad debts written off in this SACCO has been reducing every year	1	5	**3.40**	**1.365**
The amount of interest income earned on loans increases every year	1	5	**3.40**	**1.257**
We efficiently collect all the loans in the set time.	1	5	**2.99**	**1.307**
Our loan portfolio keeps increasing every year	1	5	**3.73**	**1.199**
The value of portfolio at risk in this SACCO is always below 3% every year	1	5	**2.82**	**1.408**
Grand Mean			***3.18***	

Source: Field data, 2024

The findings regarding the reduction in non-performing loans in the SACCO reflect a positive trend, with a mean value of (3.28), slightly above the grand mean of (3.18). This suggests that respondents generally agree that non-performing loans are reducing, but the level of agreement is moderate. The relatively high standard deviation of (1.321) indicates a significant variation in responses, meaning that while some respondents may have observed a noticeable decrease in non-performing loans, others may not have experienced such progress.

In terms of loan recovery, the SACCO struggles to maintain a recovery rate consistently above 95%, as evidenced by the mean of (2.66), which is below the grand mean (3.18). This indicates that respondents generally disagree with the assertion that the loan recovery rate is always higher than 95%. The standard deviation of (1.297) further suggests variability in experiences, implying that while some respondents may witness satisfactory recovery rates, others face challenges in recovering loans effectively.

The reduction in bad debts written off shows a more favorable trend, with a mean value of (3.40), above the grand mean of (3.18). This indicates that respondents generally believe that the amount of bad debts being written off has been declining. However, the standard deviation of (1.365) points to some variability in perceptions, suggesting that while many members have noticed this improvement, not all respondents have witnessed a consistent reduction in bad debts.

When examining the interest income earned on loans, the mean value of (3.40) which is above the grand mean of (3.18) suggests a moderately positive outlook, with respondents agreeing that the SACCO's interest income on loans has been increasing every year. The standard deviation of (1.257) is lower compared to other variables, indicating that respondents generally share a

more consistent view on this matter, signaling a consensus that the SACCO's loan-based interest income is improving steadily. However, when it comes to loan collection efficiency, the mean score of (2.99), which is slightly below the grand mean of (3.18), indicates a more neutral or slightly negative view among respondents. This suggests that the SACCO's loan collection practices may not always be as efficient as desired. The standard deviation of (1.307) reflects a significant variance in responses, pointing to inconsistent experiences with loan collection, where some loans are collected on time while others may face delays.

The growth in the loan portfolio is one of the more positive aspects of the SACCO's operations, with a mean value of (3.73), significantly above the grand mean of (3.18). This demonstrates strong agreement among respondents that the loan portfolio has been growing each year. The lower standard deviation of (1.199) suggests greater consistency in this perception, indicating that most respondents acknowledge the SACCO's success in expanding its loan offerings.

Lastly, from Table 4.5, the mean score of (2.82) for the statement on portfolio at risk, which is below the grand mean of (3.18), reflects concerns among respondents about the SACCO's risk management practices. This score indicates a negative sentiment, suggesting that the portfolio at risk frequently exceeds the 3% threshold. The relatively high standard deviation of (1.408) points to wide variability in responses, suggesting that risk exposure is not managed consistently across the SACCO's operations, with some areas potentially being more vulnerable than others.

4.4.2 The responses for Collateral used by the Borrowers

The first objective of the study focused on investigating the relationship between collateral and loan portfolio performance. All participants were directed to rank their responses regarding the collateral security used by the borrowers and the findings were subsequently analyzed using

means, and standard deviations for interpretation and mean scores were compared to the grand mean.

Table 4.6: Responses for Collateral used by the Borrowers

Statement	Min.	Max.	Mean	Std. Dev
SACCO considered collateral security that is a tangible asset	1	5	**3.37**	**1.250**
The collateral has to be owned by the borrower or jointly owned by the borrower	3	5	**4.03**	**.864**
The collateral must have a clear and verifiable value	3	5	**4.00**	**.845**
The collateral should be transferable to the SACCO in case of default	2	5	**3.92**	**.897**
The collateral should generally be an asset that retains its value or depreciates at a reasonable rate over time	1	5	**3.85**	**1.022**
The collateral has to be adequately insured	1	5	**2.49**	**.994**
The SACCOs accepts household equipment to be used as collateral	1	5	**3.39**	**1.169**
Grand Mean			***3.58***	

Source: Field data, 2024

The analysis of collateral security practices at the SACCO begins with the evaluation of whether collateral is considered a tangible asset. Regarding the mean score for the statement SACCO considered collateral security that is a tangible asset was (3.37) which is below the grand mean of (3.58). This indicates a slight disagreement or neutral stance among respondents regarding the strict consideration of tangible assets as collateral. The standard deviation of (1.250) suggests a significant variation in responses, pointing to differing experiences or opinions on the types of collateral accepted by the SACCO.

Regarding the ownership of collateral, the statement of the collateral has to be owned by the borrower or jointly owned by the borrower scored a high mean value of (4.03), well above the grand mean of (3.58). This suggests strong agreement among respondents that the SACCO requires the borrower or co-owner to possess the collateral. The low standard deviation of 0.864 indicates that there is consistency in this perception, implying that most respondents share a similar view on the necessity of clear ownership for the collateral offered.

In terms of the verifiability of collateral, the statement that the collateral must have a clear and verifiable value scored a high mean of (4.00), which is also above the grand mean (3.58). This reflects that respondents largely agree that the SACCO emphasizes the need for collateral to have a clear and measurable value. The standard deviation of (0.845) is relatively low, indicating little variation in responses and pointing to a shared understanding among respondents regarding the importance of transparent asset valuation in the collateral approval process.

For the statement that the collateral should be transferable to the SACCO in case of default, scored a mean value of (3.92) which was above the grand mean of (3.58). This indicates general agreement among respondents that the SACCO mandates the transferability of collateral in the event of loan default. The standard deviation of (0.897) suggests a moderate variation in responses, indicating that while most respondents agree, a few may have different experiences regarding this requirement.

When it came to the statement that the collateral should generally be an asset that retains its value or depreciates at a reasonable rate over time, scored a mean value of (3.85), higher than the grand mean (3.58). This suggests that respondents generally agree that the SACCO prefers collateral that maintains its value over time or depreciates slowly. The standard deviation of (1.022), however, reflects a wider range of responses, indicating that there may be differing views on how strictly this criterion is enforced or evaluated.

On the issue of collateral has to be adequately insured, received a lower mean value of (2.49), significantly below the grand mean (3.58). This indicates that respondents generally disagree with the notion that the SACCO consistently requires collateral to be insured. The standard

deviation of 0.994 suggests that responses varied, with some respondents possibly observing situations where insurance was required, while others did not see it as a consistent practice.

Lastly from Table 4.6 above, on the statement that the SACCO accepts household equipment to be used as collateral scored a mean of (3.39), slightly below the grand mean (3.58). This suggests that respondents are somewhat neutral or slightly disagree with the notion that household equipment is commonly accepted as collateral by the SACCO. The standard deviation of 1.169 shows that there is some variation in responses, with different members possibly having varied experiences regarding the types of assets the SACCO accepts as collateral.

4.4.3 The Responses for Borrower's Character

The second study objectives examined the relationship between borrowers' character and loan portfolio performance and it was necessary to assess the borrowers' character. Furthermore, all respondents were instructed to rank their responses and standard deviations and means compared to the grand mean were used to interpret the results.

Table 4.7: Responses for Borrower's Character

Statement	Min.	Max.	Mean	Std. Dev
We review the borrower's credit history to assess their past repayment behavior	3	5	**4.41**	**.539**
We consider the borrower's savings habits	2	5	**4.25**	**.808**
We evaluate whether the borrower complies with SACCO mandatory regulatory requirements	3	5	**4.35**	**.628**
We consider the reputation of the borrower in the community	1	5	**3.38**	**1.159**
A borrower must have a recommendation(s) from reputable persons in the community	1	5	**2.86**	**1.267**
We assess the criminal history of the borrower	1	5	**2.88**	**1.177**
We evaluate the borrower's stability of employment because people who over change jobs may pose character challenges	1	5	**2.75**	**1.263**
Grand Mean			***3.55***	

Source: Field data, 2024

The findings revealed that the assessment of a borrower's credit history, specifically reviewing their past repayment behavior, scored a high mean value of (4.41), which is above the grand mean of (3.55). This indicates that SACCOs place significant emphasis on a borrower's credit history when evaluating their eligibility for loans. The low standard deviation of (0.539) suggests a high level of agreement among respondents, implying that reviewing past repayment behavior is a widely accepted and consistent practice across the SACCOs.

Regarding the consideration of a borrower's savings habits, the mean value of (4.25) also exceeds the grand mean of (3.55), showing that SACCOs regard this as an important factor when assessing loan applications. The standard deviation of (0.808) indicates a moderate variance in responses, reflecting that while this factor is important, there may be some differences in how strictly it is applied across different SACCOs.

On the evaluation of compliance with SACCO mandatory regulatory requirements, the mean value of (4.35) stands significantly above the grand mean (3.55). This suggests that adherence to regulatory standards is a critical factor in loan approval processes. The low standard deviation of (0.628) shows consistency in responses, indicating that most respondents recognize the importance of regulatory compliance as a standard procedure in loan assessments.

In contrast, the statement regarding the borrower's reputation in the community scored a mean value of (3.38), which is below the grand mean of (3.55). This suggests that while reputation is considered, it holds less weight compared to factors such as credit history or compliance with regulatory requirements. The higher standard deviation of (1.159) shows greater variability in responses, implying that reputation is assessed differently across SACCOs or that it may not be a universally prioritized factor.

The requirement for a borrower to have recommendations from reputable persons scored a low mean value of (2.86), which is notably below the grand mean (3.55). This indicates that recommendations from community members are not a key criterion for most SACCOs. The high standard deviation of (1.267) shows considerable variation in responses, suggesting that this practice is either inconsistently applied or less relevant in the loan evaluation process.

Similarly, assessing a borrower's criminal history received a low mean value of (2.88), also falling below the grand mean of (3.55). This shows that SACCOs do not place heavy emphasis on the criminal background of borrowers when considering loan applications. The standard deviation of (1.177) reflects a degree of variability in responses, indicating that while some SACCOs might take criminal history into account, it is not a consistently critical factor.

Lastly from Table 4.7 above, the statement about evaluating the borrower's employment stability scored the lowest mean value of (2.75), which is well below the grand mean of (3.55). This suggests that SACCOs are less concerned with a borrower's employment stability, particularly the frequency of job changes, when assessing character for loan approval. The standard deviation of (1.263) is relatively high, indicating considerable differences in opinion or practice among respondents regarding the importance of employment stability.

4.4.4 The Responses for Borrower's Capacity

The third study objectives examined the relationship between borrower's capacity and loan portfolio performance. Still the respondents were also instructed to rank their responses and in the same way where standard deviations and means compared to the grand mean were used to interpret the results.

Table 4.8: Responses for Borrower's Capacity

Statement	Min.	Max.	Mean	Std. Dev
We evaluate the borrower's income level	1	5	**3.46**	**1.194**
We assess the nature of the job or employment of the borrower	1	5	**2.96**	**1.305**
We analyze the borrower's debt-to-income ratio, which compares the borrower's monthly debt obligations to their income	1	5	**3.72**	**1.144**
We assess the borrower's cash flow	1	5	**3.77**	**1.168**
We give the loan basing on the borrower's savings	1	5	**3.71**	**1.342**
We assess the borrower's loan purpose before giving out a loan	1	5	**2.85**	**1.432**
The guarantors must have capacity to pay the loan in case the borrower defaults	1	5	**3.26**	**1.344**
Grand Mean			***3.39***	

Source: Field data, 2024

The findings revealed that the evaluation of a borrower's income level scored a mean value of (3.46), which is slightly above the grand mean of (3.39). This indicates that the borrower's income level is considered important in the loan approval process, although not a highly significant factor. The standard deviation of (1.194) shows a moderate variance in responses, reflecting that different SACCOs may have varying approaches to how rigorously they evaluate income levels when assessing loan applications.

On the assessment of the nature of the borrower's job or employment, the mean value of (2.96) falls below the grand mean (3.39), suggesting that this factor is less crucial in the loan approval process compared to other considerations. The relatively high standard deviation of (1.305) indicates significant variability in responses, implying that the nature of employment may not be uniformly prioritized across SACCOs. Some SACCOs may view employment stability as important, while others may not emphasize it as much.

When analyzing the borrower's debt-to-income ratio, which compares their monthly debt obligations to their income, the mean value of (3.72) exceeds the grand mean (3.39). This

demonstrates that SACCOs place considerable emphasis on the borrower's debt-to-income ratio to ensure the borrower's ability to manage additional debt. The standard deviation of (1.144) suggests moderate variability, meaning that while the ratio is important, its weight in the loan assessment may vary slightly across institutions.

The assessment of the borrower's cash flow scored a mean value of (3.77), which is also above the grand mean of (3.39). This indicates that cash flow is an important criterion in determining a borrower's ability to repay a loan. The standard deviation of (1.168) reflects some variation in responses, suggesting that SACCOs may apply different thresholds or levels of scrutiny when analyzing cash flow, but overall, it remains a key factor in loan evaluation.

The consideration of the borrower's savings when giving out a loan scored a mean value of (3.71), again higher than the grand mean of (3.39). This reflects that SACCOs value a borrower's savings habits, as it provides insight into the individual's financial discipline and ability to accumulate funds. However, the relatively high standard deviation of (1.342) suggests considerable variability in how different SACCOs weigh savings in the loan approval process, potentially based on the borrower's overall financial profile.

The assessment of the borrower's loan purpose before issuing the loan scored a mean value of (2.85), which is below the grand mean of (3.39). This suggests that SACCOs may not place as much emphasis on the specific purpose of the loan compared to factors like cash flow or income. The high standard deviation of (1.432) shows substantial variation in responses, indicating that some SACCOs may scrutinize the loan purpose closely, while others may take a more lenient approach.

Lastly, from Table 4.8 above, the requirement for guarantors to have the capacity to repay the loan in case the borrower defaults scored a mean value of (3.26), which is slightly below the grand mean of (3.39). This shows that while the guarantor's capacity is important, it is not as heavily weighted as factors like the borrower's income or cash flow. The standard deviation of (1.344) indicates a high degree of variability, suggesting that some SACCOs may impose strict requirements on guarantors, while others may apply less stringent measures.

4.4.5 The Responses for Borrower's Capital

The last objective examined the relationship between borrower's capital and loan portfolio performance. Like other objectives, respondents were also instructed to rank their responses and in the same way where standard deviations and means compared to the grand mean were used to interpret the results.

Table 4.9: Responses for Borrower's Capital

Statement	Min.	Max.	Mean	Std. Dev
We assess the borrower's equity, which represents the value of assets that the borrower holds	1	5	**4.04**	**1.194**
We consider the borrower's savings as a measure of their capital	1	5	**3.77**	**1.236**
We consider the borrower's investments as a measure of their capital	1	5	**3.81**	**1.297**
We evaluate the borrower's existing assets, such as property, vehicles, equipment, or any other valuable possessions	1	5	**3.39**	**1.342**
We assess the borrower's net worth, which is calculated by subtracting liabilities from assets	1	5	**2.57**	**1.196**
If the loan is for a business purpose, we examine the capital invested in the borrower's business	1	5	**3.52**	**1.269**
We consider the borrower's business performance	1	5	**3.74**	**1.157**
Grand Mean			***3.55***	

Source: Field data, 2024

The findings indicate that the assessment of the borrower's equity, which represents the value of assets that the borrower holds, scored a mean value of (4.04), significantly above the grand

mean of (3.55). This suggests that lenders place considerable importance on the equity a borrower possesses as a key factor in determining loan eligibility. The standard deviation of (1.194) indicates moderate variability in responses, reflecting a general consensus among lenders about the significance of equity in the lending process.

In terms of considering the borrower's savings as a measure of their capital, the mean value of (3.77) is also above the grand mean (3.55). This indicates that lenders recognize the importance of savings in evaluating a borrower's financial stability. The standard deviation of (1.236), however, reveals some variability in responses, suggesting that the weight placed on savings may differ among lending institutions.

The evaluation of the borrower's investments as a measure of their capital yielded a mean value of (3.81), again higher than the grand mean (3.55). This shows that lenders see investments as a positive indicator of a borrower's financial health and potential for repayment. The standard deviation of (1.297) reflects moderate variability, indicating that while investments are generally valued, the specifics of how they are assessed may vary between lenders.

Conversely, when evaluating the borrower's existing assets such as property, vehicles, and equipment the mean score of (3.39) is below the grand mean (3.55). This suggests that while existing assets are considered, they may not be prioritized as highly as other factors like equity or savings. The higher standard deviation of (1.342) suggests significant variability in how different lenders assess existing assets, indicating that some may place more emphasis on this criterion than others.

The assessment of the borrower's net worth, calculated by subtracting liabilities from assets, scored a low mean value of (2.57), which is notably below the grand mean (3.55). This implies

that net worth is not heavily weighted in the lending decision process. The standard deviation of (1.196) indicates some variability in opinions on this factor, but overall, it suggests that lenders may focus more on liquidity and immediate financial capacity rather than net worth alone.

When examining the capital invested in the borrower's business, particularly if the loan is for business purposes, the mean value of (3.52) is above the grand mean (3.55). This indicates that lenders recognize the significance of capital investment in evaluating the viability of a business loan. The standard deviation of (1.269) reflects moderate variability, suggesting that while capital investment is generally considered important, the extent of its importance may vary among lenders.

Lastly from Table 4.9 above, the assessment of the borrower's business performance scored a mean value of (3.74), which is also above the grand mean of (3.55). This suggests that lenders value the borrower's ability to generate revenue as a critical factor in the loan approval process. The standard deviation of (1.157) indicates a consistent approach among lenders, reflecting a shared understanding of the importance of business performance in assessing loan applications.

4.5 Correlation Analysis

Pearson correlation was run using SPSS and was used to investigate the relationship between the study variables

Table 4.10: Correlation results on relationship between variables

Items	Collateral	Character	Capacity	Capital	LPP
Collateral	**1**				
Character	.674**	**1**			
Capacity	.851**	.646**	**1**		
Capital	.855**	.708**	.955**	**1**	
Loan Portfolio Performance (LPP)	.901**	.606**	.917**	.899**	**1**

** Correlation is significant at the .01 level (2-tailed).

Source: Field data, 2024

The results from Table 4.10 indicate there is a positive and significant relationship between collateral and loan portfolio performance (r = .901**, P=0.00 <0.01). Since the significance value is below the 0.01 threshold, this relationship is highly significant. The correlation coefficient (r) of 0.901 suggests a robust positive association between collateral and loan portfolio performance, implying that the presence of collateral enhances the loan portfolio performance of SACCOs.

The results from Table 4.10 show that there was a positive and significant relationship between borrower's character and loan portfolio performance (r = .606**, P = .000 < 0.01). Since the significance value is below the 0.01 threshold, this relationship is highly significant. The correlation coefficient (r) of 0.606 indicates a moderate positive association, suggesting that effectively assessing borrowers' character leads to improved loan portfolio performance for SACCOs.

Based on the data in Table 4.10, there was a positive and significant relationship between borrower's capacity and loan portfolio performance (r = 0.917**, P = .000 < 0.01). Since the significance value is below the 0.01 threshold, this relationship is highly significant. The correlation coefficient of 0.917 suggests a strong positive association, indicating that effectively assessing borrowers' capacity leads to improved loan portfolio performance.

According to the data shown in Table 4.10, there was a strong, positive, and significant relationship between borrower's capital and loan portfolio performance (r = 0.899**, P = .000 < 0.01). With the significance value below the 0.01 threshold, this relationship is highly significant. The correlation coefficient of 0.899** suggests a robust positive association, indicating that effectively assessing borrower's capital leads to improved loan portfolio performance. Since the results showed a significant relationship, the study therefore rejected the study hypothesis: *Ho_4. There is no significant relationship between borrower's capital and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority.*

4.6 Regression Analysis

This study employed a linear and multiple regression analysis to evaluate the degree to which collateral, character, capacity and capital, served as a predictor for loan portfolio performance.

4.6.1 Linear Regression Analysis

This shows how each construct of collateral, character, capacity and capital predicted loan portfolio performance.

Table 4. 11: The Predictive Potential of Collateral on Loan Portfolio Performance

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.998	.046		13.681	.000
Collateral	.909	.012	.791	10.634	.000
Model Summary					
R Square	.782				
Adjusted R Square	.782				
F	11.1164				
Dependent Variable: Loan Portfolio Performance					

The results presented in the Table 4.11 indicate that the regression analysis showed that collateral explained 78.2% of the variance in loan portfolio performance. The remaining 21.8%

of the variance is attributed to factors not examined in this study. The significant F-value (F = 11.1164, P = .000 < 0.05) confirms that the model is a good fit for predicting the dependent variable. Basing on the unstandardized coefficients, it was revealed that collateral significantly predicts loan portfolio performance with a coefficient of .909 (p = .000 < 0.05). This indicates that a unit increase in collateral results in a .909 increase in loan portfolio performance, while a unit decrease in collateral corresponds to a .909 decrease in loan portfolio performance.

Table 4. 12: The Predictive Potential of Character on Loan Portfolio Performance

	Unstandardized Coefficients		**Standardized Coefficients**	**T**	**Sig.**
	B	Std. Error	Beta		
(Constant)	.984	.093		15.912	.000
Character	.813	.025	.764	13.699	.000
Model Summary					
R Square	.729				
Adjusted R Square	.728				
F	21.6733				
Dependent Variable: Loan Portfolio Performance					

The results presented in the Table 4.12 indicate that the regression analysis revealed that borrower character explained 72.8% of the variance in loan portfolio performance (Adjusted R Square = .728). The remaining 27.2% of the variance is attributed to factors not examined in this study. The significant F-value (F = 21.6733, P = .000 < 0.05) confirms that the model is a good fit for predicting the dependent variable. Focusing on the unstandardized coefficients, it was found that borrower character significantly predicts loan portfolio performance with a coefficient of .813 (p = .000 < 0.05). This indicates that a unit increase in assessing borrower character results in an .813 increase in loan portfolio performance, while a unit decrease in assessing borrower character corresponds to an .813 decrease in loan portfolio performance.

Table 4.13: The Predictive Potential of Capacity on Loan Portfolio Performance

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.295	.037		7.890	.000
Capacity	.926	.010	.790	9.752	.000
Model Summary					
R Square	.779				
Adjusted R Square	.779				
F	19.7523				
Dependent Variable: Loan Portfolio Performance					

The results presented in the table indicate that the regression analysis showed that capacity explained 77.9% of the variance in loan portfolio performance (Adjusted R Square = .779). The remaining 22.1% of the variance is attributed to factors not examined in this study. The significant F-value (F = 19.7523, P = .000 < 0.05) confirms that the model is a good fit for predicting the dependent variable. Based on the unstandardized coefficients, it was revealed that capacity significantly predicts loan portfolio performance with a coefficient of .926 (p = .000 < 0.05). This indicates that a unit increase in capacity results in a .926 increase in loan portfolio performance, while a unit decrease in capacity corresponds to a .926 decrease in loan portfolio performance.

Table 4. 14: The Predictive Potential of Capital on Loan Portfolio Performance

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.472	.059		7.988	.000
Capital	.931	.016	.777	8.206	.000
Model Summary					
R Square	.754				
Adjusted R Square	.754				
F	14.2523				
Dependent Variable: Loan Portfolio Performance					

The results presented in the Table 4.14 indicate that the regression analysis showed that capital explained 75.4% of the variance in loan portfolio performance (Adjusted R Square = .754). The remaining 24.6% of the variance is attributed to factors not examined in this study. The significant F-value (F = 14.2523, P = .000 < 0.05) confirms that the model is a good fit for predicting the dependent variable. Based on the unstandardized coefficients, it was revealed that capital significantly predicts loan portfolio performance with a coefficient of .931 (p = .000 < 0.05). This indicates that a unit increase in capital results in a .931 increase in loan portfolio performance, while a unit decrease in capital corresponds to a .931 decrease in loan portfolio performance.

4.6.2 Multiple Regression Analysis

This shows the combined predictive potential of collateral, character, capacity and capital on loan portfolio performance.

Table 4. 15: Multiple Regression Analysis

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.969	.056		17.197	**.000**
Collateral	.605	.056	**.458**	10.783	**.000**
Character	.123	.035	**.090**	3.515	**.001**
Capacity	.645	.065	**.622**	9.913	**.000**
Capital	.179	.053	**.170**	3.378	**.001**
Model Summary					
R Square	.791				
Adjusted R Square	.790				
F	5.3043 (P-value = **.000**[a])				
Dependent Variable: Loan Portfolio Performance					

Source: Field data, 2024

The results presented in Table 4.15 indicate that the combined factors of loan appraisal practices, including collateral, character, capacity, and capital, collectively explained 79.0% of the variance in loan portfolio performance (Adjusted R Square = .790). The remaining 21.0% of the variance was attributed to factors not examined in this study. These findings suggest that the regression model successfully predicted the dependent variable because a significant F-value (F = 5.3043, P = .000 < 0.05) was registered hence indicating a good fit.

For the individual constructs, using Beta values, the results also revealed that collateral security positively predicts loan portfolio performance at (Beta = **.458**, *p=.000* <0.05). This means that a unit increase in collateral security leads to .458 increase on the loan portfolio performance, and a unit decrease in collateral security leads to .458 decrease in loan portfolio performance. For borrower's character, it positively predicted loan portfolio performance at (Beta =**.090**, *p=.001* <0.05), this implies that a unit increase in assessing borrower's character leads to .090 increase in loan portfolio performance, and a unit decrease in assessing borrower's character leads to .090 decrease in loan portfolio performance.

The results also revealed that assessing the borrower's capacity was also found to be positively predicting loan portfolio performance at (Beta =**.622**, *p=.000* <0.05), this implies that a unit increase in assessing the borrower's capacity leads to .622 increase in loan portfolio performance, and a unit decrease in assessing the borrower's capacity leads to .622 decrease in loan portfolio performance. Finally, regarding borrower's capital, it positively predicted loan portfolio performance (Beta = .170, p = .001 < 0.05). This suggests that a one-unit increase in assessing borrower's capital results in a 0.170 increase in loan portfolio performance, while a one-unit decrease in assessing borrower's capital leads to a 0.170 decrease in loan portfolio performance.

CHAPTER FIVE: SUMMARY, DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter provides a summary and discussion of the study's findings, along with presenting the conclusion and recommendations. The results were organized in line with the study objectives which included examining the relationship between collateral and loan portfolio performance, the relationship between borrower's character and loan portfolio performance, the relationship between borrower's capacity and loan portfolio performance and the relationship between borrower's capital and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority.

5.2 Summary of the Study Findings

5.2.1 Borrower's Collateral and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

The study findings revealed that there was a strong, positive, and significant relationship between collateral and loan portfolio performance (r = .901**, P=0.00 <0.01). Since the results showed a significant relationship, the study therefore rejected the study hypothesis: *Ho_1. There is no significant relationship between collateral and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority.* Furthermore, linear regression showed collateral explained 78.2% of the variance in loan portfolio performance and collateral significantly predicts loan portfolio performance by (B=.909, p = .000 < 0.05). From the Multiple regression analysis, the results also revealed that collateral security positively predicts loan portfolio performance at (Beta = .458, *p=.000* <0.05).

5.2.2 Borrower's Character and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

The study findings revealed that there was a moderate, positive, and significant relationship between borrower's character and loan portfolio performance (r = .606**, P = .000 < 0.01). Since the results showed a significant relationship, the study therefore rejected the study hypothesis: *Ho_2. There is no significant relationship between borrower's character and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority.* Furthermore, from linear regression analysis, borrower character explained 72.8% of the variance in loan portfolio performance. Further, borrower character significantly predicts loan portfolio performance at (B = .813, p = .000 < 0.05). The multiple regression analysis also was revealed that borrower's character positively predicted loan portfolio performance at (Beta =.090, *p=.001* <0.05).

5.2.3 Borrower's Capacity and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

The study findings revealed that there was a strong, positive, and significant relationship between borrower's capacity and loan portfolio performance (r = 0.917**, P = .000 < 0.01). Since the results showed a significant relationship, the study therefore rejected the study hypothesis: *Ho_3. There is no significant relationship between borrower's capacity and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority.* From the linear regression analysis, it was revealed that capacity explained 77.9% of the variance in loan portfolio performance. It was also revealed that capacity significantly predicts loan portfolio performance (B= .926, p = .000 < 0.05). Then, from multiple regression

analysis, the results also revealed that assessing the borrower's capacity was also found to be positively predicting loan portfolio performance at (Beta =.622, p=.000 <0.05).

5.2.4 Borrower's Capital and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

The study findings revealed that there was a strong, positive, and significant relationship between borrower's capital and loan portfolio performance (r = 0.899**, P = .000 < 0.01). Since the results showed a significant relationship, the study therefore rejected the study hypothesis: ***H_{O4}.*** *There is no significant relationship between borrower's capital and loan portfolio performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority.* Results from the linear regression analysis revealed that capital explained 75.4% of the variance in loan portfolio performance. It was also revealed that capital significantly predicts loan portfolio performance with a coefficient of .931 (p = .000 < 0.05). Then, from the multiple regression analysis, it was also revealed that borrower's capital positively predicted loan portfolio performance (Beta = .170, p = .001 < 0.05).

5.3 Discussion of the study findings

5.3.1 Borrower's Collateral and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

The study findings showed a positive and significant relationship between collateral and loan portfolio performance in SACCOs and the identification of collateral security as a critical predictor of loan portfolio success underscores the importance of tangible assets that are owned by or jointly owned with the borrower. This aligns with Amugsi and Adjasi (2019), who found that collateral security significantly affects loan default rates in SACCOs. They argued that collateral serves as an added layer of security, instilling a higher sense of responsibility in

borrowers who are more likely to repay their loans on time to avoid losing their assets. This results in reduced likelihood of default and enhanced loan portfolio performance by minimizing credit risk, mirroring the current study's conclusions.

Similarly, findings were in line with Mambo and Ncube (2018) who also observed that collateral significantly reduces default rates and enhances loan portfolio performance by mitigating credit risk. Their studies found that the presence of collateral enhances the performance of loan portfolios by reducing credit risk, echoing the current study's findings. The acceptance of household equipment as collateral, highlighted in the current study, demonstrates the practical and adaptable nature of collateral requirements, which is crucial in managing credit risk effectively as emphasized by these prior studies. Furthermore, Kioko (2016) and Karimov et al. (2018) further reinforce the role of collateral in credit risk management within SACCOs. They noted that collateral provides a tangible form of security, allowing SACCOs to mitigate credit risk by setting appropriate loan-to-value ratios (LTV) to ensure adequate coverage of loan amounts. This is consistent with the current study's finding that key criteria for collateral include clear and verifiable value, transferability in case of default, and reasonable depreciation over time.

Furthermore, the study's findings resonate with the observations by Amankwah-Amoah (2018) and Amugsi and Adjasi (2019) regarding the use of social collateral in group-based lending methodologies such as Village Savings and Loan Associations (VSLAs) and rotating savings and credit associations (ROSCAs). While these models may not rely on physical assets as collateral, they employ social collateral mechanisms to ensure repayment discipline. The current study's emphasis on the adaptability of collateral requirements aligns with the effectiveness of

social collateral mechanisms highlighted in these models, contributing to the performance of loan portfolios.

5.3.2 Borrower's Character and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

The findings presented emphasize the critical importance of comprehensive borrower assessments, particularly focusing on character, in predicting loan portfolio performance for SACCOs. Specifically, SACCOs that diligently review credit histories, ensure regulatory compliance, evaluate savings habits, and consider community reputation are better positioned to enhance their loan portfolio performance. These findings align with and are supported by previous research in various contexts, emphasizing the universal relevance of borrower character in financial practices such Latif et al. (2017) who found that a borrower's character significantly impacts loan repayment performance in SACCOs. These SACCOs assess character based on past repayment behavior, references from other members, and community involvement. This approach mirrors the current findings, as both studies highlight the necessity of thorough borrower evaluations to ensure loan repayment. Similarly, Koomson and Annim (2019) revealed that trust and social capital are crucial in African SACCOs. Borrowers with good character earn the trust of SACCOs and fellow members, which enhances cooperation and reduces default rates. This finding aligns with the current study, emphasizing that trust and community reputation are integral to loan performance. Nalunkuma et al. (2017) also support this by showing that trust fosters cooperation and timely repayments in Uganda, reinforcing the role of character in financial reliability.

Further supporting evidence comes from Jaiswal et al. (2021) who found that character assessment plays a significant role in credit scoring models used by SACCOs, leading to better

loan portfolio performance. These models incorporate factors like repayment history, references, and community involvement, directly aligning with the current study's emphasis on comprehensive assessments. Similarly, Muhumuza et al. (2020) revealed that responsible financial behavior and positive character traits lead to favorable credit scores and better loan performance, corroborating the present findings. Moreover, Adebayo et al. (2020) and Alemu et al. (2021) emphasized the role of ethical and moral principles. Showing that borrowers with good character aligned with cultural values exhibit responsible financial behavior, which SACCOs can leverage during loan appraisals to enhance repayment performance.

5.3.3 Borrower's Capacity and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

The findings revealed that there was positive relationship and the ability to predict loan portfolio performance based on the borrower's capacity highlights the pivotal role of thorough capacity assessments. The study highlights that SACCOs that rigorously evaluate income levels, debt-to-income ratios, cash flows, and the capacity of guarantors to cover defaults tend to achieve superior loan portfolio performance. This observation concurs with the research by Dewan and Das (2020) Ajefu and Ojiya (2019) and Kizza and Ssekatawa (2017) all of whom identified that higher income levels and financial stability in borrowers lead to better loan repayment outcomes. These studies collectively emphasize the necessity of thorough capacity assessments to ensure borrowers possess sufficient income to meet their repayment obligations, thereby enhancing financial stability and loan performance.

Moreover, the current study's emphasis on comprehensive capacity evaluation frameworks resonates with Kaur's (2020) findings, which underscore the importance of financial literacy and management skills in borrower capacity assessments. Kaur noted that SACCOs in Asia

often provide financial education to their members, enhancing their financial decision-making capabilities and cash flow management, which in turn improves their ability to repay loans. Similarly, Mambo and Ncube (2018) reported that many African SACCOs assess financial literacy before granting loans, favoring borrowers with better financial knowledge who can effectively manage their finances and repay their loans. This correlation between financial literacy and loan repayment ability further supports the current study's recommendation for incorporating comprehensive capacity evaluation frameworks in SACCOs.

Additionally, the current study's findings on the importance of assessing debt-to-income ratios and business viability align with research by Thapa et al. (2021) and Amankwah-Amoah (2018) regarding business loans. Thapa et al. highlighted that a favorable debt-to-income ratio indicates a borrower's capacity to manage additional debt, leading to better loan portfolio performance. Similarly, Muhumuza et al. (202Z0) found that Ugandan SACCOs consider debt-to-income ratios, favoring borrowers who meet this criterion. Furthermore, Amankwah-Amoah's research emphasized that SACCOs assess business plans and entrepreneurial skills to gauge the potential success of businesses, ensuring that borrowers can generate sufficient income to repay their loans. This concurs with the current study's findings, illustrating that SACCOs' assessment of a borrower's overall capacity, including their ability to manage the loan size without straining their resources, is crucial for achieving timely repayments and improving loan portfolio performance.

5.3.4 Borrower's Capital and Loan Portfolio Performance among selected SACCOs in Nakawa Division in Kampala Capital City Authority

The study revealed the positive relationship and the ability of borrower's capital to positively predict loan portfolio performance highlights the critical importance of comprehensive capital

assessments. It emphasizes that SACCOs benefit significantly from evaluating equity, savings, investments, and other assets when determining loan risk and likelihood of repayment. This aligns with previous research by Dewan and Das (2020) in India and Hassan et al. (2016), which found that borrower capital, such as savings or valuable assets used as collateral, enhances the borrower's ability to secure loans and contributes positively to loan portfolio performance. These studies collectively highlight that SACCOs assess borrower capital to mitigate risk and ensure loan security, thus promoting better loan portfolio outcomes.

Furthermore, the current study's emphasis on the importance of borrower capital in SACCOs resonates with findings by Shih (2019) who argued that financial institutions assess borrower capital as an indicator of financial stability and repayment capacity, influencing loan approval decisions. Similarly, with Kasibante et al. (2019) research revealed a positive relationship between borrower capital injection and loan portfolio performance, indicating that borrowers who inject additional capital demonstrate commitment and financial capacity, leading to improved loan repayment behaviors. These findings corroborate the current study's assertion that SACCOs' evaluation of borrower capital plays a crucial role in enhancing loan portfolio performance by ensuring borrowers have the financial strength to meet their obligations.

The study findings further aligned with Kasibante et al. (2019) who supported the notion that borrower capital position influences loan portfolio performance. Relatedly, Haryani et al. emphasized that SACCOs consider borrower capital and liquidity to assess repayment capacity, underscoring its role in loan security and reducing default risks. Similarly, Kasibante et al. discussed the use of capital adequacy ratios (CARs) by Ugandan SACCOs to maintain financial stability and support growing loan portfolios, indicating that adequate borrower capital enhances SACCOs' ability to absorb potential losses and maintain loan portfolio health. These findings

align with the current study's recommendation for SACCOs to adopt robust capital evaluation frameworks to ensure financial stability and improve loan portfolio performance.

5.4 Conclusions

The study concluded that there was positive and significant relationship between collateral and loan portfolio performance. This indicated that collateral security was a critical predictor of loan portfolio success, highlighting the importance of tangible assets that are owned by or jointly owned with the borrower. Key criteria for collateral include clear and verifiable value, transferability to the SACCO in case of default, and the ability to retain value or depreciate reasonably over time. The acceptance of household equipment as collateral by SACCOs further emphasizes the practicality and adaptability of collateral requirements, ultimately reinforcing the critical role of well-defined collateral policies in enhancing loan portfolio performance.

It was also concluded that with positive relationship and prediction of loan portfolio performance by the borrower's character highlights the critical importance of comprehensive borrower assessments. Specifically, SACCOs that diligently review credit histories, ensure compliance with mandatory regulatory requirements, evaluate savings habits, and consider community reputation are better positioned to enhance loan portfolio performance. These findings highlight the necessity for SACCOs to adopt robust character assessment frameworks to mitigate risks and foster sustainable financial practices.

The study also concluded that the positive relationship and the ability to predict loan portfolio performance based on the borrower's capacity highlights the pivotal role of thorough capacity assessments. SACCOs that evaluate income levels, analyze debt-to-income ratios, assess cash flows, consider savings, and ensure guarantors' ability to cover defaults are more likely to

achieve superior loan portfolio performance. These findings emphasize the critical importance of incorporating comprehensive capacity evaluation frameworks within SACCOs to enhance financial stability.

Lastly, it was concluded that, the positive relative and the ability of borrower's capital to positively predict loan portfolio performance highlights the critical importance of comprehensive capital assessments. It was further concluded that SACCOs that evaluate equity, consider savings and investments, assess existing assets, and analyze business performance are better equipped to enhance loan portfolio performance. This emphasizes the necessity for SACCOs to adopt robust capital evaluation frameworks, which are essential for mitigating risks.

5.5 Recommendations

The following recommendations were suggested;

To help SACCOs improve their loan performance by effectively managing collateral and reducing default risks, managers need to implement robust collateral valuation processes: SACCOs should ensure that collateral valuation is accurate and up-to-date to minimize default risks. SACCOs should also develop clear collateral policies and procedures for collateral management, including types of acceptable collateral, valuation methods, and documentation requirements.

The study recommends that the credit risk management teams in SACCOs should implement robust borrower assessment processes by evaluating borrowers' character and credit history when assessing loan applications. They should further provide financial education and training to borrowers to improve their financial literacy skills and management.

To improve on the loan portfolio performance, the survey recommends that SACCO staff should as often as possible conduct thorough borrower capacity assessments by evaluating the borrowers' income, expenses, and debt obligations to determine their repayment capacity. The SACCO staff can as well use debt-to-income ratios to ensure that the borrowers' debt obligations are manageable and aligned with their income.

The Credit risk management teams in SACCOs should focus on evaluation of the borrowers' capital contribution, such as savings or equity, when evaluating loan applications. Thorough loan appraisal should focus on the loan-to-value ratios to ensure that loan amounts are aligned with the value of the borrower's capital or collateral.

5.6 Areas for further research

The following areas were put forward for future research studies:

(i) The effect of Financial Literacy Programs on Loan Repayment Behavior among SACCO Members.

(ii) The role of Technology in Enhancing Loan Appraisal and Monitoring Processes in SACCOs.

(iii) The effects of Governance and Management Practices on the Financial Sustainability of SACCOs.

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APPENDICES

Appendix I: Consent form for participants

Dear Sir/Madam

I am **KASOWOLE MERCY (21/U/GMBA/14220/PE)** pursing a Master's Degree in Business administration at Kyambogo University. I am carrying out a research study titled; "*The relationship between loan appraisal practices and loan portfolio performance among selected Savings and Credit Cooperative Societies in Nakawa Division in Kampala Capital City Authority*". You have been humbly selected as one of the respondents for the study and the information you will give will be treated with utmost confidentiality and used purely for academic purposes. Please respond to the alternatives by either ticking or where necessary make a brief statement.

The following are key considerations

Particulars	Narrations/Explanation
Nature of the study	Academic and non-profit or funded
Target study objective	(i) To examine the relationship between collateral and loan portfolio performance among selected SACCOs in Nakawa Division In Kampala Capital City Authority (ii) To examine the relationship between borrower's character and loan portfolio performance among selected SACCOs in Nakawa Division In Kampala Capital City Authority (iii)To examine the relationship between borrower's capacity and loan portfolio performance among selected SACCOs in Nakawa Division In Kampala Capital City Authority (iv)To examine the relationship between borrower's capital and loan portfolio performance among selected SACCOs in Nakawa Division In Kampala Capital City Authority

Respondents' role	To free give true information about the objectives under study without anything in exchange
Respondents' privacy	There is no need to provide information anywhere that may exposal of the respondent's identity
Respondents' limit	As a respondent, you are only limited to give information in the field
Terms for terminating or withdrawing from the process	The respondent is free to withdraw at any time if S/he feels not comfortable with the study.

If you feel comfortable and agreeing with the above information, append your signature to show that you have formally consented to take part in the study.

Participant's Name.....Signature: .....

Researchers' Signature: .....Telephone No: .....

Appendix II: Questionnaire for Data Collection

Dear Respondent,

I am **KASOWOLE MERCY (21/U/GMBA/14220/PE)** pursing a Master's Degree in Business administration at Kyambogo University. I am carrying out a research study titled; "*The relationship between loan appraisal practices and loan portfolio performance among selected Savings and Credit Cooperative Societies in Nakawa Division in Kampala Capital City Authority*". You have been humbly selected as one of the respondents for the study and the information you will give will be treated with utmost confidentiality and used purely for academic purposes. Please respond to the alternatives by either ticking or where necessary make a brief statement.

SECTION A: BIO-DATA

Please write in the space provided or Tick below the appropriate Option

SACCO				
Age	20-29	30-39	40-49	50 Above
Sex	Male		Female	
Level of Education	Masters	Bachelors	Diploma	Certificate
Time spent working with the SACCO	Less than a year	1-5 years	6-10 years	11 years and above

For Section B, C, D, E & F respond by ticking only one option: (1-Strongly disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree)

SECTION B: Collateral

Code	Item	Ranking				
		1	2	3	4	5
B1	SACCO considered collateral security that is a tangible asset					
B2	The collateral has to be owned by the borrower or jointly owned by the borrower					
B3	The collateral must have a clear and verifiable value					
B4	The collateral should be transferable to the SACCO in case of default					
B5	The collateral should generally be an asset that retains its value or depreciates at a reasonable rate over time					
B6	The collateral has to be adequately insured					
B7	The accepts household equipment to be used as collateral					

SECTION C: Borrower's Character

Code	Item	Ranking				
		1	2	3	4	5
C1	We review the borrower's credit history to assess their past repayment behavior					
C2	We consider the borrower's savings habits					
C3	We evaluate whether the borrower complies with SACCO mandatory regulatory requirements					
C4	We consider the reputation of the borrower in the community					
C5	A borrower must have a recommendation(s) from reputable persons in the community					
C6	We assess the criminal history of the borrower					

C7	We evaluate the borrower's stability of employment because people who over change jobs may pose character challenges					

SECTION D: Borrower's Capacity

Code	Item	Ranking				
		1	2	3	4	5
D1	We evaluate the borrower's income level					
D2	We assess the nature of the job or employment of the borrower					
D3	We analyze the borrower's debt-to-income ratio, which compares the borrower's monthly debt obligations to their income					
D4	We assess the borrower's cash flow					
D5	We give the loan basing on the borrower's savings					
D6	We assess the borrower's loan purpose before giving out a loan					
D7	The guarantors must have capacity to pay the loan in case the borrower defaults					

SECTION E: Borrower's Capital

Code	Item	Ranking				
		1	2	3	4	5
E1	We assess the borrower's equity, which represents the value of assets that the borrower holds					
E2	We consider the borrower's savings as a measure of their capital					
E3	We consider the borrower's investments as a measure of their capital					
E4	We evaluate the borrower's existing assets, such as property, vehicles, equipment, or any other valuable possessions					
E5	We assess the borrower's net worth, which is calculated by subtracting liabilities from assets					
E6	If the loan is for a business purpose, we examine the capital invested in the borrower's business					
E7	We consider the borrower's business performance					

SECTION F: Loan Portfolio Performance

Code	Item	Ranking				
		1	2	3	4	5
F1	SACCO's non-performing loans has been reducing every year					
F2	SACCO's loan recovery rate is always higher than 95%					
F3	The amount of bad debts written off in this SACCO has been reducing every year					
F4	The amount of interest income earned on loans increases every year					
F5	We efficiently collect all the loans in the set time.					
F6	Our loan portfolio keeps increasing every year					
F7	The value of portfolio at risk in this SACCO is always below 3% every year					

END

THANK YOU