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Credit Risk Mitigation and Loan Performance of Financial Institution: A Case Study of Zigama Credit Saving Society

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Abstract

Despite the fact that Rwanda has cooperatives and financial institutions functioning since the 1970s, savings and credit cooperatives have not performed as expected in terms of having an impact on people's lives with the intention of enhancing the wellbeing of its participants, ZCSS was established in 1998. The ZCSS seek to gather funds from its members in order to offer loans to them at a low interest rate. The study's three specific objectives—To assess how risk identification is carried and affect loan performance, to evaluate how risk is assessed, monitored and affect loan performance and to analyze the effectiveness of financial tools for enhancing loan performance and minimizing potential losses at Zigama are designed to help evaluate risk mitigation as a financial tool to improve loan performance. The study adopted a descriptive and correlational research design. Stratified and simple random sampling was utilized to choose the population to be sampled and the individuals for data collection. The research's target population included operational managers, credit officers, finance managers, and loan officers from several Zigama CSS Branches, totaling 41 respondents. Questionnaire was utilized for primary data gathering desirable for the research. Study was conducted in Remera as ZCSS Headquarters, Huye, Karongi, Nyamata and Byumba branches where 5 Point Likert scale questionnaires was adopted. Data was analyzed in form of descriptive and inferential statistics. Because random sampling was utilized to choose the respondent, every participant was given an equal chance of being selected. Questionnaire was used to select primary data and using SPSS Version 27 to analyze data in terms of quantitative method. The study findings regarding to the gender of respondents reveal that, majority of the respondents were male who constituted 82.93% of the total respondents while the female was 17.07%. Research revealed that risk Identification alone has a 21.7% effect on Loan performance at Zigama CSS. Research also revealed that 27.9% of risk assessment had an effect on loan performance at Zigama CSS and Risk monitoring found to have no significant effect on loan performance where findings depicted only 2.9% whereas 97.1% influenced by other factors. The effects for all the three financial tools (risk identification, risk assessment, risk Monitoring) on loan performance was computed to be at an R Squared coefficient of 0.441. It meant that the financial tools accounted for 44.1% of the

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variation in loan performance could be explained by the three (risk identification, risk assessment, risk Monitoring) belonging to credit risk mitigation. This denotes a low rate of influence that the tools (variables) have on loan performance. the study concluded that Zigama CSS used credit risk mitigation to a very great extent which resulted into not only reduction in default rates among bank clients but also led to significant decrease in level of non-performing loans.

Key words: *Risk mitigation, Loan performance, financial tool, Zigama CSS, Loan portfolio, Non-performing loans.*

1. Introduction

Credit risk is the risk that investors would experience financial loss as a consequence of a borrower's failure to make payments, which might result in default risk. Investor interest and principal might decline, raising collection expenses and reduction of cash flows. High CRC may lead to low default rates, according to prior studies. Variations in credit risk are a reflection of shifts in bank's loan portfolio soundness. As a result, financial institutions' performance differs accordingly (Cooper, 2003).

A case of Barclays was conducted in Uganda to explore the credit evaluation procedure and repayment of bank loans. Interviews were conducted with 73 respondents, and the study's findings revealed that Barclays Bank delayed scoring loans and charged commitment fees to both new and current clients, which had a detrimental effect on performance (Omara, 2007).

(Glen, 2012) investigated how credit policies affected bank performance in a sample of Rwandan commercial banks and found that policies related to credit evaluation, credit responsibility, collection, and overdraft led to an increase in customer base and the existence of bad debts. Commercial banks in Somalia have experienced rising loan default rates over the past ten years, which has necessitated the development and implementation of credit rules in an effort to reduce the risks of defaults by microfinance banks in Somalia.

(Simiyu, 2008) investigated the methods Kenyan microfinance institutions utilized to control credit risk. The results of this study showed that microfinance entities that used credit management methods generated the most income in the form of interest on loan granted to clients and businesses. According to (Miller, 1997), Increased exposure to high-risk loans will result in a buildup of delinquent and decreased profitability for financial institutions. The most significant and costly risk associated with banking organizations is credit risk. It has a far greater impact than any other risk linked with the banking sector since it directly threatens the institution's solvency (Chijoriga, 2011)

In addition to having a direct correlation with solvency, credit risk has the highest amount and extent of loss when compared to other risks. It might lead to large losses on loans and perhaps the bankruptcy of the financial organization (Richard , Kaijage & Peterson , 2008; Chijoriga, 2011). While credit risk mitigation approaches are widely used, there is a necessity to carry out further research analyzing the association among risk mitigation strategies and loan performance metrics in Zigama CSS.

As a result, further research is needed to determine how risk mitigation measures, when combined with accounting principles, might improve loan performance by lowering default rates. Payment period adherence, loan collection effort, and loan regulation should also be determined. Internal organizational concerns including liquidity management, capital strength, and risk mitigation are the key challenges affecting ZCSS from performing effectively. The study will solely examine risk mitigation as the most of the important internal organizational aspects that affects how cooperative banks in Rwanda perform on loans, focusing a case of Zigama CSS.

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1.2 Research Objectives

1.2.1 General Objectives

The general objective of the research is to examine the effect of sredit risk mitigation on loan performance in financial institutions in Rwanda with a case of Zigama CSS.

1.2.2. Specific Objectives

(i) To assess the effect of risk identification on loan performance at Zigama CSS
(ii) To evaluate the effect of risk assessment on loan performance at Zigama CSS
(iii) To analyze the effect of risk monitoring on loan performance at Zigama CSS.

1.3 Research Questions

(i) What is the effect of risk identification on loan performance at Zigama CSS?
(ii) What is the effect of risk assessment on loan performance at Zigama CSS?
(iii) What is the effect of risk monitoring on loan performance at Zigama CSS?

2.1 Empirical Review

In Kenya, from 2007 to 2011, Kisala conducted a study on the impact of credit risk management on the loan performance of microfinance organizations. The study's main issue was that improved credit risk management had contributed significantly to an increase in loan performance. The research population consisted of the 9 micro finance institutions regulated by the Central Bank of Kenya; however, data was gathered from 5 of them. Multiple regression analysis was used to examine data from microfinance institution's' annual reports. The study employed a census study, in which the whole population was examined, resulting in a response rate of 100%. Descriptive research methods were employed in this study because a thorough examination of the management of credit risks and its connection to loan performance in microfinance institutions was required. This study, on the other hand, discovered a substantial correlation between handling credit risks and loan performance. According to the analysis's conclusions, both the capital adequacy ratio and the non-performing loans ratio have a negative and comparatively large impact on ROE, with NPL having a higher impact than CAR. By concentrating on the profitability model as a gauge of loan performance, this study revealed several discrepancies (Kisala, 2014). The investigations were done from 2007 to 2011, and they were done in an area other than Rwanda and fell short of proving clearly the impact of risk mitigation on loan performance.

A study was undertaken by Kiage, Musyoka, and Muturi on the influence of positive credit information sharing determinants among commercial banks in Kenya. In addition to determining the impact of competition on the financial performance of commercial banks in Kisii town, Kenya, it evaluated the impact of privacy protection, cost of sharing positive information, technological level, and cost of sharing positive information. The target population consisted of 34 credit and branch managers from the 17 banks in Kisii town, of which 27 completed and returned the questionnaires, for a response rate of 79.4%. To gather data, a survey questionnaire was created and used. The data was provided in descriptive manner, with frequency counts and percentages to support it up. According to the study, competition improved the financial performance of banks and Privacy protection had also a negative influence on commercial banks' financial performance (Kiage, Musyoka, & Muturi, 2015). However, this study was unable to demonstrate whether the performance of the loan portfolio was significantly impacted by credit information exchange.

In a Kenyan microfinance institution, Kosgei looked into how lending practices affected the performance of the loan portfolio. The research evaluated 8 of the 56 microfinance institutions covered by the Association of Microfinance Institutions of Kenya (AMFI) employed secondary data. Because of the data's accessibility, this was done. Analysis of panel data was used to test the null hypothesis that there is no impact of group lending on loan portfolio performance. After conducting a regression using loan portfolio performance as the dependent variable, the study discovered that group lending without moderating variables had a significant positive coefficient of 0.79 and (p=0.42). The coefficient becomes 0.38 and (p=0.19) when moderating variables are taken into account (Kosgei, 2012).

Kargi researched the impact that credit risk mitigation procedures had on the n Nigerian banks' financial success using 5 banks that had highest asset base. The ex post facto and analytical research designs were used in this research and The traditional profit theory was used to calculate profit, expressed as Return on Asset (ROA), as a function of the ratios of non-performing loans to loans and advances, total loans and advances to total deposits, and the ratio of loan loss provisions to classified loans (LLP/CL), all of which serve as indicators of credit risk. Estimates of the factors that affect the profit function were made using panel model analysis. The findings demonstrated that credit risk has a cross-sectional invariant impact on bank performance as assessed by return on assets. The non-performing loans increased by 100%, loan loss provisions increased by 100%, total loans and advances increased by 100%, profitability (ROA) decreased by about 6.2 %, 0.65 %, and 9.6 %, respectively. The study did not manage to determine if the performance of the loan portfolio was impacted by credit risk mitigation practices (Kargi, 2011).

Wanja looked on how the lending policies adopted by banks affected their performance. The study's goal was to investigate the connections between loan terms and conditions and performance, as well as the connections between loan processing steps, available loan balances, credit information, and length of bank credit relationships. The study used a descriptive research strategy, and the population of the study consisted of all 43 commercial banks in Kenya, with four branches chosen using a simple random selection procedure. The results of the study revealed that the types of loan regulations, borrower's credit record in allocating the amount of the loan, and borrower's personal behavior as credit policies utilized by banks have an impact on the overall amount of loans obtained by the banks and, consequently, the bank's competitiveness in lending and, consequently, how well it performs in the industry (Wanja, 2013).

In Ghana's Greater Accra area, Ntiamoah, Egyiri, Fiaklou, and Kwamega conducted research on the correlation between credit management techniques and loan performance. Both qualitative and quantitative research methodologies were used in the study. Utilizing administered questionnaires, information was gathered from 400 microfinance organizations in Ghana. The population of these organizations consisted of both management and non-management staff. Correlation and regression were to be used to examine the study's hypotheses. The study's findings showed a strong positive association between loan performance, credit terms and policies, lending, credit analysis and appraisal, and credit risk management. However, the study did not manage to determine if there was a substantial impact of credit risk management procedures on the performance of loan portfolios in commercial banks (Ntiamoah, Egyiri, Fiaklou, & Kwamega, 2014).

The effect of credit risk on the profitability of commercial banks in Ethiopia was studied by Gizaw, Kebede, and Selvaraj. The study's goal was to experimentally investigate how credit risk affects the bottom line of commercial banks in Ethiopia. Data was gathered over a 1-year period (2003–2004) from yearly reports of 8 sample commercial banks and the National Bank of Ethiopia. A descriptive statics and panel data regression model was used to evaluate the data, and the results revealed that capital adequacy, non-performing loans, loan loss provisions, and credit risk metrics all significantly affect the profitability of commercial banks in Ethiopia (Gizaw, Kebede, & Selvaraj, 2015).

2.2 Research Gap

While the existing research provides valuable insights into credit risk management and loan performance, certain limitations and gaps can be identified. First, the studies predominantly focus on various international contexts, such as Sweden, Kenya, Bangladesh, and Uganda, with minimal attention given to the specific Rwandan context. Consequently, a gap exists in the literature regarding the application of credit risk management strategies within the Rwandan financial sector, necessitating further investigation tailored to this specific setting (Aboagye & Otieku, 2016; Negera, 2012; Malik & Ahmed, 2015; Muasya, 2013; Mutua, 2014; Mwithi, 2012; Kaggwa, 2013; Mohammad, 2018; Haron & Hin Hock, 2007). Moreover, while some studies have examined the relationship between credit risk management and loan performance, there is insufficient evidence demonstrating a clear and significant impact of risk mitigation strategies on enhancing loan performance, thereby suggesting the need for more robust and comprehensive analyses (Muasya, 2013; Haron & Hin Hock, 2007). Additionally, the absence of a comprehensive evaluation of the specific credit risk management tools and techniques employed by financial institutions in Rwanda highlights another crucial gap in the literature, emphasizing the necessity for a more focused and in-depth exploration of these mechanisms within the Rwandan banking sector..

2.3 Conceptual Framework

A conceptual framework embodies the researcher’s combination of literature on how to explain a phenomenon. As McGaghie stated, it “sets the stage” for the presentation of the particular research questions that drives the enquiry being described based on the problem statement. The conceptual framework is the researcher’s understanding of how the particular variables in her study connect with each other. The research has two variables: the independent variable and the dependent variable. The independent variable is credit risk mitigation, which includes risk identification, risk monitoring, and risk assessment, whereas the dependent variable is loan performance is determined by payment period, loan collection attempts, and loan regulations.

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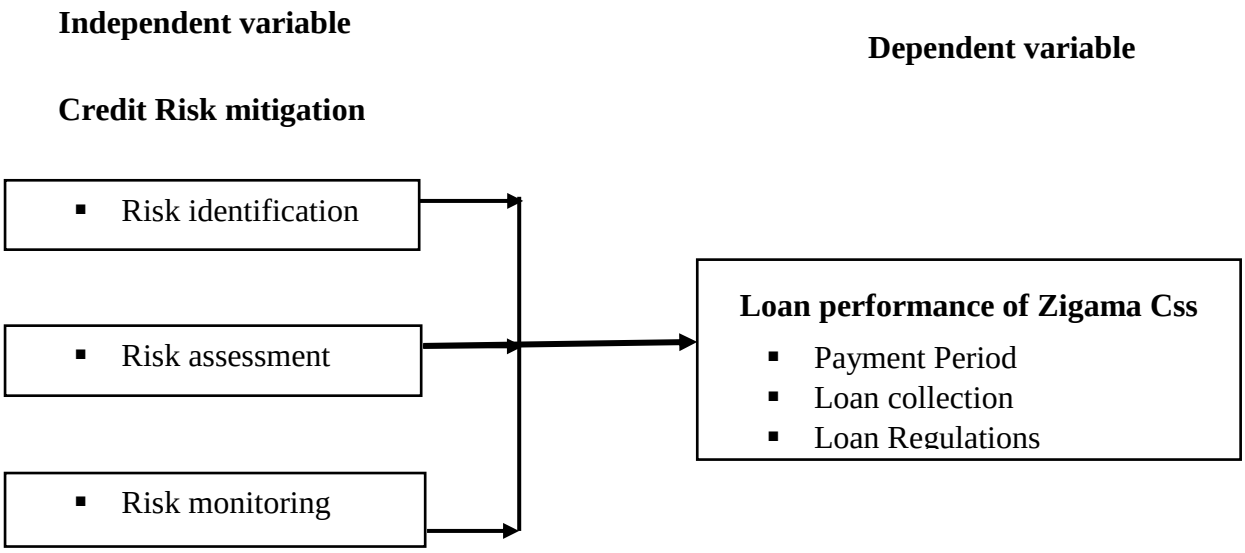

Figure 2.1: Conceptual Framework

3. Materials and Methods

The research employed a descriptive approach to investigate the relationship between credit risk mitigation and loan performance, integrating both qualitative and quantitative methodologies to comprehensively analyze the data. A total of 41 staff members from five branches of Zigama CSS in Rwanda constituted the target population, including operational managers, credit officers, finance managers, and loan officers. The study utilized a census survey method to collect data from all 41 respondents, employing a stratified and simple random sampling technique to ensure an unbiased selection process.

Both primary and secondary data were utilized, with primary data being collected through structured interviews and questionnaires distributed to the staff of Zigama CSS. Secondary data, consisting of literature from various sources, complemented the primary data and enhanced the study's depth. A self-administered questionnaire based on a five-point Likert scale was used, comprising three sections: demographic background, study variables, and respondent suggestions.

To ensure the reliability and validity of the research instrument, the researcher conducted various tests, including the test-retest approach to assess reliability and the content validity index (CVI) to determine the instrument's validity. The analysis of the data involved the editing and coding of field data, with demographic variables analysed using frequency and percentage tables. Descriptive statistics of means and standard deviations were calculated using SPSS version 27, followed by simple linear and multiple regression analyses to determine the impact of credit risk mitigation on loan performance. Ethical considerations were paramount throughout the study, with the researcher obtaining necessary permissions and informed consent from the University and participants, respectively. Confidentiality was assured, and the potential benefits, risks, and opportunities for inquiry were communicated transparently to all involved.

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4.1 Presentation of findings

4.1.1 Risk identification carried out and effects on loan performance at ZIGAMA CSS

The research fulfilled the first objective in order to assess how risk identification is carried out and affects loan performance at ZIGAMA CSS, firstly researcher depict the level of risk identification followed by determination of the level of loan portfolio thereafter adopt simple linear regression to assess on how risk identification affect loan performance. There were 7 questions that are carried out to determine the risk identification level by using five Likert scale measure where mean and standard deviations will be interpreted.

Table 4.1: Risk identification Descriptive Statistics

Risk identification	Mean(μ)	Std. Deviation(SD)	Interpretation
The bank's risk section evaluates key credit risks throughout time.	2.913	1.27	Fair good
The bank estimates credit risk time.	3.721	1.395	Good
The risk identification team is experienced and well-staffed	3.624	1.276	Good
The specialists in the lending identify potential risks early on time.	3.17	1.436	Fair good
The bank undertakes frequent risk identification on nonperforming loans	3.596	1.033	Good
Credit risk identification in the bank is funded by bank management	3.318	1.194	Good
Credit approvals indicate the potential risk associated with the Loans	2.925	1.317	Fair good
Average	**3.324**	**1.274**	**Good**

Source: (Primary data, 2023)

Research revealed that the risk identification carried out in Zigama Css had (μ3.0857 SD 1.46027) which was interpreted as Good. The bank's risk section evaluates key credit risks throughout time had (μ 2.913, SD=1.27) interpreted as fairly Good. The research revealed that the bank estimates credit risk time at (μ3.721, SD=1.395) clarified as good, the risk identification team is experienced and well-staffed at (μ3.624, SD=1.276) indicated as good. The specialists in the lending identify potential risks early on at (μ3.17, SD=1.436) indicated as fair good. The bank undertakes frequent risk identification on nonperforming loans at (μ3.596, SD=1.033) interpreted as good. Research revealed that Credit risk identification in the bank is funded by bank management at (μ3.318, SD=1.194) and Credit approvals indicate the potential risk associated with the Loans at (μ2.925, SD=1.317) depicted as good.

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Table 4.2: Loan performance Descriptive Statistics

Loan performance	Mean(μ)	Std. Deviation(SD)	Interpretation
The loans are repaid within the time frame specified in the loan agreement.	3.901	1.326	Good
Always loans are repaid in full together with the interest	3.468	1.282	Good
Customers are constantly in communication with the bank	3.123	1.512	Fair good
Customers are constantly reminded to pay on time	2.423	1.461	Poor
Sureties are constantly present to remind customers to repay their loans	2.734	1.282	Fair good
The bank doesn't obligate the loan holders to make payments for their debts.	2.835	1.309	Fair
The Management agrees to pursue legal remedies to recoup non-performing loans	3.375	1.302	Good
Staff is appointed to supervise and review the non-functioning loans	3.321	1.389	Good
Average	3.147	1.358	**Fairly good**

Source: Primary data, 2023

The study findings in Table 4.2 on the Loan performance in Zigama Css. The results reveal that the overall Loan performance was 3.147 interpreted as fairy good. The loans are repaid within the time frame specified in the loan agreement had the mean of 3.901 interpreted as good while Always loans are repaid in full together with the interest had the mean 3.468, SD= 1.282 interpreted as good. The study results Customers are constantly in communication with the bank had the mean of 3.123, SD=1.512 interpreted as fairly good. Customers are constantly reminded to pay on time had the mean of 2.423 interpreted as poor.

Sureties are constantly present to remind customers to repay their loans had the mean of 2.734, SD=1.282 interpreted as fairly good while The bank doesn't obligate the loan holders to make payments for their debts had the mean 2.835 interpreted as fairly good. The Management agrees to pursue legal remedies to recoup non-performing loans had the mean of 3.375 interpreted as good Staff is appointed to supervise and review the non-functioning loans had the mean of 3.321 interpreted as good.

4.1.3 Risk Identification Effect on Loan Performance at Zigama Css

The risk identification effect on loan performance at Zigama Css revealed a favorable effect, as seen in the table below. The aggregated regression findings clearly show that risk identification has an influence on loan performance at Zigama Css.

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Table 4.3: Regression Effect of Risk Identification on Loan Performance at Zigama CSS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.466[a]	.217	.202	.38245

a. Predictors: (Constant), Risk identification

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.947	1	4.947	33.824	.000[b]
	Residual	18.869	129	.146		
	Total	23.816	130			

a. Dependent Variable: Loan performance
b. Predictors: (Constant), Risk identification

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.934	.217		8.905	.000
	Risk identification	0.366	.063	.466	5.921	.000

a. Dependent Variable: Loan performance

Source: Primary data, 2023

R-Squared coefficient was calculated to be.217. According to this data, risk identification has a 21.7% influence on loan performance at Zigama Css. This implies that the remaining 78.3% is impacted by variables other than risk identification. The R-Squared coefficient indicates that risk identification has a negligible impact on loan performance. When results indicated that the impact may be significant, analysis of variance was also carried out. Given that it was 0.000, mean that the test's p value was calculated within an acceptable range. There is sufficient evidence to conclude that risk identification influences loan performance at Zigama Css in a meaningful way.

Risk identification, as independent variable in the model, had a computed t value of 5.921, and the t statistics for this variable were likewise within an acceptable range to demonstrate its significance. This suggests that its predictive power over loan performance is strong and significant. As it was discovered to be less than 0.05, the p value for this variable's beta also points to the same conclusion. As a result, the researcher concludes that, in ZIGAMA CSS the risk identification is carried out and there was a substantial correlation between risk identification and loan performance at Zigama Css, rejecting the null hypothesis.

4.1.2 Risk assessment, monitoring and effects for loan performance at Zigama CSS

The research fulfilled the second objective in order to evaluate how risk is assessed, monitored and effects on loan performance at Zigama CSS, firstly researcher depict the level of risk assessment followed by determination of the level of risk monitoring thereafter adopt simple linear regression to assess on how risk assessment as well as risk monitoring affect

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loan performance. There were 7 questions that are carried out to determine the risk assessment level and 6 questions to determine risk monitoring level by using five Likert scale measure where mean and standard deviations will be interpreted.

4.1.2.1. Risk assessment of Zigama CSS

Table 4.4: Descriptive Statistics for Risk Assessment

Risk Assessment	Mean(μ)	Std. Deviation (SD)	Interpretation
The bank has quantitative risk assessment tools	2.475	1.24642	poor
The bank's management hired risk assessment specialists	2.812	1.3351	Fair good
The bank has strong methods for determining quantitative risk	3.193	1.0562	good
Tools for the bank's assessments were created by the management	2.711	1.38873	Fair good
There is adequate knowledge to foresee risks prior to their occurrence	2.929	1.292582	Fair good
The bank's workers were taught in risk assessment	3.741	1.28174	good
Risk evaluation is done promptly to prevent losses for the bank	3.112	1.1274	good
Average	**2.996**	**1.247**	**Fairly good**

Source: Primary data, 2023

The study findings in Table 4.4 on risk assessment on loan performance at Zigama CSS. The study results on risk assessment carried out are **2.996** interpreted as fairly good in the study. The study findings individually presented that the bank has quantitative risk assessment tools had the mean 2.475 interpreted as poor while The bank's management hired risk assessment specialists had the mean of 2.812 interpreted as fairly good.The study findings concerning the means of the bank has strong methods for determining quantitative risk which had the mean 3.193 while Tools for the bank's assessments were created by the management had the mean of 2.711 interpreted as good and fairly good consecutively.

The study findings concerning if there is adequate knowledge to foresee risks prior to their occurrence had the mean 2.929 interpreted as fairly good. The results further show the the bank's 0workers were taught about risk assessment by the bank according to 3.741 interpreted as good and it shows also Risk evaluation is done promptly to prevent losses for the bank with the mean of 3.112, SD=1.1274 interpreted as good.

4.1.2.1.2. Risk assessment effects for loan performance at Zigama CSS

The risk assessment effect on loan performance at Zigama Css revealed a favorable effect, as seen in the table below. The summed regression findings clearly indicate that risk assessment aids in loan performance improvement.

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Table 4.5: Regression Effect of Risk Assessment on Loan Performance at Zigama CSS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.528[a]	.279	.0.46	.41796

a. Predictors: (Constant), Risk assessment

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.281	1	1.281	6.936	.007[b]
	Residual	22.535	129	.175		
	Total	23.816	130			

a. Dependent Variable: Loan performance
b. Predictors: (Constant), Risk assessment

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.732	.170		16.070	.000
	Risk assessment	.165	.061	.528	3.029	.007

a. Dependent Variable: Loan performance

Source: Primary Data, 2023

Based on the 41 observations that were the responders, the R Squared Coefficient was calculated and found to be 0.279 by the study. This result indicates that risk assessment influenced loan performance at Zigama CSS by 27.9%. Because this is the coefficient of determination, it means that risk assessment has a small but considerable positive influence on loan performance. According to the results of the ANOVA test, the significance level was below the 0.05 threshold. The F-Statistic of 6.936 that was computed is high. This fact supports the idea that risk assessment affects loan performance at Zigama Css in a significant manner.

The risk assessment was above the t-statistic, which was 3.029, according to the coefficients. In addition, the significance value for both the independent and dependent variables is 0.000. This indicates that the variable is critical to the model and cannot be eliminated. This is further supported by the p value, which was less than 0.05. As a result, the researcher finds that there was a strong correlation between risk assessment and loan performance at Zigama Css, rejecting the null hypothesis.

4.2.2.2 Risk monitoring at Zigama CSS

Another portion of the study's second objective was to determine the degree risk monitoring impacts on loan performance at Zigama Css. The descriptive data in the table below are used to derive the study conclusions about of how risk monitoring affects loan performance at Zigama Css.

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Table 4.6: Descriptive Statistics for Risk Monitoring

Statements	Mean(μ)	Std. Deviation(SD)	Interpretation
There are excellent risk detection procedures in place	2.650	1.235	Fair good
The risk department provides the best answers to any risks that arise	3.375	1.461	good
There is an efficient control evaluation that decreases operational risks	3.629	1.316	good
The risks that were introduced by the staff taken into consideration for by the employees	3.293	1.035	good
There is budget planning in place to efficiently manage risks in the bank	2.493	1.236	poor
The bank has supportive skilled people for effective risk monitoring	2.917	1.414	Fair good
Average	**3.060**	**1.283**	**Fairly Good**

Source: Primary Data, 2023

The study findings in table 4.6 on risk monitoring Zigama CSS have been described as fairly good with a mean of 3.060, SD=1.283 indicating that risk monitoring was fairly good. Regarding the issue of There are excellent risk detection procedures in place, the mean was 2.650, which was interpreted as fairly good, while the issue of The risk department provides the best answers to any risks that arise had a mean of 3.375, which was interpreted as good, indicating that cost evaluation mechanisms are in place.

Moreover, the mean replies for There is an efficient control evaluation that decreases operational risks were 3.629, SD=1.316, which was assessed as good. The risks that were introduced by the staff taken into consideration for by the employees had the mean of 3.293 assessed as good indicating that the decision of the direction for risks was successful. There is budget planning in place to efficiently manage risks in the bank had the mean of 2.493, SD=1.236 rated as poor. The bank has supportive skilled people for effective risk monitoring with the mean of 2.917 rated as fairly good.

4.1.2.3 Risk Monitoring Effect on Loan Performance Zigama CSS

Concerning the effect of risk monitoring on loan performance at Zigama Css, the data indicated a favorable effect, as shown in the table below. Table 4.11 clearly shows the summary regression findings.

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Table 4.11: Regression Effect that Risk Monitoring Effect on Loan Performance at Zigama CSS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.171[a]	.029	.015	.42480

a. Predictors: (Constant), Risk monitoring

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.537	1	.537	2.975	.089[b]
	Residual	23.279	129	.180		
	Total	23.816	130			

a. Dependent Variable: Loan performance

b. Predictors: (Constant), Risk monitoring

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.576	.232		15.433	.000
	Risk monitoring	-.124	.072	-.171	-1.725	.089

a. Dependent Variable: Loan performance

Source: Primary Data, 2023

Concerning the effect of risk monitoring on loan performance at Zigama Css, the data indicated a favorable effect, as shown in the table above. R Squared coefficient was calculated to be 0. 029. According to this data, risk monitoring has a 2.9% impact on loan performance. This implies that the remaining 97.1% is impacted by variables other than risk monitoring. The R-Squared coefficient indicates that risk monitoring has a minor impact on loan performance at Zigama Css.

Additionally, an analysis of variance was done, and the results indicated that the significant differences discovered indicated that the impact may have some relevance. Because it was computed at 0.089, the test's p value was found to be outside of an acceptable range. This is

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enough facts to conclude that risk monitoring has little to no impact on the performance of loans. Since all of the x variables' p values were less than 0.05, the t statistics for those variables likewise fell within the acceptable range, indicating that they were relevant to the model. The researcher comes to the conclusion that risk monitoring has no discernible impact on loan performance at Zigama CSS after accepting the null hypothesis.

4.2.3 Effect of Credit Risk Mitigation on Loan Performance

Table 4.7: Effect of Credit Risk Mitigation on Loan Performance

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.664[a]	.441	.154	.49698

a. Predictors: (Constant), risk identification, risk assessment, risk Monitoring

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.599	3	1.20	7.613	.000[b]
	Residual	25.845	164	.158		
	Total	29.445	167			

a. Dependent Variable: Performance

b. Predictors: (Constant), risk identification, risk assessment, risk Monitoring

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error			
1	(Constant)	2.185	.328		6.662	.000
	risk identification	.264	.067	.290	3.916	.000
	risk assessment	.089	.053	.129	1.664	.048
	risk Monitoring	-.044	.059	-.057	-.753	.372

a. Dependent Variable: Loan Performance

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The R Squared coefficient for the influence of all three independent variables on loan performance was calculated to be 0.441. It indicated that the three variables of credit risk mitigation—risk identification, risk assessment, and risk monitoring—accounted for 44.1% of the variation in loan performance. This indicates that the variables rate of effect on loan performance is minimal. The ANOVA section shows that there is further evidence to support the idea that there is a considerable amount of influence. The p value of test was determined to be 0.000, which is less than 0.05. The result was that the sum of the variables had a considerable impact on loan performance. The study's findings suggest that credit risk mitigation has an impact on loan performance to some extent.

5.1 Conclusion

The study examined risk mitigation as a financial tool for enhancing loan performance at Zigama Css, focusing on three key objectives: assessing the effect of risk identification, determining the influence of risk assessment and monitoring, and analyzing the effectiveness of financial tools. The research found that effective risk identification practices significantly improved loan performance, leading to a reduction in non-performing loans. Although risk assessment had a notable impact, risk monitoring was observed to have a limited effect on loan performance. The integration of risk mitigation techniques contributed to improved loan performance, with the identified financial tools explaining 44.1% of the variance in loan performance. Overall, the study underscores the importance of robust risk management strategies in fostering optimal loan portfolio performance and minimizing potential vulnerabilities.

5.3 Recommendations

It is recommended that financial institutions prioritize the implementation of robust risk mitigation strategies to enhance loan performance and minimize default rates. This involves leveraging effective credit risk detection techniques and evaluating the long-term plans and track records of loan applicants to proactively identify potential business risks. Moreover, organizations should provide comprehensive training on integrated risk management and incorporate a risk-conscious approach into their overall business strategy. Appointing knowledgeable individuals to oversee risk management and regularly monitoring the firm's risk appetite are also essential. Conducting regular reviews of financial performance policies and practices and incorporating the findings into improved strategies is crucial. Additionally, fostering specialized knowledge and skill development among employees is key to maintaining a competitive edge in the financial sector.

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