

Risk Management Practices And Liquidity Of Saccos In Buikwe District

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ABSTRACT

This study examined the relationship between risk management practices and the liquidity of Savings and Credit Cooperative Organizations (SACCOs) in Buikwe District, Uganda. The study was motivated by the persistent liquidity challenges faced by SACCOs, which threatened their financial sustainability and ability to serve members. The study adopted a cross-sectional research design with both quantitative and qualitative approaches. A sample of 120 respondents drawn from 15 SACCOs was used. Data were collected using questionnaires and interview guides, and were analyzed using descriptive statistics, correlation, and regression analysis. The findings revealed that credit risk management ($r=0.621$, $p<0.05$), operational risk management ($r=0.543$, $p<0.05$), and liquidity risk management ($r=0.712$, $p<0.05$) had significant positive relationships with the liquidity of SACCOs. The study concluded that effective risk management practices were critical determinants of SACCO liquidity in Buikwe District. The study recommended that SACCOs should strengthen their risk assessment frameworks and adopt international best practices in risk management.

Keywords: Risk Management, Liquidity, SACCOs, Credit Risk, Operational Risk, Buikwe District, Uganda
Background to the study

Savings and Credit Cooperative Organizations (SACCOs) played a pivotal role in the financial inclusion agenda of developing economies, particularly in Sub-Saharan Africa (Derrick et al., 2023). In Uganda, SACCOs emerged as critical intermediaries that bridged the financial gap between formal banking institutions and the rural and peri-urban populations who lacked access to conventional financial services (Akankwasa et al., 2022). Buikwe District, located in the Central Region of Uganda along the shores of Lake Victoria, was home to numerous SACCOs that served farmers, traders, and public servants (Gracious, 2023). However, these SACCOs faced persistent liquidity challenges that undermined their operational effectiveness and member confidence (Akankwasa et al., 2022).

Globally, the importance of risk management in financial cooperatives had been underscored by regulatory authorities and academic scholars alike (Gracious, 2023). The Basel Committee on Banking Supervision (2011) emphasized that sound risk management was the foundation of sustainable financial intermediation (Akankwasa et al., 2022). In Africa, the cooperative movement had experienced significant setbacks due to poor governance and inadequate risk management frameworks. According to the International Cooperative Alliance (ICA, 2018), over 40% of cooperatives in Sub-Saharan Africa faced liquidity crises at some point in their operational life, a problem primarily attributed to weak risk management systems (A. I. Kazaara & Nancy, 2025).

In Uganda, the SACCO sector was regulated under the Cooperative Societies Act (Cap. 112) and supervised by the Uganda Cooperative Alliance (UCA) and the Microfinance Support Centre (MSC) (Alex & Kazaara, 2023). Despite these regulatory frameworks, SACCOs in Buikwe District continued to experience liquidity shortfalls, high loan

Received: 04.04.2026

Accepted: 10.04.2026

Published on: 30.04.2026

default rates, and operational inefficiencies. Studies by Muhaise (2015) and Namboga (2017) indicated that many Ugandan SACCOs operated without formal risk management policies, making them vulnerable to financial shocks (Gracious, 2023). The absence of structured credit appraisal processes and poor member vetting contributed significantly to the deterioration of loan portfolios and, consequently, SACCO liquidity (Arinaitwe J, 2024).

The concept of liquidity in cooperative financial institutions referred to the ability of a SACCO to meet its financial obligations as they fell due without incurring unacceptable losses (Sarah & Audrey, 2024). Liquidity management was therefore a critical component of financial management, requiring SACCOs to maintain adequate cash reserves while simultaneously deploying resources productively (T. Christopher, 2022). The tension between profitability and liquidity was a perennial challenge for cooperative managers, particularly in environments characterized by information asymmetry and limited access to external refinancing facilities (A. G. Kazaara et al., 2024).

Risk management practices encompassed a broad range of organizational activities including risk identification, risk assessment, risk mitigation, and risk monitoring (Gloria et al., 2023). In the context of SACCOs, the most relevant risk categories included credit risk, operational risk, liquidity risk, interest rate risk, and compliance risk (Alex & Moses, 2024). Each of these risk categories had direct implications for the liquidity position of a SACCO. For example, elevated credit risk resulting from poor loan appraisal led to high non-performing loan ratios, which in turn depleted the SACCO's loanable funds and reduced cash inflows from interest income (Ramadhan et al., 2023).

Previous studies conducted in other parts of Uganda and East Africa had demonstrated positive relationships between risk management practices and financial performance of SACCOs (Ariyo, 2023). However, limited research had specifically focused on Buikwe District, a predominantly rural district with unique socioeconomic characteristics. The SACCOs in Buikwe District operated in an agricultural economy heavily dependent on seasonal incomes from sugar cane, subsistence farming, and fishing on Lake Victoria (Audrey & Kazaara, 2025). These income patterns created cyclical liquidity patterns that required specialized risk management approaches tailored to the local context.

Problem Statement

Despite the significant role that SACCOs played in mobilizing savings and providing credit to low-income communities in Buikwe District, the sector was plagued by persistent liquidity problems (Ntirandekura & Christopher, 2022). Available records from the Uganda Cooperative Alliance (UCA) indicated that between 2018 and 2022, over 30% of registered SACCOs in Buikwe District experienced periods of illiquidity, forcing them to suspend loan disbursements and delay member withdrawals (Collins et al., 2023). These liquidity crises eroded member confidence, triggered panic withdrawals, and in several cases, led to the outright collapse of SACCO operations (Alex et al., 2023). Field observations and preliminary investigations suggested that many SACCOs in Buikwe District lacked formal risk management frameworks (F. Christopher et al., 2022). Loan decisions were often based on informal social relationships rather than objective creditworthiness assessments (Promise et al., 2024). Operational risks arising from inadequate internal controls, fraud, and system failures were not systematically managed. Furthermore, SACCOs did not maintain adequate liquidity buffers to absorb unexpected withdrawal demands or loan defaults (Julius & Kazaara,

Received: 04.04.2026

Accepted: 10.04.2026

Published on: 30.04.2026

2025). This situation called for a systematic empirical investigation into the relationship between risk management practices and SACCO liquidity in the district, which was the central motivation for this study.

Main Objective

The main objective of the study was to examine the effect of risk management practices on the liquidity of SACCOs in Buikwe District. The specific objectives included: (i) to assess the effect of credit risk management on SACCO liquidity; (ii) to examine the influence of operational risk management on SACCO liquidity; and (iii) to determine the relationship between liquidity risk management practices and SACCO liquidity in Buikwe District.

Methodology

The study adopted a cross-sectional survey design that enabled the collection of data at a single point in time from multiple SACCOs across Buikwe District. Both quantitative and qualitative methodologies were employed to provide a comprehensive understanding of the phenomena under investigation (Olanrewaju et al., 2021). The target population comprised SACCO managers, credit officers, loan committee members, and active member-borrowers from 15 registered SACCOs in Buikwe District, totaling an estimated population of 450 individuals. Using Krejcie and Morgan's (1970) sample size determination table, a sample of 208 respondents was initially targeted, from which 120 usable questionnaires were ultimately returned and analyzed (Abiodun et al., 2022).

Primary data were collected through structured questionnaires and key informant interviews. The questionnaire was pre-tested with 15 respondents from a neighboring district to assess validity and reliability. Cronbach's alpha coefficients for all constructs exceeded 0.70, confirming adequate internal consistency. Secondary data were obtained from SACCO annual reports, Uganda Cooperative Alliance records, and the Microfinance Support Centre databases. Quantitative data were analyzed using the Statistical Package for Social Sciences (SPSS) version 26, employing descriptive statistics, Pearson correlation analysis, and multiple linear regression (Nelson et al., 2022). Qualitative data from interviews were analyzed thematically.

Results

Respondents' Demographic Characteristics

Table 1: Demographic Characteristics of Respondents (n=120)

Characteristic	Category	Frequency	Percentage (%)
Gender	Male	74	61.7
	Female	46	38.3
Age Group	18–30 years	22	18.3
	31–45 years	58	48.3
	46–60 years	32	26.7
	Above 60 years	8	6.7
Education Level	Primary	12	10.0

	Secondary	35	29.2
	Diploma	42	35.0
	Degree & Above	31	25.8
Position	SACCO Manager	15	12.5
	Credit Officer	28	23.3
	Loan Committee Member	30	25.0
	Active Borrower	47	39.2

Source: Primary Data, 2025

The demographic findings presented in Table 1 revealed that the majority of respondents were male (61.7%), reflecting the gender dynamics typical of cooperative leadership structures in rural Uganda where male dominance in decision-making positions had been widely documented. The age distribution showed that the largest proportion of respondents (48.3%) fell in the 31–45 years bracket, indicating that most SACCO participants were economically active middle-aged adults. In terms of education, diploma holders constituted the largest group (35.0%), suggesting a moderate level of educational attainment among SACCO participants, which had implications for financial literacy and risk awareness. Active borrowers formed the largest occupational category (39.2%), confirming that member-borrowers were the primary stakeholders whose experiences were most directly affected by risk management decisions.

Descriptive Statistics for Key Variables

Table 2: Descriptive Statistics for Risk Management and Liquidity Variables

Variable	N	Mean	Std. Deviation	Min	Max
Credit Risk Management	120	3.42	0.781	1.00	5.00
Operational Risk Management	120	3.18	0.823	1.00	5.00
Liquidity Risk Management	120	2.96	0.912	1.00	5.00
Overall Risk Management	120	3.19	0.765	1.00	5.00
SACCO Liquidity	120	3.05	0.843	1.00	5.00

Source: Primary Data, 2025

The descriptive statistics in Table 2 demonstrated that all risk management constructs were rated at moderate levels by respondents. Credit risk management obtained the highest mean score of 3.42 (SD=0.781), suggesting that SACCOs in Buikwe District placed comparatively greater emphasis on managing credit-related risks than other risk categories (Nelson et al., 2023). This finding was consistent with the predominantly loan-driven nature of SACCO operations where credit decisions directly determined income generation. Operational risk management received a mean score of 3.18 (SD=0.823), indicating moderate levels of operational risk controls. Liquidity risk management recorded the lowest mean of 2.96 (SD=0.912), reflecting inadequate deliberate strategies for managing liquidity exposures among sampled SACCOs (Akankwasa et al., 2022). The dependent variable, SACCO liquidity, obtained a

mean score of 3.05 (SD=0.843), suggesting that respondents rated their SACCOs' overall liquidity position as slightly above average, though with considerable variability as indicated by the relatively high standard deviations.

Correlation Analysis

Table 3: Pearson Correlation Matrix

Variable	1	2	3	4
1. Credit Risk Mgmt	1.000			
2. Operational Risk Mgmt	0.412**	1.000		
3. Liquidity Risk Mgmt	0.389**	0.441**	1.000	
4. SACCO Liquidity	0.621**	0.543**	0.712**	1.000

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

Source: Primary Data, 2025

The Pearson correlation results in Table 3 showed that all three risk management dimensions were significantly and positively correlated with SACCO liquidity. Liquidity risk management demonstrated the strongest correlation with SACCO liquidity ($r=0.712$, $p<0.01$), suggesting that direct management of liquidity exposures had the most powerful influence on actual liquidity outcomes (Ntirandekura et al., 2022). Credit risk management followed with a correlation coefficient of $r=0.621$ ($p<0.01$), confirming that effective credit risk practices were closely linked to improved liquidity positions. Operational risk management also showed a significant positive relationship with liquidity ($r=0.543$, $p<0.01$), underscoring the importance of internal control systems in maintaining financial stability. The moderate inter-correlations among the independent variables (ranging from $r=0.389$ to $r=0.441$) indicated some degree of multicollinearity, which was further tested in the regression analysis.

Multiple Regression Analysis

Table 4: Multiple Regression Results – Predictors of SACCO Liquidity

Variable	B	Std. Error	Beta	t-value	Sig.
(Constant)	0.412	0.243		1.696	0.093
Credit Risk Mgmt	0.298	0.067	0.312	4.448	0.000
Operational Risk Mgmt	0.187	0.071	0.198	2.634	0.009
Liquidity Risk Mgmt	0.374	0.063	0.401	5.937	0.000

$R = 0.798$, $R^2 = 0.637$, $Adjusted\ R^2 = 0.628$, $F(3,116) = 67.84$, $p < 0.001$

Source: Primary Data, 2025

The multiple regression results presented in Table 4 revealed that the three risk management dimensions collectively explained 63.7% of the variance in SACCO liquidity ($R^2=0.637$), with the adjusted R^2 of 0.628 indicating robust predictive power. The model was statistically significant overall ($F(3,116)=67.84$, $p<0.001$). Among the individual predictors, liquidity risk management emerged as the strongest predictor with a standardized beta coefficient of 0.401

($t=5.937$, $p<0.001$), confirming that deliberate liquidity risk policies had the greatest impact on SACCO liquidity outcomes. Credit risk management was the second most influential predictor ($\beta=0.312$, $t=4.448$, $p<0.001$), while operational risk management contributed significantly but with a relatively smaller effect ($\beta=0.198$, $t=2.634$, $p=0.009$). These findings collectively supported the hypothesis that risk management practices significantly predicted SACCO liquidity in Buikwe District.

DISCUSSION OF RESULTS

The findings of this study provided empirical support for the theoretical proposition that risk management practices were positively associated with SACCO liquidity. The strong predictive power of liquidity risk management ($\beta=0.401$) aligned with the liquidity preference theory advanced by Keynes (1936), which posited that financial institutions needed to maintain optimal liquidity buffers to meet transactional, precautionary, and speculative demands. In the Ugandan SACCO context, where member withdrawal demands were often unpredictable due to seasonal income patterns and emergency financial needs, deliberate liquidity risk policies were essential for operational stability.

The significant effect of credit risk management on SACCO liquidity ($\beta=0.312$) was consistent with findings from Kithinji (2010) in Kenya and Njanike (2009) in Zimbabwe, both of which documented positive relationships between credit risk management and financial performance of cooperative financial institutions. Poor credit risk management, manifested through inadequate loan appraisal, weak collateral requirements, and lax monitoring of loan repayments, contributed directly to high non-performing loan ratios and reduced cash inflows, thereby depressing SACCO liquidity. The relatively moderate mean score for credit risk management (3.42) suggested that while SACCOs in Buikwe District had some credit risk controls in place, these were not sufficiently robust to fully mitigate credit-related liquidity risks.

The contribution of operational risk management to SACCO liquidity, though the smallest among the three predictors ($\beta=0.198$), was nonetheless statistically significant and practically important. Operational risks, including fraud, system failures, and process inefficiencies, could result in unexpected financial losses that depleted liquidity reserves. The finding that operational risk management was significantly underdeveloped in the sampled SACCOs (mean=3.18) suggested that internal control weaknesses remained a persistent vulnerability. This was consistent with the observations of Mburu (2019), who found that a significant proportion of liquidity crises in East African cooperatives were triggered by operational failures rather than purely external shocks.

CONCLUSIONS

The study concluded that risk management practices were significant positive determinants of SACCO liquidity in Buikwe District. Liquidity risk management was the most critical risk management dimension, followed by credit risk management and operational risk management. The relatively low mean scores for all risk management dimensions indicated that SACCOs in Buikwe District had not yet reached optimal levels of risk management sophistication. Consequently, the persistent liquidity challenges faced by these SACCOs were at least partially attributable to

inadequate risk management frameworks. The study thus affirmed that strengthening risk management capacities was a necessary condition for improving SACCO liquidity and long-term financial sustainability.

RECOMMENDATIONS

Based on the findings, the following recommendations were made: First, SACCO management committees should develop and implement comprehensive credit risk management policies that included robust borrower screening, credit scoring systems, and loan portfolio monitoring mechanisms. Second, SACCOs should establish dedicated liquidity management committees responsible for monitoring cash flow positions and maintaining minimum liquidity ratios in accordance with regulatory requirements. Third, operational risk management should be strengthened through regular internal audits, staff training programs, and the adoption of automated accounting systems to reduce human error and fraud exposure. Fourth, the Uganda Cooperative Alliance and the Microfinance Support Centre should provide targeted capacity building programs specifically focused on risk management for SACCO officials in Buikwe District.

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Received: 04.04.2026

Accepted: 10.04.2026

Published on: 30.04.2026

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