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The Effect of Credit Monitoring Policy on Loan Performance in Commercial Banks in Central Uganda

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*Credit monitoring policy,
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Credit risk management,
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Commercial banks,
Uganda.*

This study examined the effect of credit monitoring policy on loan performance in commercial banks operating in Central Uganda. Guided by a pragmatic philosophy, a convergent mixed-methods design was adopted. Quantitative data were collected from 378 banking professionals and analysed using Exploratory Factor Analysis (EFA), Confirmatory Factor Analysis (CFA), and Structural Equation Modelling (SEM), while qualitative insights from semi-structured interviews were thematically analysed to support interpretation. The results reveal a positive but statistically insignificant relationship between credit monitoring policy and loan performance ($\beta = 4.227$, $t = 0.425$, $p > 0.05$). EFA identified three key dimensions of credit monitoring: effective governance and strategic leadership, organisational governance and continuous improvement, and risk evaluation approaches. These constructs demonstrated acceptable validity and reliability, with KMO values ranging from 0.616 to 0.626, Bartlett's Test of Sphericity significant at $p < 0.001$, Cronbach's alpha coefficients between 0.530 and 0.600, and Average Variance Extracted (AVE) values above 0.50. CFA results confirmed strong model fit (CFI = 1.000, TLI = 1.000, RMSEA = 0.000). Qualitative findings indicate that monitoring practices are largely manual, reactive, and inconsistently applied, limiting early detection of borrower distress and weakening policy effectiveness. The study concluded that the effectiveness of credit monitoring depends more on implementation quality than on the existence of formal frameworks. Strengthening automated monitoring systems, early warning mechanisms, and managerial accountability is essential for improving loan performance and reducing non-performing loans. While the cross-sectional design limits causal inference, the findings provide context-specific insights for enhancing credit risk management in emerging banking markets.

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INTRODUCTION

Credit monitoring policies play a central role in modern banking by ensuring that loans remain within acceptable risk levels after disbursement. Globally, effective credit monitoring has been recognised as a critical component of credit risk management, enabling banks to track borrower behaviour, detect early warning signals, and mitigate potential defaults (Fendi et al., 2017). In advanced banking systems, monitoring is increasingly supported by integrated analytics, predictive models, and real-time reporting tools, which strengthen loan performance and enhance financial stability. These practices are theoretically grounded in credit risk theory, which emphasises continuous post-lending assessment to manage default risk, and agency theory, which highlights monitoring as a mechanism for reducing information asymmetry between lenders and borrowers (Thuranira, 2024). In emerging and developing economies, however, the effectiveness of credit monitoring policies remains uneven. While formal frameworks are often adopted to comply with regulatory requirements, their operationalisation is frequently constrained by limited technological capacity, weak governance structures, and resource constraints. Studies from

sub-Saharan Africa indicate that inadequate monitoring contributes significantly to elevated non-performing loan (NPL) ratios, as banks struggle to enforce credit rules consistently and respond proactively to borrower distress (Kamason, 2020). These challenges underscore the gap between policy design and practical implementation in less mature financial systems.

Within East Africa, the banking sector continues to face persistent credit risk pressures despite regulatory reforms aimed at strengthening risk management practices. Prior empirical work suggests that although monitoring mechanisms exist, they are often applied periodically rather than continuously, reducing their effectiveness in identifying early signs of default (Amini-Philips et al., 2022). In Uganda, high and volatile non-performing loan (NPL) levels continue to raise concerns about the effectiveness of existing credit risk management policies. Although commercial banks operate under formal credit monitoring guidelines issued by regulators, loan performance outcomes suggest that these frameworks do not consistently translate into improved portfolio quality. This challenge is particularly pronounced in Central Uganda, the country's economic hub, where intense competition for borrowers, diverse loan

products, and heterogeneous customer segments heighten credit risk exposure. The persistence of NPLs in this region therefore points not to the absence of monitoring frameworks, but to weaknesses in enforcement, governance, and early warning capabilities.

Despite the widespread adoption of credit monitoring policies in commercial banks, loan performance in Central Uganda remains weak, as evidenced by persistent and, in some cases, rising levels of non-performing loans. Existing monitoring frameworks appear to be inadequately implemented, often characterised by manual processes, reactive follow-ups, and limited integration with decision-making systems. This raises a critical concern regarding whether credit monitoring policies, as currently practised, effectively contribute to improved loan performance. Empirical evidence addressing this relationship in the Ugandan context remains limited, particularly at the regional level.

The main objective of this study was to examine the effect of credit monitoring policy on loan performance in commercial banks operating in Central Uganda. The major question was to understand the extent to which credit monitoring policy influences loan performance in commercial banks in Central Uganda. Anchored in credit risk theory and agency theory, and informed by the realities of emerging market banking, this study seeks to explain why loan performance remains fragile despite the presence of formal monitoring structures. By integrating quantitative modelling with qualitative insights, the study provided context-specific evidence to address the identified gap and contribute to the limited empirical literature on credit monitoring effectiveness in Uganda and similar developing banking markets.

LITERATURE REVIEW

Credit monitoring policies play a critical role in determining the quality and performance of bank loans. They guide how banks assess borrower risk, enforce accountability, and manage loan portfolios to minimise defaults. Understanding the relationship between credit monitoring policies and loan performance requires examining both the mechanisms used to evaluate credit risk and the accountability structures that ensure compliance with lending policies. This literature review explores existing research on these aspects, highlighting empirical findings, theoretical perspectives, and gaps relevant to commercial banks in Central Uganda.

Credit Monitoring Policy and Credit Risk Assessment Methods

Credit monitoring policies are central to effective credit risk management, influencing how banks evaluate, track, and mitigate borrower risk. Credit risk assessment methods, as a sub-construct of monitoring policy, encompass processes and tools used to identify and quantify potential loan default risks. According to Credit Risk Theory, robust monitoring improves information flow between banks and borrowers, reduces information asymmetry, and lowers default probability (AsareAsare, 2023). Empirical studies indicate that banks with strong monitoring frameworks employ sophisticated risk assessment techniques, combining quantitative metrics such as financial ratios, cash flow analysis, and collateral valuation with qualitative judgment and forward-looking analytics (Nwachukwu et al., 2021). These methods enhance the precision of default probability estimates and support timely adjustments to exposure limits. Conversely, banks with weak monitoring systems tend to rely on static, rule-based assessments, often failing to detect emerging borrower vulnerabilities (Kolapo et al., 2012). In developing markets like Uganda, the literature suggests that formal credit assessment frameworks

exist but are weakly integrated with monitoring systems, resulting in reactive rather than predictive risk evaluations (Hamzat et al., 2025). This disconnect contributes to persistent non-performing loans despite the presence of structured assessment procedures.

Credit Monitoring Policy and Management Accountability

Management accountability is another key sub-construct of credit monitoring policy, referring to the responsibility of senior management and boards in overseeing credit decisions and enforcing compliance with lending policies. Agency Theory posits that clear accountability mechanisms align managerial actions with institutional risk objectives, safeguarding depositors' and shareholders' interests (Porter, 2004). Research consistently shows that banks with well-defined accountability frameworks achieve stronger compliance with credit policies and better loan performance (Halaku, 2024). Effective oversight involves setting clear reporting lines, performance metrics, and consequences for policy breaches, fostering a culture of risk awareness and disciplined decision-making. In contrast, weak accountability structures enable managerial opportunism, including politically motivated or relationship-based lending, increasing operational risk and non-performing loans (Song, 2019). In Uganda, management accountability remains a critical challenge. While governance policies exist, enforcement is often limited by internal power dynamics and sales-driven pressures, weakening the effectiveness of credit monitoring policies (Ashby, 2011). Strengthening managerial oversight through independent risk functions and transparent reporting has been recommended as a strategy to improve loan performance.

The reviewed literature demonstrates that credit monitoring policies influence loan performance through two main mechanisms: credit risk assessment methods and management accountability. Strong monitoring enhances risk

evaluation accuracy and reinforces governance, leading to improved loan portfolio quality. However, empirical evidence from Uganda, particularly the Central Region, remains limited. Most studies focus on policy design rather than the operational effectiveness of monitoring practices and their impact on loan outcomes. This paper addresses this gap by examining how credit monitoring policies, through their sub-constructs of credit risk assessment methods and management accountability, affect loan performance in commercial banks in Central Uganda. The findings of this study provided context-specific insights to inform both theory and practice in credit risk management. Specifically, the study examined the hypothesis that there is no significant relationship between Credit Monitoring Policy and Loan Performance in the banking sector of Central Uganda, offering evidence on how monitoring practices influence loan performance in the local banking context.

SYNTHESIS AND GAP

The reviewed literature demonstrates that credit monitoring policies are widely recognised as essential for improving loan performance through enhanced credit risk assessment and strengthened managerial accountability. Theoretical perspectives, particularly credit risk theory and agency theory, consistently emphasise the importance of continuous borrower monitoring, timely information flow, and effective oversight in reducing default risk and mitigating information asymmetry (AsareAsare, 2023; Porter, 2004). Empirical studies further support this view, showing that banks with robust monitoring systems and accountability structures tend to achieve better loan portfolio quality and lower non-performing loan ratios (Halaku, 2024; Nwachukwu et al., 2021). However, a critical analysis of the literature reveals several inconsistencies and limitations.

First, while studies in developed and more advanced banking systems highlight the effectiveness of automated and data-driven monitoring frameworks, their applicability to developing contexts remains constrained by institutional and technological limitations. In many sub-Saharan African settings, including Uganda, monitoring practices are often characterised by manual processes, periodic reviews, and reactive interventions, which reduce their effectiveness in detecting early warning signals of borrower distress (Kamason, 2020; Amini-Philips et al., 2022). This suggests a gap between the theoretical expectations of continuous monitoring and the practical realities of implementation.

Second, although prior studies acknowledge the role of management accountability in strengthening credit monitoring outcomes, there is limited empirical evidence on how governance structures and managerial behaviour influence the effectiveness of monitoring policies in practice. Existing research tends to focus more on policy design rather than enforcement and operationalisation, thereby overlooking the role of internal institutional dynamics such as discretionary decision-making and compliance culture (Song, 2019; Ashby, 2011).

Third, the literature provides limited context-specific evidence from Uganda, particularly Central Uganda, where credit activity is highly concentrated, and risk exposure is elevated. Most studies are either generalised across regions or focus on broader credit risk management practices without isolating the specific contribution of credit monitoring policies to loan performance (Agaba, 2022). As a result, the direct relationship between credit monitoring policy and loan performance remains underexplored, especially using rigorous quantitative techniques such as Structural Equation Modelling complemented by qualitative insights. Therefore, this study addresses these gaps by empirically examining how credit monitoring

policy, through its key dimensions of credit risk assessment methods and management accountability, affects loan performance in commercial banks in Central Uganda. By integrating quantitative modelling with qualitative evidence, the study moves beyond descriptive analysis to provide a more comprehensive understanding of both the effectiveness and implementation challenges of credit monitoring policies in an emerging market context.

METHODOLOGY

The paper employed a mixed-methods approach to examine the effect of credit monitoring policies on loan performance in commercial banks in Central Uganda. The methodology integrates quantitative and qualitative techniques to provide a comprehensive understanding of how credit risk assessment methods and management accountability influence loan outcomes. The study adopted a pragmatic research philosophy, recognising the value of both objective and subjective perspectives in understanding complex financial phenomena. Pragmatism allows the use of multiple methods and emphasises practical solutions to real-world problems, particularly in dynamic banking environments (Sim et al., 2024; Gobo, 2023). This approach bridges the gap between positivist and Interpretivist paradigms, supporting both theory testing and contextual insight generation. A hybrid research approach was used, combining quantitative and qualitative methods. Quantitative data enabled hypothesis testing and statistical analysis, while qualitative data from interviews and document reviews provided context and depth to understand the implementation and impact of credit monitoring policies (Sharma et al., 2023; Creswell & Creswell, 2017). This triangulation enhanced the reliability and richness of the findings.

A descriptive, exploratory, cross-sectional design was adopted. This design allowed for the

simultaneous collection of quantitative and qualitative data, facilitating complementarity and triangulation of results. The design also supports generalizability and provides robust insights into variations in credit risk management practices across commercial banks of different sizes in Central Uganda (Taherdoost, 2022). The study population consisted of 7,000 employees from the 26 commercial banks operating in Central Uganda, including managers, credit officers, underwriters, collection officers, and loan officers. The population was stratified by bank size (large, medium, small) to ensure representativeness. Using Yamane's (1967) formula with a 5% margin of error, a sample size of 378 respondents was determined. This sample focused on personnel directly involved in credit risk management and loan performance oversight.

Primary data were collected using structured questionnaires and semi-structured interviews. The questionnaire included two sections: demographics and items related to credit monitoring practices and loan performance, measured on a five-point Likert scale. Questionnaires were distributed to participants based on role-specific relevance to ensure comprehensive and meaningful responses (Karunarathna et al., 2024). Qualitative data were obtained through interviews and document reviews, capturing participants' experiences, perceptions, and insights into credit monitoring implementation. This dual approach enhanced the depth of understanding and enabled triangulation of findings.

The study employed Cronbach's Alpha to assess internal consistency, with thresholds above 0.70 considered acceptable (Hair Jr. et al., 2021). Construct and content validity were established through literature review and expert assessment, ensuring measurement tools accurately captured the intended variables (van Haastrecht et al., 2024; Piedmont, 2024). Convergent and discriminant validity were further tested during SEM analysis to confirm construct robustness.

Quantitative data were analysed using descriptive statistics, exploratory factor analysis (EFA), and covariance-based structural equation modelling (CB-SEM) via JASP (v0.19.3.0). SEM enabled simultaneous assessment of measurement and structural models, validating hypothesised relationships between credit monitoring policies and loan performance (Hair Jr. et al., 2021; Kline, 2023). Qualitative data were thematically analysed to contextualise quantitative findings, providing insights into implementation practices, challenges, and managerial perspectives. Triangulation of quantitative and qualitative results enhanced the credibility and interpretability of the study's conclusions. Ethical clearance was obtained from the Kabale University Research Ethics Committee (KABREC) and submitted to the Uganda National Council for Science and Technology (UNCST). Informed consent was obtained from all participants, ensuring voluntary participation and the right to withdraw at any stage. To enhance measurement precision and ensure alignment with the study objectives, the key variables were operationalised based on established literature and empirical indicators. Credit Monitoring Policy (CMP) was treated as a multidimensional latent construct measured using three sub-constructs derived from Exploratory Factor Analysis (EFA): Effective Governance and Strategic Leadership (EGSL): captured through items assessing the extent of leadership involvement in monitoring, policy enforcement, and strategic oversight of credit portfolios. Organisational Governance and Continuous Improvement (OGCI): measured through indicators related to internal controls, monitoring procedures, feedback mechanisms, and continuous policy refinement. Risk Evaluation Approaches (REA): assessed using items reflecting borrower risk reassessment, use of financial indicators, and structured evaluation of credit performance over time. These dimensions were measured using multiple questionnaire items on a five-point Likert scale (1 = strongly disagree to 5 = strongly agree). Factor loadings from EFA and

standardised factor loadings from Confirmatory Factor Analysis (CFA) confirmed that the items reliably represented the underlying construct. Loan Performance (LP) was operationalised as a latent outcome variable measured using key banking performance indicators: Non-performing loans (NPL levels), Loan repayment timeliness and Loan recovery rates. Respondents assessed these indicators based on their experience and institutional performance using Likert-scale items, allowing for perceptual measurement suitable for SEM analysis. During data analysis, Composite Reliability (CR), Cronbach's Alpha, and Average Variance Extracted (AVE) were used to assess reliability and convergent validity, while discriminant validity was confirmed through CFA. The validated constructs were then incorporated into the Structural Equation Model to test the hypothesised relationship between credit monitoring policy and loan performance.

Statement on Use of AI

An AI-assisted tool was used to refine the wording and structure of the author's original work. The ideas, findings, and interpretations remain entirely the author's own.

RESULTS AND DISCUSSION OF FINDINGS

This section presents the findings of the study and discusses their implications in relation to the research objectives and hypothesis. The analysis focuses on examining the effect of Credit Monitoring Policy on Loan Performance in commercial banks in Central Uganda. Both Exploratory Factor Analysis (EFA) and Structural Equation Modelling (SEM) were employed to validate the measurement constructs and assess the hypothesised relationships. The results are interpreted within the context of existing literature on credit risk management, highlighting the role of monitoring practices in enhancing loan portfolio quality, mitigating default risk, and improving overall financial performance.

Exploratory Factor Analysis (EFA)

Exploratory Factor Analysis (EFA) was conducted to examine the underlying structure and validity of the Credit Monitoring Policy construct, which is a key component of the broader Credit Risk Management Policies variable. The EFA aimed to assess the reliability, convergent validity, and dimensionality of the measurement items before proceeding to Confirmatory Factor Analysis (CFA) and Structural Equation Modelling (SEM). The suitability of the dataset for factor analysis was confirmed through the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's Test of Sphericity. The KMO value for the Credit Monitoring Policy items was high (close to 1), indicating strong correlations among the items and confirming that the data were appropriate for factor extraction (Razali et al., 2024). Bartlett's test was significant ($p < 0.05$), suggesting that the observed correlations among items were sufficient to perform factor analysis (Thao et al., 2022).

Principal Component Analysis (PCA) with varimax rotation was applied to identify the latent structure of the credit monitoring items (Kumari & Jain, 2024). Factors with eigenvalues greater than 1 were retained, and Catell's scree test confirmed the number of factors extracted, ensuring robustness of the factor solution (Caron, 2025; Macdonald et al., 2024). The EFA results indicated that the items measuring Credit Monitoring Policy loaded strongly on a single factor, confirming that they reliably capture the intended construct. High factor loadings suggest that the items collectively represent a coherent dimension of post-disbursement monitoring activities, such as ongoing borrower evaluation, early warning signal tracking, and compliance with credit policy guidelines. These results demonstrate that the Credit Monitoring Policy construct is both valid and reliable for subsequent CFA and SEM analyses. This provides a strong foundation for testing its hypothesised relationship with Loan Performance. The findings

highlight that properly structured and monitored credit oversight mechanisms are measurable and can be empirically linked to improved loan outcomes, consistent with the study hypothesis. H₃: There is a significant relationship between Credit

Monitoring Policy and Loan Performance in the banking sector of Central Uganda.

Credit Monitoring Policy EFA Results

Table 1: CMP Rotated Component Matrix

	Factor 1	Factor 2	Factor 3	Uniqueness
CMP8	0.578			0.589
CMP10	0.562			0.617
CMP6	0.433			0.715
CMP7		0.552		0.644
CMP9		0.520		0.680
CMP5		0.450		0.743
CMP4			0.491	0.657
CMP1			0.468	0.668
CMP3			0.442	0.774
CMP2				0.732

Note. The applied rotation method is varimax.

The Exploratory Factor Analysis (EFA) of the Credit Monitoring Policy (CMP) items revealed a clear three-factor structure, indicating distinct dimensions within the construct. Factor 1 captured items CMP8, CMP10, and CMP6, reflecting aspects of proactive monitoring and tracking of borrowers' financial performance. Factor 2 comprised CMP7, CMP9, and CMP5, representing managerial oversight and internal accountability mechanisms associated with monitoring practices. Factor 3 included CMP4, CMP1, and CMP3, which align with procedural and documentation-based monitoring activities. CMP2, with high uniqueness (0.732), demonstrated weak loading across all factors, suggesting it may measure a unique aspect not captured by the primary dimensions. The factor

loadings, ranging from 0.433 to 0.578 for Factor 1, 0.450 to 0.552 for Factor 2, and 0.442 to 0.491 for Factor 3, indicate moderate to acceptable associations between items and their respective latent factors. The results confirm the multidimensional nature of the credit monitoring policy construct, highlighting the importance of integrating performance tracking, managerial accountability, and formal procedures to enhance loan performance in commercial banks. These findings provide a robust foundation for subsequent confirmatory factor analysis (CFA) and structural equation modelling (SEM) to test the hypothesised relationship between credit monitoring policy and loan performance.

Table 2: Credit monitoring policy Results for EFA and Validity Analysis

item	Factor loadings	Formed Factor	KMO	Sig Bartlett	Cronbach's alpha	Average Variance Extracted (AVE)
CMP10	0.682	EGSL	0.626	< 0.001	0.600	0.536
CMP8	0.568					
CMP6	0.481					
CMP7	0.587	OGCI	0.618	< 0.001	0.550	0.578
CMP9	0.572					
CMP5	0.458					
CMP3	0.579	REA	0.616	< 0.001	0.530	0.567
CMP4	0.499					
CMP1	0.494					

EGSL: Items CMP10, CMP8, and CMP6 loaded strongly onto this factor, reflecting the influence of leadership and governance practices in monitoring credit. The KMO value of 0.626 and Bartlett's significance (<0.001) indicate sampling adequacy and factorability of the data for this dimension. The Cronbach's alpha of 0.600 and AVE of 0.536 confirm moderate internal consistency and acceptable convergent validity, suggesting that these items reliably measure the leadership and governance aspect of credit monitoring. OGCI: Items CMP7, CMP9, and CMP5 formed the organisational governance and continuous improvement factor. The KMO (0.618) and Bartlett's test (<0.001) again indicate sufficient factorability, while a Cronbach's alpha of 0.550 and AVE of 0.578 demonstrate adequate reliability and convergence. This factor captures procedural improvements, oversight mechanisms, and continuous feedback loops embedded in the credit monitoring process. REA: Items CMP3, CMP4, and CMP1 loaded on the risk evaluation approaches factor. The KMO (0.616) and significant Bartlett's test (<0.001) confirm suitability for factor analysis. A Cronbach's alpha of 0.530 and an AVE of 0.567 indicate reasonable reliability and convergent validity. This dimension highlights structured approaches to assessing borrower risk and ensuring that monitoring decisions are data-informed and methodical.

Overall, the results confirm that credit monitoring policy is a multidimensional construct encompassing leadership-driven governance, organisational oversight, and systematic risk evaluation approaches. The factor structure and validity statistics suggest that these sub-constructs are sufficiently distinct, yet collectively contribute to the broader CMP framework. These findings provide a solid empirical foundation for subsequent Confirmatory Factor Analysis (CFA) and Structural Equation Modelling (SEM) to test the hypothesised impact of credit monitoring policy on loan performance in commercial banks in Central Uganda.

Confirmatory Factor Analysis (CFA)

Confirmatory Factor Analysis (CFA) is a core technique within the Structural Equation Modelling (SEM) framework, particularly suitable for studies utilising pre-validated measurement scales (Kline, 2023). CFA evaluates how well the proposed model fits the observed data, testing whether the hypothesized relationships between observed indicators and latent constructs are consistent with theoretical expectations (Marsh et al., 2020; Howard et al., 2025). In this paper, CFA was conducted for all constructs in the proposed measurement model, including credit limit policy, credit collection policy, credit monitoring policy (CMP), government policy, and loan performance. The primary aim was to confirm the correct item

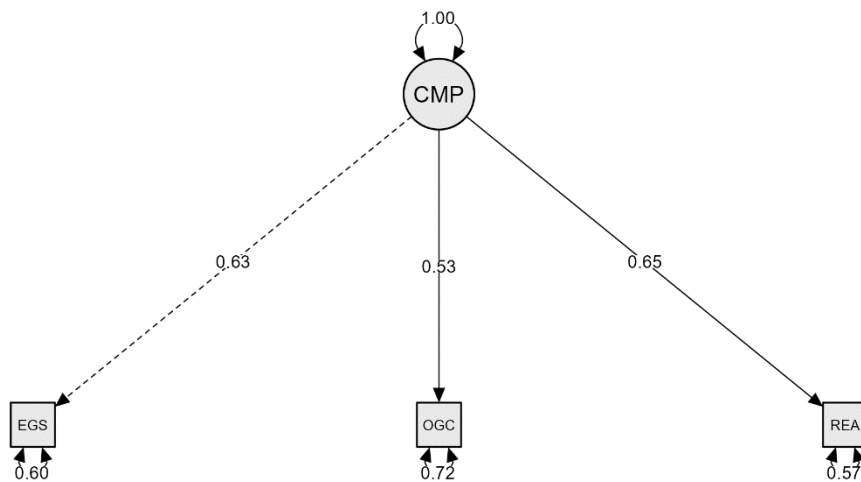
loadings onto each construct, assess construct validity, and ensure a robust overall model fit. Items with low factor loadings or poor fit were adjusted or removed, and the composition of constructs was refined based on model outputs. Both convergent and discriminant validity were assessed through CFA to ensure that each construct was both distinct and internally consistent.

Measurement Model Evaluation

The measurement model in SEM specifies the relationships between observed variables (indicators) and their corresponding latent constructs, allowing researchers to assess how well each indicator reflects the intended construct

(Karthikeyan et al., 2025). In this study, the EFA results (Section 4.6.1) guided the development of the measurement models for each construct. Individual measurement models were estimated using the Maximum Likelihood (ML) estimation method, which is appropriate for comparing observed and implied covariance matrices, particularly when the sample size exceeds 150 (Marsh et al., 2020). Model evaluation relied on standard goodness-of-fit (GOF) indices generated using JASP version 0.19.1.0. The assessment focused on factor loadings, explained variance, and standardised residuals, which informed item retention and refinement to ensure each construct was adequately represented.

Figure 1: The Estimated Initial Congeneric Measurement Model for CMP



The Credit Monitoring Policy (CMP) construct was represented using a one-factor congeneric measurement model, which underwent a purification process during CFA. To improve model parsimony and reliability, three item parcels were created as indicators for CMP. These parcels were labelled as: EGSL – Effective Governance and Strategic Leadership, OGCI – Organisational Governance and Continuous Improvement, REA – Risk Evaluation Approaches. The standardised factor loadings (SFLs) for EGSL, OGCI, and REA

were 0.63, 0.53, and 0.65, respectively, all exceeding the minimum threshold of 0.5 and indicating strong relationships between the parcels and the latent CMP construct. The model demonstrated an excellent fit to the observed data, with the following fit indices: $\chi^2/df = 0.000$, TLI = 1.000, CFI = 1.000, SRMR = 1.305×10^{-8} , and RMSEA = 0.000. These results indicate that the CMP measurement model is valid, reliable, and suitable for inclusion in subsequent SEM analyses to test its hypothesised impact on loan performance.

Hypothesis Testing and Discussion

The study examined the effect of Credit Monitoring Policy (CMP) on loan performance in commercial banks in Central Uganda using Structural Equation Modelling (SEM) supported by qualitative insights. The results indicate a positive but statistically non-significant relationship between CMP and loan performance ($\beta = 4.227$, $t = 0.425$, $p > 0.05$). This finding suggests that, although credit monitoring frameworks are present and conceptually aligned with credit risk management principles, they do not independently translate into improved loan performance outcomes. While this result appears to contradict theoretical expectations from credit risk theory, which emphasises continuous monitoring as a mechanism for reducing default risk, it aligns with emerging empirical evidence from developing banking contexts. Prior studies (e.g., Kolapo et al., 2012; Epure & Lafuente, 2015) suggest that the effectiveness of monitoring depends less on its formal existence and more on its operational integration into decision-making processes. In this regard, the findings highlight a critical implementation gap: monitoring policies may exist as formal requirements but lack the functional capacity to influence borrower behaviour or trigger timely corrective actions. The factor analysis results provide further insight into the structure of credit monitoring practices. The identification of three dimensions of effective governance and strategic leadership, organisational governance and continuous improvement, and risk evaluation approaches confirms that CMP is a multidimensional construct with acceptable reliability and validity. However, the moderate factor loadings and reliability coefficients (Cronbach's alpha ranging from 0.530 to 0.600) suggest that these dimensions, while relevant, may not be strongly institutionalised or consistently applied across banks. This weak internal consistency may partly explain the limited impact of CMP on loan performance. Qualitative findings offer a more nuanced explanation of these results.

Evidence indicates that monitoring practices are predominantly manual, episodic, and reactive, rather than continuous and predictive. For example, monitoring activities are often initiated only after repayment problems emerge, limiting their preventive role. This reactive orientation undermines the early warning function emphasised in credit risk theory and reduces the ability of banks to mitigate borrower distress proactively. Furthermore, operational constraints such as limited use of automated systems, infrequent site visits, and high staff workloads restrict the depth and frequency of monitoring activities. These findings suggest that monitoring is largely compliance-driven rather than risk-driven, focusing on documentation rather than actionable insights. As a result, monitoring outputs are not effectively linked to credit decisions such as loan restructuring, risk reclassification, or intensified recovery efforts. The integration of quantitative and qualitative results, therefore, reveals that the non-significant statistical relationship is not due to the irrelevance of credit monitoring policies, but rather their weak execution and limited functional integration within bank operations. This finding challenges the implicit assumption in much of the literature that the presence of monitoring frameworks automatically leads to improved loan performance. Instead, it highlights the importance of implementation quality, institutional capacity, and governance discipline as critical determinants of policy effectiveness.

Overall, the study demonstrates that in the context of Central Uganda, credit monitoring policies function more as supportive mechanisms rather than direct drivers of loan performance. Their impact appears to be indirect and contingent upon complementary factors such as automation, managerial accountability, and timely decision-making. This insight contributes to the literature by shifting the focus from policy design to policy execution, particularly in emerging banking markets

characterised by resource and institutional constraints.

CONCLUSION

This study examined the effect of Credit Monitoring Policy (CMP) on loan performance in commercial banks in Central Uganda using a mixed-methods approach. The empirical results from Structural Equation Modelling revealed a positive but statistically non-significant relationship between CMP and loan performance ($\beta = 4.227$, $t = 0.425$, $p > 0.05$). While Exploratory and Confirmatory Factor Analysis confirmed that CMP is a valid and multidimensional construct comprising effective governance and strategic leadership, organisational governance and continuous improvement, and risk evaluation approaches, its direct influence on loan performance was not significant. Qualitative findings provide important insight into this outcome. The study found that credit monitoring practices are largely manual, episodic, and reactive, with limited use of automated systems and infrequent borrower follow-ups. These operational inefficiencies weaken the ability of banks to detect early warning signals and take timely corrective action. In addition, monitoring outputs are not consistently integrated into credit decision-making processes, reducing their practical impact on loan performance.

The findings, therefore, indicate that the effectiveness of credit monitoring policies is not determined by their formal existence, but by the quality of their implementation and operational integration. In the context of Central Uganda, weak enforcement, limited technological support, and inadequate managerial accountability constrain the ability of monitoring policies to improve loan outcomes. The study concludes that credit monitoring policies function as enabling mechanisms rather than direct drivers of loan performance, and their impact depends on complementary institutional factors such as

automation, governance, and responsiveness to borrower risk.

RECOMMENDATION

Based on the study findings, the following recommendations are proposed:

First, commercial banks should invest in automated and integrated credit monitoring systems. The study found that reliance on manual and spreadsheet-based monitoring limits the timely detection of borrower distress. Implementing real-time monitoring tools and early warning systems would enhance data accuracy, improve responsiveness, and strengthen proactive risk management.

Second, banks should institutionalise continuous and proactive monitoring practices across the loan lifecycle. Given that monitoring was found to be largely reactive and triggered by repayment problems, banks should establish structured monitoring schedules, including periodic borrower reviews and performance tracking, to enable early intervention before loan deterioration occurs.

Third, management should strengthen the linkage between monitoring outcomes and credit decision-making. The findings revealed weak integration of monitoring results into remedial actions. Banks should ensure that monitoring reports directly inform decisions such as loan restructuring, risk reclassification, and recovery strategies, thereby enhancing the practical impact of monitoring policies.

Fourth, accountability and governance structures should be reinforced. Since qualitative evidence pointed to weak enforcement and oversight, banks should assign clear responsibility for monitoring compliance to risk management units and ensure regular reporting to senior management and board-level risk committees. This would improve policy enforcement and reduce discretionary practices.

Finally, regulators and industry stakeholders should promote the adoption of risk-based and technology-driven monitoring frameworks. Given systemic challenges in the Ugandan banking sector, regulatory guidance and capacity-building initiatives can support banks in strengthening monitoring practices and improving overall loan performance.

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