

## The mediating role of Loan Portfolio Management on the relationship between Loan assessment and Performance: The Case of Village Savings & Loan Associations in Uganda

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### Abstract

*This study examined the mediating role of loan portfolio management in the relationship between loan assessment and VSLA's performance. The study draws on the Resource Based View (RBV) to understand how tangible and intangible resources, when effectively deployed, connect to the performance and sustainability of VSLAs. The study targeted a population of 450 VSLAs (District Commercial Development Report, 2024; NDP, 2023), selecting a sample of 208 using the Krejcie and Morgan (1970) formula. Data was collected through structured questionnaires and analyzed using PLS-SEM to examine the relationships among loan assessment, loan portfolio management, and VSLA performance. Results indicate that loan assessment capabilities significantly enhance loan portfolio management, which in turn partially mediates the relationship between loan assessments on VSLA performance. While prior research has explored VSLA performance, few studies have examined the internal managerial and behavioral mechanisms through which resources and capabilities are deployed to enhance effectiveness. By demonstrating the mediating role of loan portfolio management through the RBV lens, this study provides new insights into how grassroots financial institutions in emerging economies can leverage internal capabilities to support sustainable VSLAs.*

**Keywords:** Loan assessment, Loan portfolio management, VSLA performance, Uganda

### Introduction

The performance of Village Savings and Loan Associations (VSLAs) is widely recognized as a critical mechanism for expanding access to financial credit among rural and underserved populations globally (Molla & Kaur, 2025; Bannor et al., 2020). Micro and small traders (micro-entrepreneurs) often face tight liquidity and profitability constraints (Nejad, 2016), underscoring the need for VSLAs. Inclusive financial access contributes to more resilient societies (Dada et al., 2023). Given the importance of VSLAs for households and communities, it is imperative to critically examine their performance in relation to loan assessment and loan portfolio management, as these mechanisms enable members to leverage savings to meet informal financial needs (Maity & Sahu, 2021). VSLAs provide essential savings and loan services to rural populations who otherwise lack access to financial services (Kwarteng & Sarfo-Mensah, 2019). Rising inequality fuels societal dissatisfaction and destabilizes democracies (Dada et al., 2023;

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United Nations, [2020](#)), further highlighting the transformative potential of VSLAs in rural economies (Maity & Sahu, [2022](#)). In Uganda, VSLAs remain one of the fastest-growing components of the financial sector, linking the last mile to households (Ministry of Finance, Planning and Economic Development, [2025](#); Ministry of Finance, Planning and Economic Development, 2022 ). They provide members with access to responsive and safe financial services that support business expansion, household welfare, skill acquisition, and education (Kwarteng & Sarfo-Mensah, [2019](#)). The Fourth National Development Plan (NDP IV) emphasizes improving access to financial services, particularly for underserved rural populations, positioning VSLAs as critical vehicles for reaching the unbanked (NDP IV, FY2025/26–2029/30). Understanding the broader ecosystem of actors and factors that enable or constrain entrepreneurship in these communities is therefore critical (Stam & Van de Ven, [2021](#)).

Loan assessment refers to evaluating individual loan applications to determine creditworthiness, repayment capacity, and associated risk prior to approval (Asah & Louw, [2021](#); Ledgerwood, [2013](#)). In VSLAs, assessment is adapted to local, trust-based, participatory systems that emphasize borrower contribution history, group standing, and social accountability (Cull et al., [2018](#)). Literature shows that structured loan assessment; through evaluating repayment capacity, savings history, and risk exposure, reduce delinquency and enhance performance (Abaho et al., [2022a](#)). Similarly, disciplined financial practices, such as loan assessment, mitigate default risk and improve performance in community-managed institutions where resources are collectively owned (Lubinga et al., [2025](#)). Therefore, loan assessment is paramount for sustaining VSLA performance without replicating the rigidity of Tier 1–3 financial institutions. Loan portfolio management in VSLAs involves monitoring repayment behavior, enforcing credit terms (loan size, interest rates, repayment schedules), implementing credit risk controls (borrowing limits, diversification), and managing delinquency to ensure timely repayment (Bitok, [2020](#)). Microfinance research highlights that structured loan portfolio management reduces default risk and strengthens institutional resilience, supporting continued lending and savings mobilization (Lamichhane, [2023](#); Cull et al., [2018](#)). Regulatory oversight by the Uganda Microfinance Regulatory Authority (UMRA) ensures licensing, supervision, and operational guidelines for Tier 4 institutions, including VSLAs (Ministry of Finance, Planning and Economic Development, 2022 ).

While several scholars have examined VSLA performance (Redford & Verhoef, [2025](#); Maity & Sahu, [2020](#); [2022](#); Garcia et al., [2021](#); Brannen & Sheehan-Connor, 2016), few studies investigate the mediating role of loan portfolio management between loan assessment and VSLA performance. Research on portfolio diversification emphasizes its role in mitigating risk, enhancing resilience, and improving financial performance metrics such as profitability and liquidity (; Chen & Lee, [2020](#)). The Financial Institutions (Amendment) Act 2016, which expands credit reference bureau services beyond the Bank of Uganda, enables VSLAs to access comprehensive borrower profiles, improving credit assessment quality and enhancing prudential safety (NPA, 2020; Ministry of Finance, Planning and Economic Development, 2025). This study was conducted in northern Uganda due to its unique socio-economic and historical context. The region has faced long-term marginalization and vulnerability from conflict and displacement, limiting access to livelihoods, financial services, and economic opportunities (Northern Uganda Resilience Initiative [NURI], [2019](#)). The influx of refugees from South Sudan and the Democratic Republic of Congo has further strained household resilience and community resources (UNHCR, [2025](#); World Bank, [2025](#)). Examining VSLAs in this context is particularly relevant as national

policy and fiscal priorities for FY2025/2026 aim to accelerate economic growth, broaden productive participation, and enhance household incomes through commercial agriculture, industrialization, digital transformation, and market access (Government of Uganda, [2025](#)), thus creating favorable conditions for VSLAs to operate effectively. In Uganda, while commercial banks, MFIs, and credit institutions provide valuable services, they are most successful in urban areas where borrowing needs are high and client outreach costs are lower (Bongomin et al., [2024](#)). Rural populations and urban slums remain underserved, creating a significant gap between financial needs and service availability. Thus, understanding the mediating role of loan portfolio management in the relationship between loan assessment and VSLA performance is essential for improving financial inclusion and institutional effectiveness in Uganda.

### **Theoretical Framework for the Study**

This study is guided by the RBV theory, which asserts that an organization's sustainable competitive advantage derives from its ability to acquire, develop, and effectively deploy valuable, rare, inimitable, and non-substitutable resources (Barney et al., [2001](#)). In the context of VSLAs, resources include both tangible assets, such as financial capital, and intangible capabilities, such as managerial expertise and sound credit assessment practices (Doherty, 2007; Wiklund & Shepherd, 2005). Within this framework, loan assessment is a critical organizational capability that influences the performance of VSLAs. This study conceptualizes loan assessment through three key indicators: credit standards, loan documentation, and loan guarantees, as these indicators collectively capture the core dimensions of credit evaluation in lending processes. Credit standards reflect borrower screening and the assessment of repayment capacity; loan documentation enhances transparency and reduces information asymmetry by clearly specifying loan terms and obligations; while loan guarantees function as risk-mitigation mechanisms that strengthen repayment discipline, particularly in the VSLA settings. This operationalisation is consistent with established loan assessment frameworks in the banking and microfinance literature (Cull et al., [2018](#); Ledgerwood, [2013](#)), while remaining contextually appropriate for the operational realities of VSLAs.

Loan portfolio management is viewed as a mediating factor in this study, linking loan assessment to VSLA performance. It is measured through credit terms, credit risk control, and delinquency. RBV suggests that when VSLAs leverage their capabilities in loan assessment, they are able to manage their loan portfolios more efficiently. Delinquency reflects the effectiveness of loan portfolio management, such as repayment monitoring and enforcement of credit terms. Loan portfolio management ensures that loans are extended under appropriate terms, credit risks are controlled, and delinquent accounts are minimized, thereby protecting the association's financial stability (Lamichhane, [2023](#); Bitok, [2020](#)). VSLA performance is conceptualized as the ultimate outcome of lending practices and is measured through profitability and liquidity. These measures are appropriate because VSLAs generally exhibit lower loan non-performance than Tier 1–3 financial institutions due to structural and social mechanisms inherent in group-based lending. Prior studies show that peer monitoring and social pressure strengthen repayment discipline through social ties and reputational incentives (Hermes & Lensink, 2011). Small loan sizes and short loan cycles limit borrower exposure and reduce strategic default, while mandatory savings act as implicit collateral, lowering moral hazard (Ledgerwood, [2013](#)). Group-based enforcement mechanisms, such as fines and social sanctions, further substitute for formal legal enforcement and enhance repayment (Besley & Coate, [1995](#)). Effective loan assessment and portfolio management enable VSLAs to improve profitability, maintain liquidity, and ensure sustainability

(Molla & Kaur, 2025; Mishra et al., 2020). Accordingly, loan assessment practices directly and indirectly influence performance through loan portfolio management, consistent with the RBV emphasis on internal capabilities and resource utilization.

## **Empirical Literature Review**

### **Loan Assessment and Performance of Village Savings Loan Associations**

Village Savings Loan Associations (VSLAs) play a critical role in providing financial services to underserved communities, particularly those excluded from formal banking systems. Central to their effectiveness and sustainability is a robust loan assessment process. This review examines the relationship between loan assessment practices and VSLA performance, drawing on the RBV theory to explain how internal capabilities shape organizational outcomes. Kwarteng and Sarfo-Mensah (2019) emphasize that VSLA sustainability largely depends on the quality and rigor of loan assessment procedures. Similarly, Uwase et al. (2015) highlight the importance of internal capital dynamics, noting that effective loan assessments enhance member trust and overall operational efficiency. From the RBV perspective (Barney, 1991), the strategic use of valuable, rare, and inimitable resources is essential for achieving sustainable performance and competitive advantage. In this context, loan assessment practices constitute a key internal capability that enables VSLAs to manage financial resources effectively. Consistent with RBV theory, Marfo (2024) argues that leveraging internal capabilities such as rigorous loan assessment enhances financial management and improves performance outcomes. Through systematic deployment of these practices, VSLAs optimize both tangible resources, such as financial capital, and intangible resources, including managerial expertise, member trust, and credit evaluation skills. This integrated approach helps mitigate financial risks and strengthens organizational performance. Supporting this view, Tornam-Duho et al. (2021) note that aligning loan assessment practices with internal resource capabilities strengthens loan management processes and enhances overall VSLA performance.

Kwarteng and Sarfo-Mensah (2019) further suggest that VSLAs adhering to robust loan assessment criteria demonstrate superior performance indicators, including higher member satisfaction, growth potential, and overall performance. Conversely, Maliti (2017) warns that lenient or inconsistent loan assessment practices expose VSLAs to financial risks, erode community trust, and weaken operational efficiency, underscoring the need for stringent assessment etiquettes. Additionally, Sudarshan and Tarak (2021) link effective loan assessment practices to broader financial inclusion outcomes. When such practices align with RBV principles, they not only improve VSLA performance but also foster trust, reliability, and inclusiveness within community-based financial systems. Thus the hypothesis:

*H<sub>1</sub>: There is a positive relationship between loan assessment and performance of VSLAs.*

### **Loan Assessment and Loan Portfolio Management**

VSLAs play a vital role in communities with limited access to formal banking. From a RBV perspective, their effectiveness and long-term sustainability depend on the development and deployment of internal capabilities, particularly in loan assessment and loan portfolio management. Rigorous loan assessment practices constitute a key organizational capability that enables VSLAs to evaluate borrowers accurately, manage credit risk, and allocate financial resources efficiently. In support, Tornam-Duho et al. (2021) demonstrate that VSLAs aligning loan assessment practices with internal resource capabilities exhibit stronger lending standards

and more effective loan portfolio management. Consistent with RBV theory (Barney, 1991), the strategic use of tangible resources, such as lending capital, and intangible resources, including managerial expertise, member trust, and credit evaluation skills, enhances portfolio management, reduces financial vulnerability, and improves overall performance. Correspondingly, Kamasak (2017) shows that variations in firm performance are significantly explained by the combined contribution of tangible and intangible resources. In the same vein, Kwarteng and Sarfo-Mensah (2019) argue that prioritizing rigorous loan assessment strengthens VSLAs' internal resource base, leading to improved loan portfolio management and better performance outcomes. These improvements support member satisfaction, sustainable growth, and long-term operational success. Based on this theoretical foundation, it is hypothesized that:

*H<sub>2</sub>: There is a positive relationship between loan assessment and loan portfolio management.*

### **Loan Portfolio Management and Performance of VSLAs**

VSLAs are increasingly recognized as vital financial entities, particularly in regions with limited access to formal banking systems. A key factor influencing their effectiveness and long-term sustainability is loan portfolio management, especially when examined through the RBV framework (Marfo et al., 2024). From this standpoint, VSLA performance depends on the ability to develop and strategically deploy internal capabilities, with loan portfolio management being a core capability (Kayongo, 2021). Efficient portfolio management enables VSLAs to optimize both tangible resources and intangible capabilities, thereby reducing financial risk and enhancing their performance. In the same thinking, Ksoll et al. (2016) demonstrate that effective management of group loan portfolios, characterized by regular monitoring and transparent lending rules, significantly strengthens VSLA financial performance and sustainability. Similarly, Pienaah and Luginaah (2024) note that efficient loan portfolios improve access to loans and savings mechanisms, enhancing group and institutional resilience. These findings align with the RBV principle that superior performance arises not merely from resource possession, but from the strategic deployment of organizational capabilities to create sustainable competitive advantage (Barney, 1991). Furthermore, Karlan et al. (2017) argue that strengthening loan portfolio management improves internal resource utilization, leading to better performance outcomes. Consistent with this, Kwarteng and Sarfo-Mensah (2019) find that VSLAs with meticulous loan portfolio management practices consistently demonstrate superior performance indicators, such as member contentment, organizational expansion, and sustained viability. In essence, proficient loan portfolio management has emerged as a pivotal driver of positive outcomes for VSLAs.

*H<sub>3</sub>: There is a positive relationship between loan portfolio management and performance of VSLAs.*

### **Loan Assessment, Loan Portfolio Management, and Performance of VSLAs**

VSLAs have emerged as vital community-based financial institutions, particularly in areas with limited access to formal banking services, by providing members with opportunities for savings, credit, and financial resilience (Karlan et al., 2017). The RBV underscores the importance of leveraging internal capabilities; such as rigorous loan assessment and effective loan portfolio management, to achieve sustainable performance outcomes (Duflo & Banerjee, 2003). Drawing on RBV principles, this study examines loan portfolio management as a critical internal capability that mediates the relationship between loan assessment practices and VSLA performance. The

efficient deployment of internal resources is therefore central to improved VSLA outcome. Loan assessment forms the foundation of VSLA operations. Kwarteng and Sarfo-Mensah (2019) note that VSLAs prioritize rigorous borrower evaluations, including creditworthiness, repayment capacity, and risk exposure. Likewise, Uwase et al. (2015) find that strong loan assessment mechanisms build member confidence and contribute to long-term operational sustainability. RBV theory (Barney, 1991) explains how organizations achieve sustainable competitive advantage through the effective use of controlled resources. In VSLAs, loan assessment and loan portfolio management function as core internal capabilities that influence efficiency, sustainability, and their performance. Associations that excel in these capabilities tend to outperform others in terms of financial performance, liquidity, and growth, consistent with the RBV argument that resources yield advantage only when properly developed and utilized (Karlan et al., 2017). Operative loan portfolio management is therefore essential to maintaining financial health and enhancing VSLA performance. Tornam-Duho et al. (2021) show that sound portfolio management enables effective risk distribution, while Wakaisuka-Isingoma (2018) emphasizes adherence to financial management guidelines is a driver of improved performance indicators within VSLAs. Hence:

*H4: There is a mediating role of loan portfolio management on the relationship between loan assessment and performance of VSLAs.*

**Methods and Approaches**

A quantitative approach using a questionnaire survey was employed to test the theoretical model and hypotheses derived. All the measurement items for the study variables were adapted from previous studies. Loan assessment was measured in terms of credit standards, documentation, and loan guarantees (Asah & Louw, 2021; Moti et al., 2012; Cowling & Clay, 1994). Loan portfolio management is used as a mediator in this study and measured in terms of credit terms, credit risk control, and delinquency (Lamichhane, 2023; Sseziyivu, 2017;). This study utilized two parameters, liquidity position and profitability (Return on Equity), to measure the performance of VSLAs (Molla & Kaur, 2025) All items (Table 1) for the constructs were reflective in nature, as determined through the decision criteria proposed by Jarvis et al. (2003).

**Table: 1: operationalization of study variables**

Global variable	Indicators	Authors
Loan assessment	Documentation, credit standards and loan guarantee	Asah and Louw (2021); Ledgerwood (2013); World Bank. (n.d.)
Loan portfolio management	Credit terms, credit risk control and delinquency	Lamichhane (2023); Sseziyivu (2017).
Performance	Profitability and liquidity	Molla and Kaur (2025)

Source: From Literature Review

The study population comprised 450 VSLAs in Northern Uganda (Arua District Commercial Office, 2024; Gulu District Commercial Office, 2024; Lira District Commercial Office, 2024) ), with a sample of 208 selected using Krejcie and Morgan’s (1970) table. Northern Uganda was chosen because the majority of the 8.3 million poor persons registered in FY 2019/20 reside in rural areas of this region, with poverty rates exceeding the national average of 20.3% (Uganda Bureau of Statistics. (2021).,; Ministry of Finance, Planning and Economic Development, 2023)).

The unit of analysis was the VSLA, and one member per association, with at least two years' membership, served as the respondent. Monitoring in VSLAs is typically done by group leaders or officers, while ordinary members focus on loan access and savings security through periodic reports (Abaho et al., 2022b; Ledgerwood, 2013). A quantitative approach was employed to ensure data reliability and credibility (Field, 2013). Questionnaires were physically distributed to all 208 sampled VSLAs with stamped envelopes. After screening for incomplete or invalid responses, 152 questionnaires were deemed usable, yielding a response rate of 73%, and were included in the data analysis. With a 73% response rate, non-response bias was assessed using an independent t-test comparing early respondents (those who returned questionnaires within the first month) and late respondents (those who returned after reminders) following Armstrong and Overton (1977). Results showed all p-values > 0.05, indicating no significant differences and confirming the absence of non-response bias. To address common method bias (CMB), since data was collected from a single source (Podsakoff & Organ, 1986), procedural and statistical remedies were applied. Procedurally, variables used different scales, and respondents were assured confidentiality on the questionnaire cover page. Statistically, a Harman single-factor test showed a single factor accounted for 28.28% of total variance, below the 50% threshold, indicating CMB was not significant (Podsakoff & Organ, 1986; Harman, 1967). Additionally, a four-item social desirability marker variable was used to evaluate R<sup>2</sup> with and without the marker, revealing <10% change, confirming CMB insignificance.

### The demographic characteristics of the samples

Results from [Table 2](#) indicate that data was collected from 152 VSLAs, represented by 152 respondents. Of these, 52.6% were female and 47.4% male, suggesting higher female participation in VSLA activities. Most respondents were aged 26–35 years (45.4%), while only 1.3% were aged 46–55 years, indicating greater youth engagement in VSLAs, likely due to their need for financial support, social networking, and savings development. Regarding education, 50% of respondents had attained ordinary level education, while 3.3% held a master's degree. Largely, respondents were sufficiently literate and knowledgeable about VSLA activities. The findings also suggest that VSLAs attract individuals with limited or no formal education, particularly women engaged in low-paying, unskilled jobs, who join VSLAs to gain skills and supplement income. In terms of marital status, 76.3% of respondents were married and 0.7% widowed, implying stable and committed membership. VSLA characteristics show that 65.8% of groups had 10–15 members, while 6.6% had 21–25 members. Annual group revenue for 36.8% of VSLAs ranged between UGX 2–5 million, suggesting limited saving capacity relative to loan demand. Group membership enhances access to information, credit, and extension services (Salifu et al., 2012), aligning with the 6th East African Community Development Strategy (2021/22–2025/26). Finally, 56.6% of VSLAs had existed for 2–5 years, while 7.2% had operated for 16 years or more, reflecting broader deteriorating trends in Uganda's financial sector growth (UBOS, 2023/2024).

**Table 2: Demographic characteristics for Unit of analysis & inquiry**

Details	Frequency	Valid percent	Cumulative percent
<b>Gender:</b> Male	72	47.4	47.4
Female	80	52.6	<b>100</b>
<b>Age bracket:</b> 18 -25	36	23.7	23.7
26 -35	69	45.4	69.1
36 -45	34	22.4	91.4

46 -55	2	1.3	92.8
Above 56	11	7.2	<b>100</b>
<b>Education level: O-level</b>	76	50	50
A-Level	28	18.4	68.4
Certificate/Diploma	31	20.4	88.8
Bachelor’s degree	12	7.9	96.7
Masters & above	5	3.3	<b>100</b>
<b>Marital status: Single</b>	24	15.8	15.8
Married	116	76.3	92.1
Divorced	8	5.3	97.7
Widow	3	2.0	99.3
Widower	1	0.7	<b>100</b>
<b>Role held in the VSLA</b>			
Chairperson	20	13.2	13.2
Secretary	37	24.3	37.5
Treasurer	11	7.2	44.7
Ordinary member	84	55.3	<b>100</b>
<b>Group enrolment: 10 - 15</b>	100	65.8	65.8
16 - 20	21	13.8	79.6
21 -25	10	6.6	86.2
26 & above	21	13.8	<b>100</b>
<b>Years of existence: 2 - 5</b>	86	56.6	56.6
6 -10	42	27.6	84.2
11 -15	13	8.6	92.8
16 & above	11	7.2	<b>100</b>
<b>Annual revenue collected</b>			
Below 2M	19	12.5	12.5
2 -5 M	56	36.8	49.3
5.1 – 10M	31	20.4	69.7
10.1 -20M	16	10.5	80.3
Above 20M	30	19.7	<b>100</b>

Source: Primary Data

## Results

This study employed the partial least squares structural equation modeling (PLS-SEM) method to assess the interrelationships among the different latent variables. This helped test the theoretical model, which has been widely recognized and used in finance studies (Gamil & Rahman, [2023](#)).

## Measurement model

The measurement model was assessed through confirmatory factor analysis using SMART PLS. As shown in Tables [3](#), [4](#), and [5](#) and [Figure 1](#), all the items loaded significantly with values above 0.708, having a composite reliability value of 0.749 to 0.890, and an average variance extracted

(AVE) value greater than 0.5. These figures show that all items used in this study satisfied convergent validity (Hair et al., 2022). The significance of the items used was evaluated using a bootstrapping procedure with 5,000 re-samples.

**Table 3: Reliability and Validity for constructs**

Constructs	Item Codes	Item Loading	Composite reliability (rho_c)	Average variance extracted (AVE)	VIF
Credit Risk Control	CRC1	0.742	0.791	0.559	1.210
	CRC2	0.779			1.215
	CRC3	0.720			1.307
Credit Standards	CS3	0.891	0.877	0.705	2.073
	CS4	0.780			1.457
	CS5	0.843			1.826
Credit Terms	CT2	0.842	0.869	0.768	1.416
	CT3	0.910			1.416
Delinquency	DM1	0.820	0.749	0.599	1.042
	DM2	0.725			1.042
Documentation	LD2	0.712	0.779	0.640	1.094
	LD3	0.880			1.094
Loan Guarantee	LG1	0.896	0.890	0.730	1.933
	LG2	0.901			2.087
	LG3	0.758			1.673
Liquidity Position	LQ1	0.783	0.851	0.655	1.366
	LQ3	0.809			1.496
	LQ4	0.836			1.583
Profitability(Return on Equity)	PF4	0.834	0.806	0.675	1.140
	PF5	0.809			1.140

**Source: Primary Data**

**Table 4: Reliability and Validity for Variables**

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
LoanAssessment	0.823	0.847	0.869	0.664
LoanPortfolioManagement	0.705	0.726	0.798	0.567
Performance of VSLAs	0.820	0.821	0.874	0.582

**Source: Primary Data**

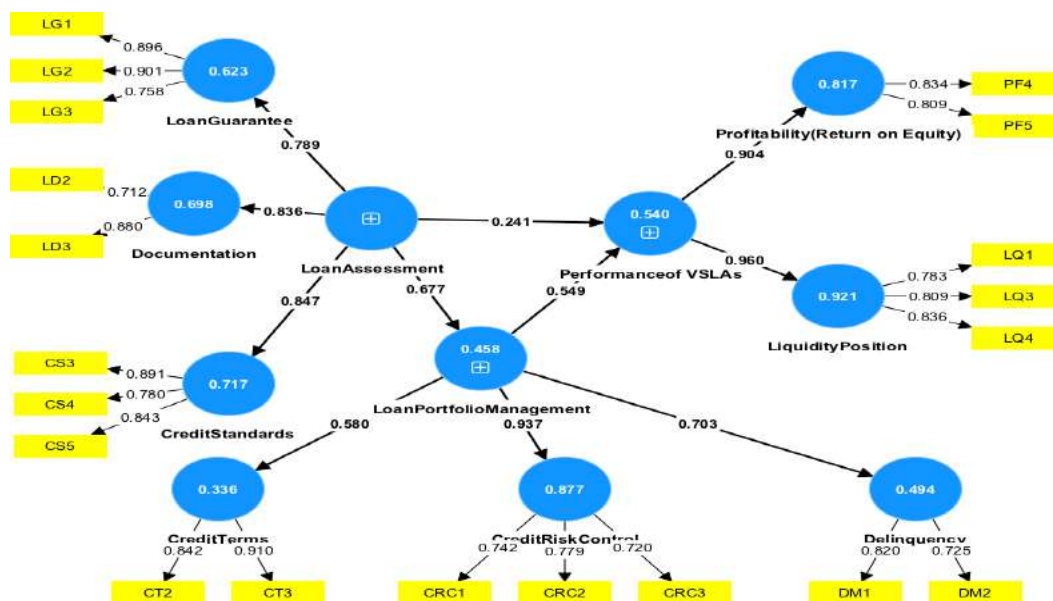
The results indicate that all items were significant ( $p < 0.01$ ). Discriminant validity (Table 5) was also performed to ensure that all the constructs were significantly different from each other and did not portray the same phenomenon embodied by other constructs in the model (Hair, et al. 2017). This analysis was conducted using the contemporary HTMT technique. The results shown in Table 5 indicate that all HTMT values are less than the conservative HTMT 0.85 criteria

(Henseler et al., 2015), which establishes that there is strong evidence of acceptable discriminant validity. The measurement model demonstrated adequate convergent and discriminant validity (Hamid et al., 2017).

**Table 5: Discriminant Validity using HTMT**

	Loan Assessment	Loan Portfolio Management	Performance of VSLAs
Loan Assessment			
Loan Portfolio Management	0.819		
Performance of VSLAs	0.723	0.694	

Source: Primary Data



**Figure 1: PLS Measurement Model**

Source: Primary Data

**Structural model**

Considering that the measurement model is reliable and valid, the structural model was formed and examined using SMART PLS 4.9.0 version. The structural assessment was conducted in terms of the path coefficients, their significance through the bootstrapping technique, and R2 values. The R2 values of the dependent and mediating variables were 0.458 and 0.540, respectively, which are considered moderate. The direct effects of LA, LPM, and PVSLAs as well as documentation, Loan Guarantee, and credit standards on LPM and PVSLAs were tested. The effects of LA on LPM ( $\beta = 0.677, p < 0.01$ ), LPM, and PVSLAs ( $\beta = 0.549, p < 0.01$ ) were found to be significantly positive, while the impact of LA on PVSLAs was not significant ( $\beta = -0.241, p > 0.05$ ). Hence, H<sub>2</sub> and H<sub>3</sub> are supported, whereas H<sub>1</sub> is rejected. This study showed that the impact of CS on LPM ( $\beta = 0.338, p < 0.01$ ) and LG on LPM ( $\beta = 0.448, p < 0.05$ ) was positively significant, while that on LPM ( $\beta = 0.042, p > 0.05$ ) was not significant. Therefore, H2b is rejected, while H2a and H2c are supported. However, the effects of CS on PSVSLAs ( $\beta = 0.067, p > 0.05$ ) and Doc ( $\beta = 0.159, p > 0.05$ ) were also not significant, but LG had a positive significant effect on PSVSLAs ( $\beta = 0.448, p < 0.01$ ). Hence, H1a and H1b were rejected, whereas H1c was supported.

**Table 6: Main hypotheses results**

<b>Direct Effect</b>	$\beta$	T stat	P values	Bca	
Loan Assessment -> Loan Portfolio Management	0.67 7	11.876	0.000	0.551 - 0.774	
Loan Assessment -> Performance of VSLAs	0.24 1	1.911	0.056	0.034 - 0.465	
Loan Portfolio Management -> Performance of VSLAs	0.54 9	5.396	0.000	0.333 - 0.733	
<b>Indirect Effect</b>	$\beta$	T stat	P values	Bca	
Loan Assessment -> Loan Portfolio Management -> Performance of VSLAs	0.37 2	4.760	0.000	0.231 - 0.538	
<b>Total Effect</b>	$\beta$	T stat	P values	Bca	
Loan Assessment -> Loan Portfolio Management	0.67 7	11.876	0.000	0.551 - 0.774	
Loan Assessment -> Performance of VSLAs	0.61 3	6.864	0.000	0.405 - 0.762	
Loan Portfolio Management -> Performance of VSLAs	0.54 9	5.396	0.000	0.333 - 0.733	
Predictive Criteria	R <sup>2</sup>	Adj. R <sup>2</sup>	Q2pred ict	RMS E	MAE
Loan Portfolio Management	.458	.455	.436	.756	.585
Performance of VSLAs	.540	.533	.815	.815	.511

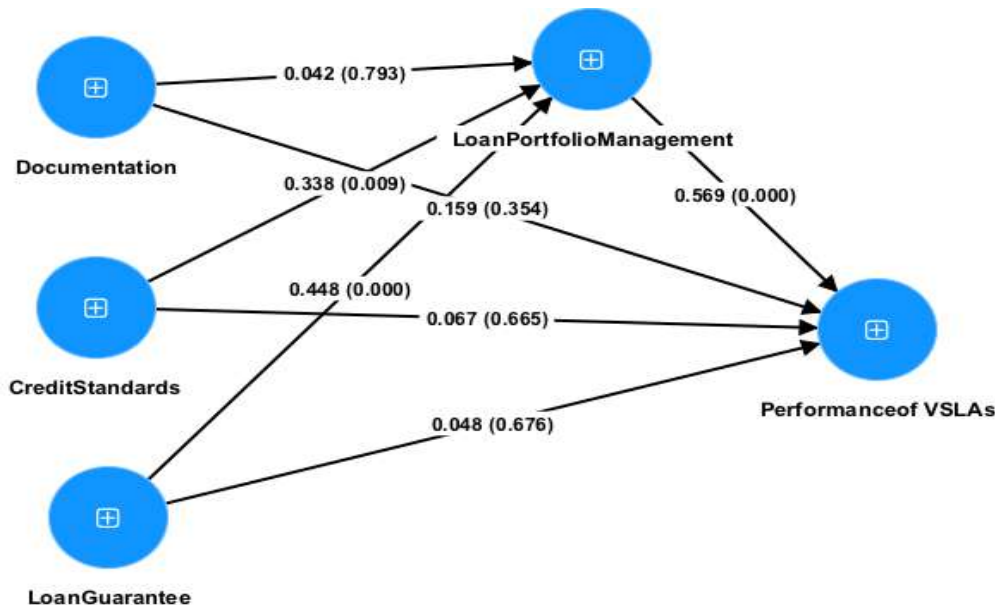
**Source: Primary Data****Table 7: Sub-hypotheses results**

	$\beta$	T stat	P values	Bca
Credit Standards -> Loan Portfolio Management	0.338	2.630	0.009	0.078 - 0.580
Credit Standards -> Performance of VSLAs	0.067	0.433	0.665	-0.257 - 0.355
Documentation -> Loan Portfolio Management	0.042	0.262	0.793	-0.267 - 0.354
Documentation -> Performance of VSLAs	0.159	0.927	0.354	-0.194 - 0.476
Loan Guarantee -> Loan Portfolio Management	0.448	4.670	0.000	0.238 - 0.610
Loan Guarantee -> Performance of VSLAs	0.048	0.418	0.676	-0.175 - 0.278
Loan Portfolio Management -> Performance of VSLAs	0.569	5.314	0.000	0.327 - 0.751
	$\beta$	T stat	P values	Bca
Credit Standards -> Loan Portfolio Management -> Performance of VSLAs	0.192	2.345	0.019	0.058 - 0.389
Loan Guarantee -> Loan Portfolio Management -> Performance of VSLAs	0.255	3.403	0.001	0.121 - 0.412
Documentation -> Loan Portfolio Management -> Performance of VSLAs	0.024	0.258	0.796	-0.151 - 0.209

	$\beta$	T stat	P values	Bca
Credit Standards -> Loan Portfolio Management	0.338	2.630	0.009	0.078 - 0.580
Credit Standards -> Performance of VSLAs	0.259	1.952	0.051	0.024 - 0.495
Documentation -> Loan Portfolio Management	0.042	0.262	0.793	-0.267 - 0.354
Documentation -> Performance of VSLAs	0.183	0.916	0.360	-0.226 - 0.544
Loan Guarantee -> Loan Portfolio Management	0.448	4.670	0.000	0.238 - 0.610
Loan Guarantee -> Performance of VSLAs	0.303	2.428	0.015	0.046 - 0.526
Loan Portfolio Management -> Performance of VSLAs	0.569	5.314	0.000	0.327 - 0.751

**Source: Primary Data**

Furthermore, we tested the mediation effect using the bootstrapping resampling method as suggested by Preacher and Hayes (2008). We used the bias-corrected and accelerated confidence interval bootstrapping approach to generate 5,000 samples. This indicates that the decision to accept or reject alternative hypotheses is based on the confidence intervals. If the zero was placed between the lower and upper bound limits, then it would indicate that the indirect effect was zero; hence, it can be considered as not significant, thereby rejecting the respective hypothesis. With the presence of the mediator, the results revealed that LA ( $\beta = 0.372, p < 0.05$ ), CS ( $\beta = 0.192, p < 0.01$ ) and LG ( $\beta = 0.255, p < 0.05$ ) were all positive; they also significantly influenced the PSVLAs. Therefore, H4, H4a, and H4c were supported. Nevertheless, the results indicated that there was no significant indirect effect of Doc on PSVLAs ( $\beta = 0.024, p > 0.05$ ); thus, H4b was not supported. Consequently, Tables 6 and 7, as well as Figure 2, provide a summary of the results presented in the mediated model, but also signify the direct and indirect effects.



**Figure 2:** Summary of the results presented in the mediated model with direct and indirect effects

**Source: Primary Data**

## **Discussion of Findings**

This study indicates that there is no significant relationship between loan assessment and VSLA performance. This suggests that stringent loan assessment protocols are indispensable for VSLAs. Specifically, applicants' repayment capacities are evaluated prior to loan approval and often rely on their savings. Notably, referring to the study results, a considerable number of members earned UGX 2-5 million annually (approximately \$600-\$1,400), hinting that many struggle to save enough money for VSLA loan requirements. Furthermore, loans are granted primarily to those offering adequate collateral, a requirement emphasized by Kwarteng and Sarfo-Mensah (2019) and Sadr (2017). Conversely, several scholars highlight a positive link between loan assessments and VSLA outcomes. For instance, Ksoll et al. (2015) found that effective loan assessment positively impacts household aspects such as living conditions and daily expenses. Similarly, Wireko-Manuand (2017) and Karlan et al. (2017) noted that robust loan assessments broaden members' access to VSLA financial services. These studies emphasize the importance of proper documentation and guarantor assessment to manage loan delinquency risks. Given VSLAs' distinct objectives of VSLAs, loan assessment approaches should be different from those of traditional financial institutions. Those overseeing VSLA loan assessments must acknowledge their dual role in development and social impact (Koveos & Randhawa, 2004). Such assessments are believed to foster savings, boost business investments, enhance living standards, and buffer against financial uncertainties (Hewa-Wellalage et al., 2021; Oumarou & Celestin, 2021; Omar & Inaba, 2020).

A significant positive relationship exists between loan assessment and loan portfolio management in VSLAs. The results indicate that VSLAs need to employ robust loan assessment mechanisms, including savings-based lending limits, enforcement of collateral securities in the event of default, and flexible adjustment of credit terms such as interest rates and loan durations in response to members' repayment capacity. Furthermore, credit risk is mitigated through default risk coverage arrangements and close monitoring to ensure appropriate loan utilization. Collectively, these practices enhance loan portfolio management by reducing default risk and strengthening VSLAs' performance. Similarly, Ssekakubo et al. (2022) reason that business owners who understand loan procedures, terms (such as loan size, interest rates, and repayment periods), and requirements are better able to secure credit that meets their business needs, which in turn enhances business performance. Therefore, robust loan assessment is a critical operational lever through which VSLAs can strengthen loan portfolio management and ensure VSLA performance.

If borrowers default, guarantors are held accountable. VSLAs also implement post-sanction measures such as consistent repayment monitoring, reminders, unexpected visits, and legal actions against defaulters. Notably, credit standards emerge as the sole significant factor influencing this relationship, aligning with insights from scholars such as Collier et al. (2011), who emphasize the importance of loan portfolio aspects, such as restructured and overdue loans. A significant positive relationship exists between loan portfolio management and the VSLA performance. We posit that VSLAs' ability to offer loans up to three times a member's savings, adjust terms such as interest rates and durations upon customer requests, secure insurance for potential defaults, and ensure appropriate loan utilization is pivotal. These practices enable VSLAs to consistently generate profits for savings. Furthermore, maintaining post-sanction activities, such as regular repayment monitoring, reminders, and surprise borrower visits, is essential. VSLAs also have the option to pursue legal avenues against defaulting members. Such strategies not only meet financial obligations promptly but also reserve funds for unforeseen

circumstances. These observations resonate with the findings of Kafoir and Agu (2023) and Miller and Noulas (1996), suggesting that weakened loan portfolios often highlight the underlying flaws in credit assessment and monitoring. VSLAs that previously grappled with loan portfolio management challenges faced heightened risks, leading to less judicious lending. Consequently, adept loan portfolio management is crucial for identifying potential VSLA performance hurdles, as highlighted by Cincinelli and Piatti (2021) and Mwatati and Wekesa, (2024) We recommend that VSLAs strategically leverage their internal capabilities by adhering to structured loan portfolio management principles, such as tailoring interest rates and loan durations to meet member needs, to enhance organizational performance. From a RBV perspective, supervisors and managers should actively monitor credit terms, risk control, and delinquency management, as these processes represent critical organizational capabilities that transform tangible resources (financial capital) and intangible capabilities (credit assessment skills, managerial expertise, and relational trust) into sustained competitive advantage.

The study's findings reveal a partial mediating effect of loan portfolio management on the relationship between loan assessment and VSLA performance, highlighting that the strategic deployment of internal resources and capabilities is essential for superior outcomes. Effective loan assessment capabilities; including rigorous credit standards, proper documentation, and robust loan guarantees, enhance the association's ability to manage its loan portfolio efficiently, thereby improving performance outcomes. The mediating effect accounts for 60.69% of the variance in the link between loan assessment and VSLA performance, consistent with Hair et al. (2022; 2019) in validating partial mediation. Specifically, we propose that key components of loan assessment, particularly credit standards and loan guarantees tend to achieve their full performance impact when integrated with strong portfolio management processes. This underscores the RBV principle that it is not only the possession of resources but their effective deployment as firm capabilities that generate sustained competitive advantage. Moreover, in an era marked by globalization, technological advancement, and financial product innovation, VSLAs that systematically cultivate and deploy their internal capabilities are more likely to achieve superior performance, enhanced resilience, and sustained competitiveness (Wakaisuka & Nkundabanyanga, 2019).

## **Conclusion**

This study examined the mediating role of loan portfolio management between loan assessment and VSLA performance. The findings indicate a positive and significant relationship between loan assessment and portfolio management, with loan portfolio management partially mediating the link between assessment and performance. Specifically, credit standards and loan guarantees significantly enhance portfolio management, while documentation showed no significant effect. None of the loan assessment components directly influenced VSLA performance; their impact occurred primarily through loan portfolio management, confirming a partial mediation effect.

## **Implications and Recommendations**

### **Theoretical Implications**

Adopting a RBV perspective, this study highlights how internal capabilities within VSLAs drive sustained performance. Loan assessment is conceptualized as a strategic capability, and loan portfolio management as an organizational process, showing that VSLAs leverage both tangible resources (financial capital) and intangible capabilities (credit evaluation skills, risk management) to achieve superior outcomes. Identifying loan portfolio management as a partial mediator

reinforces RBV's premise that competitive advantage arises from effective resource deployment, not mere possession. Disaggregating loan assessment into credit standards, loan guarantees, and documentation reveals differential impacts, with documentation having limited effect, suggesting that socially embedded, (like trust and relational networks) can substitute for formal procedures in informal financial institutions.

### **Managerial Implications**

This study emphasizes that VSLA performance relies not only on access to financial resources but also on the effective deployment of internal capabilities, consistent with RBV. Loan assessment, as a strategic capability, and loan portfolio management, as an operational process, must be aligned to achieve superior outcomes. Managers should recognize that loan assessment alone is insufficient; its impact is maximized when integrated with robust loan portfolio management routines that optimize tangible resources (loanable funds) and intangible capabilities. Additionally, managers should adopt a coordinated, capability-driven approach to loan disbursement, risk monitoring, and delinquency management to ensure optimal resource utilization, financial sustainability, and performance.

### **Practical Implications**

The findings offer actionable guidance for practitioners, policymakers, and development agencies supporting VSLAs, highlighting that performance depends on strategic use of internal capabilities, consistent with RBV. Loan assessment practices are critical capabilities that, when properly developed, enhance resilience and performance. Both tangible resources (financial capital) and intangible capabilities (documentation, credit standards & loan guarantee) are essential, suggesting that capacity-building initiatives should train members and administrators in behaviorally informed loan evaluation techniques aligned with local norms. The differential impact of loan assessment components on loan portfolio management underscores the need for targeted resource allocation, particularly strengthening credit standards and loan guarantees to improve risk management, repayment, and financial discipline. Development practitioners and VSLA managers should support the design and institutionalization of portfolio monitoring tools, repayment tracking systems, and risk control processes tailored to the trust-based, socially embedded structures of informal savings groups.

### **Limitations**

Using only quantitative methods through surveys may lead to biases, such as respondent subjectivity or measurement inaccuracies, potentially undermining the credibility of the study. To enhance validity and reduce biases, future research should consider a mixed-methods approach that combines qualitative techniques such as interviews with quantitative data. Additionally, exploring alternative methodologies or triangulation methods can further validate the findings of this study. The results of this study may be restricted in their relevance beyond the specific VSLA context and geographical scope examined. To assess broader applicability, it is essential to conduct comparative research across various VSLA settings to examine the subtle and generalizability of the observed relationships.

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