CREDIT RISK MANAGEMENT AND THEPERFORMANCE OF PRIDE MICRO FINANCE

BY

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DECLARATION

I, Sharon Ashaba, declare that this is my original work and it has never been submitted anywhere else for any academic purposes.

Signed…………………………………………   Date..……

APPROVAL

This dissertation was done under our supervision and is submitted with our approval for examination.

Signed…………………………………… Date………………………………

Mrs. ProssNagittaOluka

Signed…………………………………… Date………………………………

Mr. Paddy Mugambe

DEDICATION

To my dear parents Mr and Mrs Elias Byaruhanga who have been an inspiration to me throughout my studies. I specially dedicate this book to my daughter Ubuntu Maya Kakembo who joined us along my studies and my husband Jonathan Kakembo.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS

AMFIU	Association of Microfinance Institutions Uganda
CVI	Content Validity Index
ERM	Enterprise Risk Management
ICSA	Institute of Chartered Secretary Association
MDIs	Micro Finance Deposit-Taking Institutions
MFIs	Micro Finance Institutions
PAR	Portfolio At Risk
PD	Probability Default
PMF	Pride Micro Finance
PML	Pride Microfinance Limited
PSU	Payment Solution Uganda
SPSS	Statistical Package for Social Scientists

ABSTRACT

This study aimed at determining the effect of credit risk management on performance of pride microfinance. The study was guided by the following objectives: to assess the effect of credit risk identification on the performance of Pride Micro finance; to examine how credit risk assessment influences the performance of Pride Micro finance and to determine the effect of credit risk monitoring on the performance of Pride Micro finance.

A cross-sectional survey design was used. The study employed a triangulation of quantitative and qualitative approaches, though it predominantly employed that quantitative approach. A sample size of 113 was selected. Findings revealed that credit risk identification, credit risk assessment and credit monitoring had a strong significant and positive relationship with performance of Pride microfinance.

It was thus concluded that; that having in place credit risk assessment tools, setting credit limits, among other factors, can significantly contribute to financial performance of an institution. In addition, undertaking the required credit risk assessment is very vital in improving financial performance, while having effective credit risk monitoring techniques can help to keep track of loans and hence improve financial performance.

It is thus recommended that Pride Microfinance takes the initiative to enhance a credit identification strategy, enhance use of insurance firms, strengthen policies on credit risk assessment and finally, set clear portfolio limits in order to enhance the monitoring function.

CHAPTER ONE

INTRODUCTION

1.1.Introduction

Credit risk management is the primary activity in the banking system and exists in virtually all income-generating organizations. How a financial institution selects and manages its credit risk is critically important to its performance over time. Indeed, capital depletion through loan losses has been the proximate cause of most institution failures. Comptroller (2010) observed that identifying and rating credit risk is the essential first step in managing it effectively.

This study examined the influence of credit risk management on the performance of pride micro finance. In this study, credit risk management is the independent variable while financial performance is the dependent variable. Credit risk management, the independent variable of the study, was operationalized as; credit risk identification, assessment and monitoring. On the other hand, financial performance, the dependent variable was measured by way of; Portfolio at Risk (PAR) and profitability, as further explained in the conceptual framework (figure 1).

This chapter presents the back ground to the study, statement of the problem, purpose of the study, objectives of the study, research questions, the hypotheses, scope of the study, significance of the study, justification and operational definitions of terms and concepts.

1.2Back ground to the study

This section presents the background to the study, which is presented in line with the four-dimensional approach highlighting the historical, theoretical, conceptual, and contextual background.

1.2.1Historical background

According to the Economist Intelligence Report (2009), back in 1980s, there was no specific risk management department in financial institutions and only the bank head trader had the experience and authority to rule on poor trades.Such a situation in a way was likely to compromise the financial performance of such institutions.

In the 1990s, credit risk management became highly fragmented from the organizational perspective for example credit and lending units managed the credit risks associated with lending (Ingham 2004). Over time, it has been increasingly apparent 1that such fragmented approach or "managing risk by silos" simply doesn't work since risks are highly interdependent and cannot be segmented and managed solely by independent units. A segmented approach to risk management does not provide the senior management and the board with aggregated risk reporting. This realization has led to the trend towards enterprise-wide risk management and the institutions that have adopted it have experienced significant benefits (Lam 2004) which are usually reflected in the form of improved performance.

It was noted that some of the earliest techniques of tackling counterparty credit risk centered on reserve models where an insurance policy was setup against losses by defaulters. For each transaction, a premium was paid in a pool from which credit losses were reimbursed.

Later in the mid late 1990s, front office market model emerged with an aim to price and hedge counterparty risk at the position level like other market risks. This was done through valuing the counterparty's unilateral option to default and through bilateral self-off that addressed risky discounting caused by the offsetting option to put the counter party debt on exposure.

Since exposure to credit risk continues to be the leading source of problems in banks worldwide, the bank and the supervisors should be able to learn useful information from the past experiences and have a keen awareness of the need to identify, measure, monitor and control credit risk as well as determine that they hold adequate capital against those risks (Best practice for credit risk, 2004)

1.2.2 Theoretical background

This study was premised on the Enterprise Risk Management theory to enlighten on the effect of credit risk management on performance of Pride microfinance. The theory proposes that the overall risks of the organization are managed in aggregate, rather than independently. Risk is also viewed as a potential profit opportunity, rather than as something simply to be minimized or eliminated(D'Arcy, 2011). Robert (2010) asserts that Enterprise risk management as a process that may be affected by management and other personnel, applied in strategy setting and across the enterprise designed to identify potential events that affect the entity and manage risk to be within its risk appetite to provide reasonable assurance regarding the achievement of entity objectives. This consists of eight interrelated components derived from the management style and integrated with the management process. They include; Internal environment, objective setting, event identification, risk assessment, risk response, control activities, monitoring and information and communication

Internal environment bases on how risk is viewed and addressed. That is to say, risk philosophy, risk appetite, ethical values and environment in which they operate. The other component is objective setting which entails objectives that must exist before management can identify potential events affecting the achievement. Event identification highlights the internal and external events affecting the achievement of objectives and distinguishing between risks and opportunities.

With risk assessment, risks are analyzed considering likelihood and impact as a basis on determining how they will be managed. Management selects risk responses like avoiding, accepting, reducing, sharing risk. With the component of control activities, policies and procedures are established and implemented to help ensure the risk responses are effectively carried. Information and communication: Relevant information is identified captured and communicated tenable people carry out their responsibilities and lastly, monitoring through the ongoing management activities and separating evaluations is another component of the ERM theory.

ERM is not a serial process where one component affects only the next. It's a multidirectional process in which almost any component can influence another. According to Pagach and Warr (2007), ERM emphasizes the use of a firms risk appetite to determine which risks should be accepted and which should be mitigated or avoided. In further related studies, Sharpe (2004) highlights the aspect of proper management of risks as vital and cautions the mismanagement of risks which carry an enormous cost.

Therefore, enterprise risk management looks at risk identification, risk assessment and risk monitoring as the best mechanisms to reduce financial risks in an enterprise hence improving the financial performance. This idea intimates that in financial institutions, risk assessment, risk identification and risk monitoring can be among the most effective ways of reducing risk and improve financial performance of an enterprise. Therefore, this was the basis of selecting ERM theory to guide this study.

1.2.3 Conceptual Background

Credit risk management according to Williams (1999) is the potential that a microfinance borrower or counter party will fail to meet its obligation in accordance with the agreed terms. Realistically, Pride Micro finance is faced with risk that results in high level of non-performing loans which may necessitate its management. In relation to this study, credit risk management was addressed in 3 components; risk identification, risk assessment and risk monitoring as adopted from the Enterprise Risk Management theory and illustrated by the Enterprise Risk Management theory. Risk identification in credit risk management determines what risks exist or are anticipated and their characteristics and the possible outcome. Credit risk assessment entailed measures to minimize bad loans and the probability of default. Credit risk monitoring involves a detailed analysis of the entire portfolio performed on a regular basis.

The study further explored the effect of credit risk management on performance by considering the profitability and the loan portfolio quality of Pride Microfinance. However pride microfinance should be aware that risk management is simply a practice of systematically selecting cost effective approaches for minimizing the effect of risk as a threat realization to the institution performance. All Risks can never be fully avoided or mitigated simply because of financial and practical limitations (Dallas Business Journal 2000)

1.2.4 Contextual back ground

Pride microfinance is one of the largest microfinance institutions in Uganda and is 100% owned by the government of Uganda. It was founded in 1995 and in 2005 it attained the status of an MDI according to the Banking Act of 2003. It is licensed and under the supervision of Bank and is also a member of the Association of Microfinance Institutions in Uganda (AMFIU).

The headquarters of PML are located on Metro pole House, along Entebbe Road, in the central business district of Kampala. It is spread across Uganda with 29 branches and boasts of a loan portfolio of about UGX 79.6 Billion. Some of the credit products offered include group and individual loans, group guaranteed loans, mortgage and development loans, salary loans, group accident insurance.

According to pride microfinance's 5 year business plan March 2008, the management has embarked on a strategy of strengthening the credit risk management by employing qualified credit staff, use of better systems like the Payment solutions Uganda (PSU) and building a strong recovery team so as to improve on the loan portfolio quality.

1.3 Statement of the problem

With proper credit risk management systems in place, a financial institution would minimize bad loans by improving the risk of the portfolio and maximizing benefits from potential credit opportunities (Abbink, Irlenbusch and Remer, 2006). It is for this reason that a number of microfinance institutions like pride microfinance have instituted the ERM system to manage credit risk, as well as other credit risk management measures such as employment of qualified credit analysts and building a strong recovery team right from 2010 (Pride Microfinance Annual report 2010).

However, according to ICSA (2010), credit risk crisis is still associated with poor management of risks and despite these measures pride micro finance has continued to face accumulation of non-performing loans just like other MFIs in the country as indicated by (Mutebile 2005).

If this situation is not addressed appropriately, it would most likely lead to further deterioration of the performance of MFIs and possibly failure in the banking sector which would consequently have a negative effect on the economy as a whole (Kyazze, 2010).

1.4 Purpose of the study

The purpose of the study was to establish the relationship between credit risk management and the performance of Pride Microfinance.

1.5 Specific objectives

Specifically, the study set out to address the following objectives;

1. To assess the effect of credit risk identification on the performance of PMF.
2. To examine how credit risk assessment influences the performance of PMF.
3. To determine the effect of credit risk monitoring on the performance of PMF.

1.6 Research questions

1. How does credit risk identification affect the performance of PMF?
2. How does credit risk assessment influence the performance of PMF?
3. What is the effect of credit risk monitoring on the performance of PMF?

1.7 Research hypothesis

1. Credit risk identification positively affects the performance of PMF.

2. Credit risk assessment positively influences performance of PMF.

3. Credit risk Monitoring improves performance of PMF.

1.8 Conceptual framework

Independent Variables **Dependent variable**

<u>Credit risk Management</u>

Risk Identification

- List of possible risks.
- Credit granting criteria
- Policy and Procedure for loan approval.

Risk assessment

- Loan appraisal
- Probability of default.

Risk monitoring

- Identify new risks
- Loan portfolio analysis
- Review credit policy and procedure

<u>Financial Performance</u>

- Profitability
- Portfolio at Risk

Source: *Adopted from Enterprise risk management; its origins and conceptual foundation (Dickinson 2001) and modified by the researcher.*

The illustration above depicts the conceptual relationship that exists between the outlined independent and dependent variables. Being common phenomena, every project needs a strong risk management and response strategy that highlights the risk identification, assessment and monitoring and control. Risk identification in credit risk management determines what risks exist or are anticipated and their characteristics and the possible outcome. This step is vital since it draws the policy and procedure to be followed in loan approval. Credit risk assessment entails measures to minimize bad loans and the probability of default. Credit risk monitoring involves a detailed analysis of the entire portfolio performed on a regular basis.

1.9 Significance of the study

Results from the study may add to the existing knowledge about the relationship between credit risk management and loan portfolio quality thereby providing a platform for further research and use of the findings by finance scholars.

The study mayhopefully benefit pride micro finance stakeholders; members, management boards, staff and supervisory organs to appreciate and apply credit risk management skills enshrined in prudent performance practices needed to realize quality credit portfolio for sustainable and profitable microcredit business thus a positive contribution to the financial sector.

1.10 Justification of the study

Many studies have been carried out in the area of credit risk management and financial performance but there is no specific study that has been cited, addressing the effect credit risk identification, assessment, monitoring and control on financial performance. This area will help pride micro finance branches national wide improve on their credit risk management strategies.

1.11 Scope of the study

Geographically, the study focused on Pride Micro Finance Head Office, located in Kampala District. The time scope considered the transactions for the time scope of 2012to 2013 Financial Year, so as to generate data that could meet the current status. The content of the study was limited to credit risk management as the independent variable, operationalized in terms of as credit risk identification, assessment and monitoring, while financial performance was considered as the dependent variable and operationalized in terms of profitability and Portfolio at Risk (PAR).

1.12 Operation definition / terms and concepts.

Risk – Risk is a probability that some adverse circumstances will occur.

Risk Management – Risk management is concerned with identifying risks and drawing up plans to minimize their effect on a project.

Performance- how successful an investment, company is and how much profit it makes.

Risk Analysis - Risk analysis is a technique to identify and assess factors that may jeopardize the success of a project or achieving a goal.

Loan Portfolio – Total volume of loans and advances that a financial institution holds in its books at any given time.

Micro Finance - A financial institution specializing in banking services for low-income groups or individuals

Loan default – Failure by client to repay the loan when it is due regardless of the motive

Portfolio at risk – Principal balance of loans with missed payments one day or more.

PMF- Pride Micro Finance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the theoretical and actual literature review on credit risk management and its relationship with financial performance at pride micro finance. Existing knowledge about credit risk management was investigated using; risk identification, assessment and monitoring and control and financial performance was operationalized through portfolio at risk rate and profitability.

2.2 Theoretical Review

The study was underpinned by the Enterprise Risk Management theory, which focuses on the process by which all organizations in industries assess, control, exploit, finance and monitor risks from all sources, for the purpose of increasing the organization's short and long term values to its customers (D'Arcy, 2011). According to Robert (2010), Enterprise Risk Management is a process effected by management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that affect the entity and manage risk within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives (Robert, 2010). The theory consists of eight interrelated components derived from the management style and integrated with the management process. The components include; Internal environment, objective setting, event identification, risk assessment, risk response, control activities, monitoring and information and communication Internal environment bases on how risk is viewed and addressed. That is, risk philosophy, risk appetite, ethical values and environment in which they operate. The other component is objective setting which entails objectives that must exist before management can identify potential events affecting the achievement.

Event identification highlights the internal and external events affecting the achievement of objectives and distinguishing between risks and opportunities. With risk assessment, risks are analyzed considering likelihood and impact as a basis on determining how they will be managed. Management selects risk responses like avoiding, accepting, reducing, sharing risk. With the component of control activities, policies and procedures are established and implemented to help ensure the risk responses are effectively carriedout. In addition, relevant information is identified, captured and communicated to enable people carry out their responsibilities.Lastly, monitoring is conducted through the ongoing management activities and separating evaluations.

In related studies, Pagach and Warr (2007) highlight that Enterprise risk management emphasizes the use of firms risk appetite to determine which risks should be accepted and which should be mitigated or avoided. The aspect of proper management of risks is vital as mismanagement of risks can carry on enormous cost (Sharpe, 2004).

In a risky environment in which risk management can have consequences mandates that management adopt a new more proactive perspective on risk management (Hoffman, 2002). This can be realized in Companies that succeed in creating an effective ERM have a long run competitive advantage over those that manage and monitor risks individually. Therefore entities that adopt and implement ERM are most likely to experience improved performance (Nocco, 2006).

The researcher contends that the success of ERM has improved performance in those organizations that adopted its approach. However regardless of its enormous benefits, it is not widely practiced among organizations in developing countries and evidence regarding the determinants of ERM programs is lacking. Some researchers have attributed this to the unconducive organizational structures and individuals who don't want to give up their specific responsibilities.

2.3 Credit Risk Identification and the Performance

Risk identification in credit risk management determines what risks exist or are anticipated and their characteristics and the possible outcome. In the same view, Pritchard (2005) highlights Credit risk identification is a critical step in the risk management process since it is an organized, thorough approach to finding real risk associated with lending in financial institutions. It should be noted that risks can't be assessed or managed until they are identified and described in an understandable way.

In related studies, Basel (2010) notes that credit risk identification covers the entire credit cycle, starting from origination of a credit facility to its completion. It is from this cycle that risk events are identified and clearly described. For instance a high quality risk event describes the potential occurrence and how it would influence the financial institution. Therefore a financial institution must have in place written guidelines on the credit approval process and a checklist to ensure that all required information is factual and well captured. This is where the 5 C's of credit should be considered, that is, the borrower's character, capacity, capital, collateral and condition of the economy. This is why the researcher was interested in undertaking a study like this to verify whether pride microfinance do ensure the 5C's of credit. At the end of the study it was established that these are not ensured and it had impacted greatly on financial performance of the microfinance.

Relatedly, Cooper,Grey, Raymond and Walker (2005) assert that the risk identification process must be comprehensive as risks that have not been identified can't be assessed and their emergence at a later time may threaten the success of the project and cause unpleasant surprises. Information used in the risk identification process may include historical background, documentation analysis, site visiting, interviewing and this should assist in coming up with a risk register for reference. Ashraf, Karlan and Yin (2006) further observed that establishing sound, well defined risk identification criteria is essential to approving credit in a safe and sound manner. The criteria should set out who is eligible for credit and for how much, what types of credit available, and under what terms and conditions the credits should be granted.

This study established that Credit Risk Identification was greatly associated with the performance of Pride Micro Finance Institution. It was noted that mechanisms used for credit risk identification, such as site visiting, historical background checks, among others, had a positive influence on the performance of the MFI.

2.4 Credit Risk Assessment and the Performance.

Credit risk assessment entails measures to minimize bad loans and the probability of default. According to Abbink, Irlenbusch and Remer (2006), the objectives of credit risk management are to minimize bad loans by improving the risk/return profiles of the portfolio, price credit risk adequately or risk based pricing, maximize benefits from the potential credit opportunities, setting of concentration and exposure limits, active portfolio management, adhere to credit policies and maintain a reliable database.

Barnes, Gailes and Kibombo (2001) contend that in credit risk modeling, the probability of default (PD) is one of the key parameters to be estimated for a financial institutions' performance sustainability to be ensured. It shows however that too little attention is paid to the different possible definitions of default in practice, although a clear understanding of the definition of default is crucial for a correct interpretation of any estimate of a probability of default.

Che (2002) points out that assessment of a loan proposal from different points of view should be done to decide whether the credit institution should go for finance or not. In order to select the borrower, church hill (2002) opines that security should not be the only thing to be relied upon. In the same breath, Konno (2009) observes that it is the responsibility of the loan officers to investigate the client from different viewpoints, that is, the strength and weakness of the client so that the client will be able to repay the loan according to the repayment schedule with profit included therein. Konno (ibid) further notes that modern concepts of credit investigations cover a well-developed loan appraisal analysis from six points of view, which include managerial aspects comprising of; sincerity, honesty, integrity and educational background, experience of the borrower and ability of the management to run the project efficiently.

Effective credit risk assessment and loan accounting practices should be performed in a systematic way and in accordance with established policies and procedures. To be able to carefully value loans and to determine appropriate loan loss provisions, it is particularly important that credit institutions have a system in place to reliably classify loans on the basis of credit risk. A well-structured credit risk grading system is an important tool in differentiating the degree of credit risk in the various credit exposures of the lending institutions. This allows a more accurate determination of the overall characteristics of the loan portfolio, probability of default and ultimately the adequacy of provisions for loan losses (Shoji, 2009).

Empirical results of this study showed that Pride Microfinance was lacking in appropriate loan loss provisions and this had an effect on the performance.

2.5 Credit Risk Monitoring and the Performance.

Every microfinance institution is concerned about fraud and theft and the performance of the advanced facilities thus the need for Credit monitoring. Chowdhury (2010) opines that credit control also known as credit management is a term used to describe the process of evaluating the level of risk associated with potential customers and assigning credit privileges to those customers, accordingly. Chowdhury (ibid), adds that when credit monitoring is used, an agency keeps an eye on a person's credit report and financial activities, looking for signs for unauthorized activity.

Credit monitoring in general involves a detailed analysis of the entire loan portfolio performed on a regular basis; identification of loans to be evaluated for impairment on an individual basis and segment the remainder of the portfolio into groups of loans with similar credit risk characteristics for evaluation and analysis on a collective basis and identification of individually assessed loans that are impaired; addressing the methods used to determine whether and how loans are individually evaluated. Likewise, credit monitoring should be based on current and reliable data, address how loss rates determined and what factors are considered when establishing appropriate time frames over which to evaluate loss experience, consideration of current collateral values and other credit risk mitigating factors incorporated in the loan agreement, where applicable. Likewise, addressing the lending institution's policies and procedures for loan charge-offs and recoveries is paramount, competent staff to analyze, estimate, review and other provisioning methodology functions are required and a systematic and logical method to consolidate the loan loss estimates and accounting standards are followed (Kondo, 2008).

Hugh (2011) also observes that a proper credit monitoring system will provide the basis for taking prompt corrective actions when warning signs point to deterioration in the financial health of the borrower. Examples of such warning signs include unauthorized drawings, arrears in capital and interest deterioration in the borrowers operating environment. Financial institutions should have a system in place to formally review the status of the credit and financial health of the borrower at least once a year. The study was undertaken to understand whether it had prompt corrective actions and at the end of the study, it was realized that the institution do not have enough warning signs and it mostly employs capturing of borrower’s assets which at the end affected its financial performance in terms of customer turn up.

However as some financial experts disagree about the efficacy of credit monitoring, others feel that such services are extremely valuable, because while they cannot prevent fraud, they can identify it early and put measure for mitigation in place before it escalates into a major problem which could require more resources and time to fix. For institutions that have been victims of fraud in the past, credit monitoring can also be useful tools for security, making people feel more comfortable (Roodman&Morduch, 2011).

Monitoring involves among others; frequent contact with borrowers ,creating an environment that the institution can be seen as a solver of problems and trusted advisor ;develop the culture of being supportive to borrowers whenever they are recognized to be in difficulties and are striving to deal with the situation ;monitoring the flow of borrowers business through the institutions account ;regular review of the borrowers reports as well as an onsite visits ;updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time credit was granted (Tumala&Burchett, 1999; Basel, 1999).The Bank of Jamaica (2012) purports that reliance on un-reviewed credits and optimistic economic forecasts can lead to a serious undetected deterioration of the credit portfolio.

2.6 Summary of the Literature review

In conclusion, from the reviewed literature, it was noted that lending is indeed the principle activity for most microfinance institutions, thus the riskiest. The literature further serves to illustrate that risk identification is a critical step in the risk management process since it helps in finding real risk associated with lending in financial institutions. In addition, the literature clearly shows that assessment needs to be done to allow more accurate determination of the overall characteristics of the loan portfolio, probably of default and ultimately the adequacy of provisions for loans losses. Finally, the reviewed literature also illustrates that a proper monitoring system can be instrumental in the provision of a basis for taking prompt corrective actions when signs point to a poor loan portfolio.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used in the study. It covers the research design, study population, sample size and selection, sampling techniques and procedures, data collection methods, data collection instruments, pretesting (validity and reliability), procedure of data collection, data analysis and measurement of valuables.

3.2 Research design

The researcher used a cross sectional survey design to explore the research problem in-depth. This design is flexible in both quantitative and qualitative data collection and enables the study to be carried out at a particular time and the notion of combining qualitative and quantitative data in a cross section survey helped in getting detailed information, as observed by Amin (2005). Sekaran (2003) argues that a combination of both qualitative and quantitative approaches helps to test for consistency of the study findings. In line with this, the qualitative techniques were used to capture views and opinions of the respondents and to provide an in depth analysis credit risk management and financial performance, while the quantitative techniques were used to examine the relationship between the variables in the study and to test for consistency of findings from both methods.

3.3 Study Population

The study population comprised of 139 respondents who were staff of Pride Micro Finance in the Kampala district branches of Katwe, Entebbe road, Bukoto, Kawempe, wandegeya, kabalagalaNakawa and city Centre. These included 110 credit officers and 29 credit managers (Pride Micro Finance Annual report, 2012).

3.4 Sampling Size and Selection

The sample selection was based on the table for determining sample size as generated by Krejcie and Morgan (1970), cited in Amin (2005).

Table 1: Sample size

Category	Population	Sample size	Selection technique
Credit officers	110	86	Simple Random sampling
Credit managers	29	29	Purposive sampling
TOTAL	139	113	

Source: population adopted from pride micro finance annual report 2012.

Noted from Table 1, the sample size entailed 113 respondents, who included 86 Credit officers and 29 Credit managers. The Credit Officers were selected using the simple random method, while the Credit Managers were purposively selected.

3.4.1 Sampling techniques and procedures

The study used both probabilistic and non-probabilistic sampling techniques.

3.4.1 Probabilistic Sampling Techniques

From the existing probabilistic sampling techniques, the study used simple random sampling technique. Simple random sampling was used to select credit officers. This technique was chosen because the category of credit officer had a large population size and this as such warranted simple random sampling to minimize sampling bias (Mugenda&Mugenda, 2003).

3.4.2 Non-probabilistic Sampling Techniques

From the existing non-probabilistic sampling techniques, purposive sampling was employed to select credit managers at pride microfinance who were targeted due to their perceived knowledge arising out of known experience that they have. This technique was employed following the postulate that if sampling has to be done from smaller groups of key informants, there is need to collect very informative data, and thus the researcher needed to select the sample purposively at one's own discretion (Sekaran, 2003).

3.5 Data collection methods

The researcher conducted key informant interview with management while questionnaires was distributed to credit officers to obtain primary data. Secondary data was derived by conducting a document analysis. The researcher used the following data collection methods;

3.5.1. Questionnaire survey method

For this data collection method, structured questionnaires (close ended) were distributed to respondents to complete in writing. The structured questionnaire helped in eliciting specific response from the credit officers which were easy to analyze as per Amin (2005). It gave an accurate profile of the situation and the data provided described who, how, when and where of the variables in the study and also established the relationship between the independent and dependent variable.

3.5.2 Interview method

The researcher used face to face interviewing as a method to collect data on the credit management views on the study variables. This helped in providing in depth data which was not possible to get, using the questioning approach. This made it possible to obtain data required to meet specific objectives of the study (Mugenda1999). Interviewing not only permitted the researcher to probe areas of concern but also helped in obtaining more data and greater clarity.

3.6 Data collection instruments

The researcher used self-administered questionnaire and interview guide as instruments of data collection according to the particular type of information needed for collection

3.6.1 Self-administered questionnaire

Questionnaire is a carefully designed instrument for collection of data in accordance with the research questions and hypothesis. The justification for the instrument is that it is less expensive and does not require the researcher to be present for the respondent to complete it. Attitude scale (ordinal Likert scale) was used to enable the respondents to best select a statement that best described his or her reaction to the statement in the question.

3.6.2 Interview Guide

An interview guide was used to collect data from key informants who are the credit management staff of pride micro finance. This data assisted in clarifying data collected by the structured questionnaires since it involved a face to face interaction and also provided a whole range of views.

3.7. Validity and Reliability

As a way of pre-testing the study instruments to ascertain their accuracy and consistency, the researcher tested for validity and reliability. The validity of the questionnaires was established using the content validity test, by computing the ratings of the content validity indices. The

Cronbach Alpha method of internal consistency was used to compute the reliability of the measures of the variables of the study using various questionnaire items administered to respondents (Kothari, 1990). These are further explained below;

3.7.1Validity

Table 2: Content Validity Indices for the Questionnaire

Variable	Description	No. of Items	Content Validity Index
Independent	Credit risk indentification	12	.888
	Credit risk assessemnt	10	.861
	Credit risk monitoiring	9	.776
Dependent	Financial performance	9	.0845

Source: Primary data (2014)

Results of the Content validity Index were above 0.7, the least recommended CVI in survey studies, according to Amin, (2004) and Gay, (1996). Thus, the questionnaire was considered valid.

3.7.2Reliability

Gay (1996) defined reliability as the degree of consistency that the instrument demonstrates. After pilot testing in the field, reliability of the instrument, on multi-item variables (i.e. credit risk management and financial performance) was tested via the Cronbach Alpha Method provided by Statistical Package for the Social Scientists (Foster, 1998). The researcher used this method because it was expected that some items or questions would have several possible answers. The researcher established reliability of the questionnaires by computing the alpha coefficient of the items (questions) that constituted the dependent variable and that of the items that constituted the independent variable. The results are shown in Table 3:

Table 3: Reliability indices for the respective sections of the questionnaire

Variable	Description	No. of Items	Cronbach alpha
Independent	Credit risk indentification	12	.831
	Credit risk assessemnt	10	.767
	Credit risk monitoiring	9	
Dependent	Financial performance	9	.767

Source: Primary data (2014)

According to Amin, (2004) and Gay, (1996), a research instrument is considered reliable if it registsters a Cronbach Alpha of 0.7 and above. Table 3 shows that all the coefficients were above 0.7 and thus, the questionnaire was considered to be reliable, implying that it was capable of yielding consistent results over time.

3.8 Procedure for data collection

After successful proposal defense and approval of the final proposal, a letter of introduction was secured from Uganda Management Institute, commissioning the researcher to the field. the researcher then embarked on pretesting the study instruments, to check for reliability and validity. The study tools were then modified and corrected for any errors and inconsistencies, after which the actual data collection commenced. The process started with securing of appointments for interviews with the key informants (Credit Managers), after which the interviews were conducted by the researcher. The exercise entailed recording of the responses and seeking clarification where needed. In addition, self administered questionnaires were given to the rest of the respondents. These were given some time to respond, after which the filled questionnaires were collected. The researcher was available for any clarifictions, where needed. Once all the interviews were done and the questionnaires filled, the researcher then embarked on the process of data analysis.

3.9 Data management and analysis

After collecting the questionnaires and the interview schedules, the researcher carried out central editing to check the questionnaire for obvious errors such as wrong entry, missing or inappropriate replies and contact the respondents for clarification where necessary.

3.9.1 Quantitative data analysis

Quantitative data was analysed with the aid of SPSS data analyst. This involved four processes, namely; editing, coding and entry into SPSS data editor for analysis in order to come up with relevant statistics. The analysis was done at the three levels of univariate, bivariate and multivariate analysis. At univariate analysis, the researcher presented data using descriptive and analytical statistics where frequency tabulations were used to present the data on sample characteristics. The bivariate analysis was done to explain the variable relationships, using the Spearman'scorrelation matrix, while the regression analysis was used to show the effect of the independent variables on the dependent variable.

3.9.2 Qualitative data analysis

Qualitative research is subjective, rich and in depth description of information presented in form of words that were derived from the respondent's open-ended questions and interviews. The quantitative data was analyzed for content and language used through reviews of scripts looking for similarities and differences to identify themes and develop categories accordingly to the study objectives. In addition, the researcher developed themes in line with the study objectives, as a way of facilitating qualitative data analysis. In order to highlight the important thematic areas, direct quotations were extracted and reported in line with the corresponding study variables and objectives or in some cases they were quoted verbatim.

3.10 Measurement of research variables

Mugenda and Mugenda (2003) support the use of nominal, ordinal, and Likert type rating scales during questionnaire design and measurement of variables. The nominal scale was used to measure such variables as gender, marital status, among others. The ordinal scale was employed to measure such variables as age, level of education, years of experience, among others. The five point Likert type scale (1- strongly disagree, 2-disagree, 3-undecided, 4- agree and 5-Strongly agree) was used to measure the independent variable (credit risk management) and the dependent variable (Financial performance). The choice of this scale of measurement was based on the fact that each point on the scale carries a numerical score which is used to measure the respondent's attitude and it is the most frequently used summated scale in the study of social attitude. According to Mugenda (2003) and Amin (2005), the Likert scale is able to measure perceptions, attitudes, values and behaviors of individuals towards a given phenomenon.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter presents findings of the study which was conducted on credit risk management and financial performance of pride microfinance. The findings are presented in line with the specific objectives of the study. In the first section, the background characteristics of the respondents are given. In the second section, the empirical results are shown, in line with the study objectives and variables, reflecting the descriptive statistics, correlation statistics, regression analysis and the qualitative results.

4.2 Response rate

Table 4: showing the response rate

Respondents	Tool used	Sample size	Frequency	Percentage
Credit officers	Questionnaire	86	83	96.5%
Credit managers	Interview guide	29	24	82.8%
TOTAL		113	107	94.7%

Primary data

Table 4 above indicates that out of the 113 respondents that were set for the study for investigation, 107 were able to respond to the study. The remaining 6 of the respondents couldn't be reached because some of them couldn't attend to the researcher in the specified time, some of them had been transferred to other branches of Pride MDI and some of them wrongly filled the questionnaire. However, according to Amin (2005), 70% of the respondents are enough to represent the sample size set for the study. This means that 94.7% was considered adequate enough for this study.

4.3 Background of the Respondents

This section presents the background information on the respondents who participated in the study. The background characteristics included, gender, age, level of education and current position owned by the respondents in Pride MDI.

4.3.1 Gender of the respondents

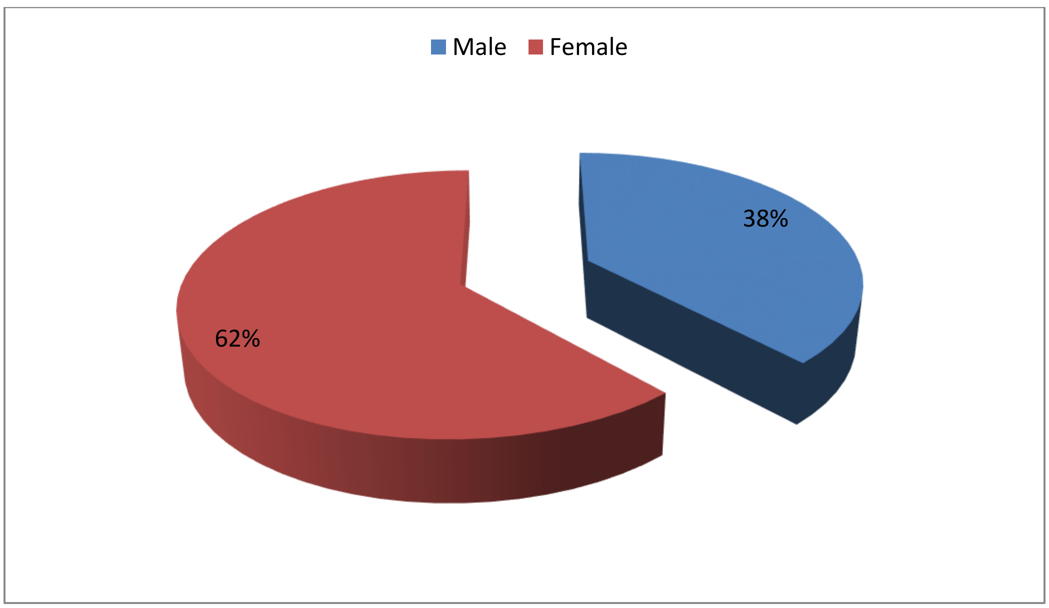

Figure 1: Gender of the respondents.

The results from figure 1 above showed that 62% of the respondents were male whereas close to 38% were females. From the findings the male respondents were more responsive compared to their female counterparts. While the majority of respondents were male, the fact that female respondents too were represented indicates that the results were representative of the different gender categories and therefore likely to be credible and unbiased.

4.3.2 Age of the Respondents

To establish the age of the respondents, respondents were asked to state their ages and below are the results that were recorded in figure 2.

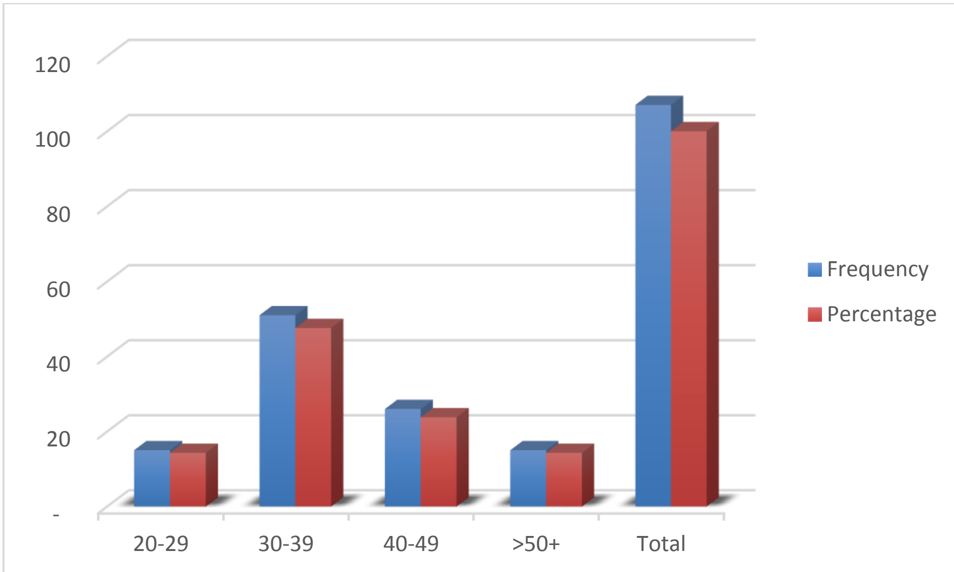

Figure 2: Age of the respondents

From figure 2, it was found out that most of the respondents in that took part in the study were in the age bracket of 30-39years and these took the highest toll of 47.6%. Those who were in the category of 40-49 constituted 23.8%, 20-29years and those who were above 50yrs were represented by 14.3% each. This implies the majority of the respondents had enough years of exposure in credit risk management which enhanced their views of the performance of pride microfinance.

4.3.3 Level of Education of the Respondents

Respondents were also asked to state their level of education and most of them indicated that they had a bachelor's degree as shown in figure 4.3 in details below.

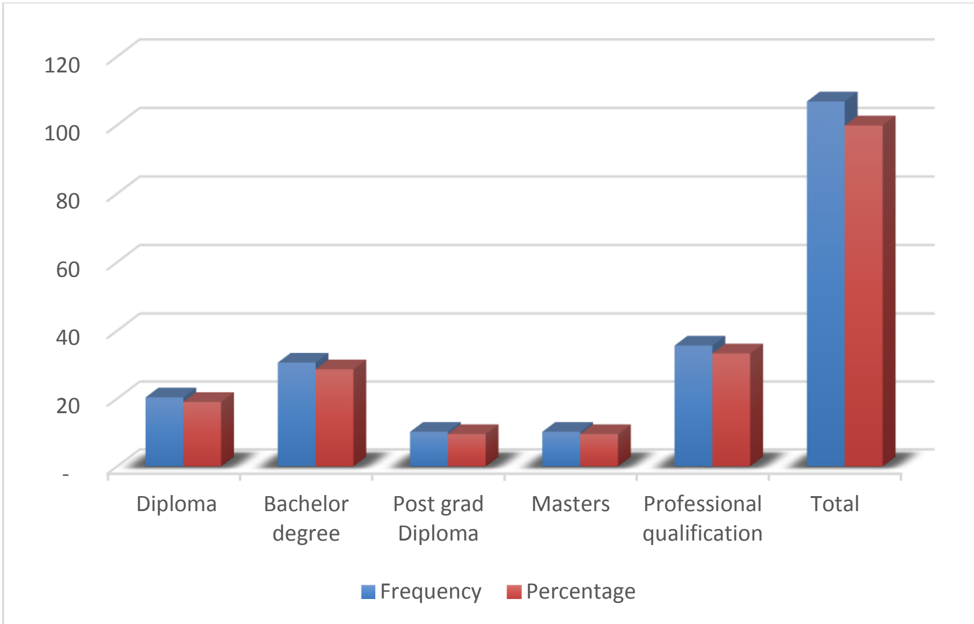

Figure 3: Level of education of the respondents

Figure 3, indicates that most of the respondents among pride microfinance officials had attained professional qualification and these constituted 33.3% of the respondents. 28.6% of the respondents had a bachelor's degree, 19% had achieved a diploma level of education. 9.5% of the respondents represented both post-graduate diploma holders and master's degree. This implies that most of the study findings were informed by credit officers who were trained and in right status to inform the study on how credit risk management affected the financial performance of pride microfinance.

4.3.4 Time spent working with Pride Microfinance

Respondents were also asked to state the time they had spent working with pride MDI and their responses are what figure 4.4 indicates below.

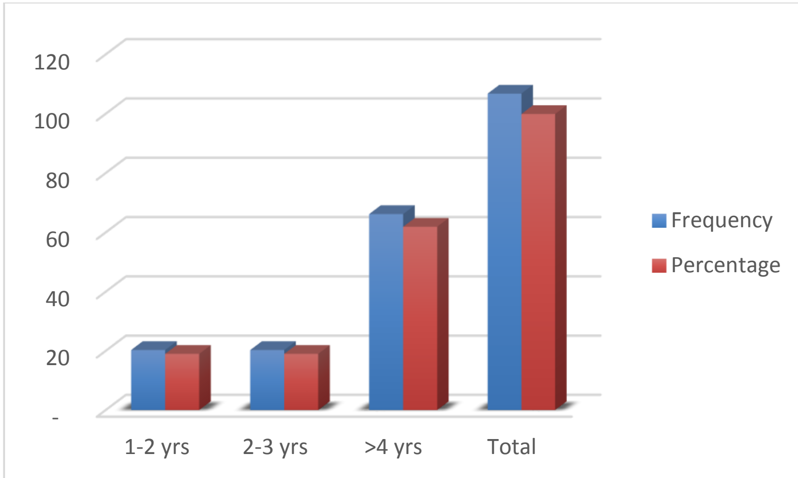

Figure 4: Time spent working with pride MDI

Figure 4.4 above indicates that most of the respondents had been working with pride MDI for over 4years and these took 61.9% of the respondents. 19% of the respondents had spent 2-3years and the last category of 1-2years had spent 19%. This therefore, means that the study was based on the people who had enough experience as far as credit management and financial performance is concerned.

4.3.4 Current position of the respondents in PMF

The current positions were determined by asking respondents to state their positions in pride MDI and their responses are what figure 4.5 indicates below.

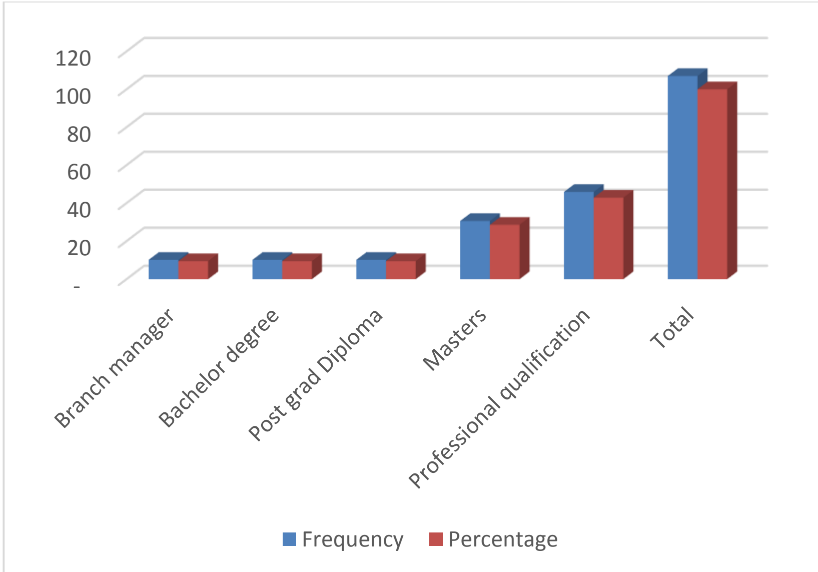

Figure 5: Current position of the respondents in PMF

Figure 5 above indicates that most of the respondents were credit officers in pride MDI and this was 42.9%. 28.6% were credit officers in PMF 9.5% were branch managers, supervisor and operations manager. This thus means that the study was dominated by banking officers who are involved in delivery of services which puts the study in the right space to understand the quality of financial services in PMF.

4.4. Credit risk management and theperformance of PMF

In this section, the research findings are presented, showing findings on the dependent variable (financial performance), followed by the rest of the findings as per the specific objectives of the study. These findings reflect the descriptive statistics under each objective, that is; credit risk identification and financial performance of PMF, Credit risk assessment and financial performance of PMF and Credit risk monitoring and financial performance of PMF. In addition, the correlations and regression results, together with the qualitative results are also presented per sudy objective.

4.4.1 Findings on theperformance of Pride MDI

In order to assess the views of the respondents in line with the financial performance of Pride MDI, the respondents were introduced different items to which they were asked to give their opinions.Their responses were computed by making an aggregate of responses given by respondents to the 10-items in line with the 5point Likert scale of (1=Strongly Disagree, 2=Disagree, 3=Not sure, 4=Agree and 5=Strongly Agree), which sought to measure financial performance of PMF. The responses were categorized according to their frequencies, percentages, means and standard deviations as follows:

Table 5: Descriptive Statistics on the performance

SN		**Percentage responses (%)**						*Std.*
		SA	**A**	**N**	**D**	**SD**	*Mean*	*Dev.*
1	A number of defaulters is reducing	18.1% (15)	35% (29)	24.1% (20)	14.5% (12)	8.4% (7)	2.31	.974
2	Clients are given rewards for the good loan repayments.	12.1% (10)	13.3% (11)	15.7% (13)	38.6% (32)	20.5% (17)	4.02	.826
3	Given the interest rate of the loan, clients are willing to stay	4.8% (4)	3.6% (3)	14.5% (12)	42.2% (35)	24.1% (20)	4.08	.684
4	The portfolio at risk is reducing i.e. 30, 90 Day PAR	6.1% (5)	10.4% (9)	18.1% (15)	39.8% (33)	25.3% (21)	4.10	.892
5	Penalties are given for late payments	9.6% (8)	9.6% (8)	14.5% (12)	44.6% (37)	21.7% (18)	4.17	.514
6	Profitability on credit given is adequate for the future of pride MDI	2.4% (2)	4.8% (4)	9.6% (8)	50.6% (42)	32.5% (27)	4.31	.603
7	Loan repayments are promptly settled by Clients	0% (0)	0% (0)	24.1% (20)	47% (39)	29% (24)	4.34	.476
8	Management set targets to achieve good loan performance.	3.6% (3)	8.4% (7)	13.3% (11)	48.2% (40)	26.5% (22)	4.34	.476
9	Credit officers with good loan performance are rewarded.	0% (0)	0% (0)	7.2% (6)	36% (30)	56.4% (47)	4.51	.549

The results in table 5 above revealed that the means for all items were above 3.5. It was found out that out of the 10-items that were introduced to the respondents, 9-items had data means ofabove 3.5 and only 1-item had data means below 3.5. Based on the scale of 1-strongly disagree to 5-strongly agree, any data mean of above 3.5 indicates existence of the variables understudy. This thus, statistically means that the respondents indicated satisfaction in line with the financial performance of Pride MDI.

Overall, a mean value of 4.51 was registered in line with the statement that; 'Credit officers with good loan performance are rewarded'. This means that pride microfinance rewards it credit officers as further revealed through 56.4% of the respondents that indicated strong agreement with the statement. The finding implies that credit officers are motivated to do work, which can translate into better financial performance. Concerning whether management at pride micro finance set targets to achieve good loan performance, a mean value of 4.34 was registered, besides 48.2% of the respondents who indicated agreement. This meant that by setting targets, it is one way of establishing a benchmark against which the financial performance of the institution is measured; this helps to keep performance in check. Similarly, a mean of 4.34 was registered in line with whether loan repayments are promptly settled by clients. To the same statement, 47% of the respondents indicated agreement. In essence, this shows that clients pay back their loan and interests in time, which is a good indicator of good financial performance in Pride Microfinance

Further, as to whether profitability on credit given is adequate for the future of pride micro finance, a mean of 4.31 was observed, alongside 50.6% of the respondents who indicated agreement to the same statement. This meant that Pride Microfinance is able to make profits that can sustain in it in business; a direct measure of financial performance in the institution. In line with whether penalties are given for late payments, a mean value of 4.17 was registered, which means that Pride MDI has yardsticks to solve the problem of late payment. This helps to control bad debts and losses to pride microfinance and is an indicator of good financial performance of the microfinance. Concerning whether the portfolio at risk is reducing, that is, 30, 90 Day PAR, the observed mean value was 4.10, a further indication of sound financial performance in the institution.

In addition, majority of the respondents affirmed that given the interest rate of the loan, clients are willing to stay with pride microfinance. This was observed from the mean value of 4.08 and was thus a further indication of good financial performance in Pride MDI.A key measure of financial performance is the willingness of customers to stay with the microfinance in the future, which points at bank safety, an effective tool in measuring financial performance. Besides, most respondents held the view that clients are given rewards for the good loan repayments, with a mean value of 4.02. This means that the bank has mechanisms to enhance word of mouth advertising and this can be the reason as to why clients stay with Pride Microfinance for years and years. This too is an inducement for improved financial performance. All these views imply that pride microfinance fairs well in the business financially, since it has high chances of customer retention, customer satisfaction and its profits have been increasing year by year.

However, in line with whether the number of defaulters is reducing, the observed mean was2.31, far below 3.5, a clear indication that the bank's defaulters were not significantly reducing. This signifies key gaps and limitations in the MDI's financial performance, since it points at the fact that there major defaulters to the bank, an issue that seriously needs to be addressed.

4.4.2 Findings on prevalence of credit risk identification procedures used in PMF

To understand the credit risk identification measures employed by pride microfinance, the respondents were presented with 12 statements, to which they were asked to rate their opinions, in line with the five point Likert scale. Reponses were then categorized according to frequencies, percentages, means and standard deviations as follows:

Table 6: Descriptive Statistics on the findings on prevalence of credit risk identification

SN	Statements on Land Conflict Management	Percentage responses (%)					Mean	Std. Dev.
		SA	**A**	**N**	**D**	**SD**		
1	The institution does have a credit committee	31.2% (26)	36% (30)	24% (20)	2.4% (2)	6% (5)	1.84	.366
2	The institution has a documented credit risk management policy	20.4% (17)	38.4% (32)	15.6% (13)	13.2% (11)	12% (10)	2.31	1.011
3	The institution does have credit risk strategy	4.8% (4)	24% (20)	42% (35)	14.4% (12)	3.6% (3)	2.82	.843
4	The organization has a sound ,well defined credit granting criteria	6.1% (5)	10.4% (9)	25% (21)	39.6% (33)	18% (15)	3.58	1.251
5	Pride hasadequate checks to ensure that all the credit granting criteria are met during loan processing	9.6% (8)	12% (10)	15% (18)	42% (35)	14.4% (12)	3.59	1.220
6	Pride MDI has overall credit limits at the level of individual borrower	2.4% (2)	4.8% (6)	14.4% (12)	45.6% (38)	30% (25)	3.59	1.259
7	Authority for credit approval assigned to local credit officers is appropriately in line with management policy and business operations	4.8% (4)	10.8% (9)	24% (20)	36% (30)	24% (20)	3.61	1.135
8	There is a second checking system where by the head office examines the loans approved by local credit officers	7.2% (6)	8.4% (7)	20.4% (17)	39.6% (33)	22.8% (19)	3.67	1.326
9	There are clearly established processes for approving new credits and amendment, renewal and re-financing of existing credits	4.8% (4)	16.8% (14)	15.6% (13)	33.6% (28)	28.8% (24)	3.80	1.266

10	Pride avoids credit concentration by setting credit limits against a specific counter party	3.6% (3)	8.4% (7)	13.3% (11)	44.4% (37)	32.4% (27)	4.17	.935
11	The institution reviews &amends its credit risk profile on a regular basis	8.4% (7)	8.4% (7)	7.2% (6)	48% (40)	27.6% (23)	4.29	.635
12	Pride has quantitative & qualitative tools to identify credit risks	8.4% (7)	12% (10)	7.2% (6)	44.4% (37)	27.6% (23)	4.39	.490

Overall, responses on credit risk identification showed that the means for most of the items were above 3.5, which statistically means that Pride Microfinance undertakes credit risk identification, which can positively influence its financial performance. As to whether the organization has quantitative and qualitative tools to identify credit risks, a mean value of 4.39 was registered, in addition to 44% of the respondents who affirmed the statement. The implication of this is that the institution is keen on risk assessment by having tools for the same in place; this makes it easy toy to identify both direct and indirect risks. This further helps to reduce credit risk, hence contributing to effective financial performance. In addition, a mean of 4.29 was observed in respect to whether the institution reviews and amends its credit risk profile on a regular basis. This too implies that the microfinance takes efforts to see that its risk profiles are reviewed and amended regularly which helps to detect defaulters and losses caused to the company.

Further, majority of the respondents held the view that the organization avoids credit concentration by setting credit limits against a specific counter party; this was noted from the observed mean value of 4.17. This implies that pride microfinance undertakes efforts to see that it sets limits to how much it borrows so as to ensure that it can easily identify and avoid any likely risks. Similarly, a mean of 3.80 was observed in line with whether the organizationhas a clearly established process in place for approving new credits as well as the amendment, renewal and re-financing of existing credits. This principally means that pride microfinance has an established mechanism for identifying new credits and existing credits which is a good move to ascertain the kind of credit that has delayed and why. Consequently, this can serve as a good measure for credit repayment. It was further noted that most respondents held the view that the *institution has a second checking system, where by the head office examines the loans approved by local credit officers, as observed from the* mean value of 3.67. This helps to identify risks such that the institution can be in position to stop or allow loans at their own experience or consultation, rather allowing loans without certain experience.

However, on the other hand, it emerged that in some of the areas, Pride Microfinance had gaps in line with credit risk identification that needed to be addressed in order for it to realize effective financial performance. For instance, a mean of 2.82 was observed in line with whether the institution has a credit risk strategy, implying that Pride microfinance does not have a sound credit risk strategy that is known to all credit officials, yet this can be pivotal in understanding how, when and why loans are supposed to be given out and how best risks can be identified in the organization. Relatedly, a mean value of 2.31 was noted in respect to whether the institution has a documented credit risk management policy. In the same breath, 38.4% of the respondents held the view that that there was no documented credit risk management policy in place. This can be very detrimental and creates a loophole that can bring about losses, since it implies that the microfinance lacks a genuine policy that can guide credit officials in the bank in handling loans.

The views from credit officials seemed to tally exactly with what most of the credit managers reported in an interview. From the interviews conducted, it was indicated by most of the key informants that the performance of Pride microfinance was attributed to credit risk identification strategies employed by the microfinance. Among the strategies they mentioned, they indicated that the microfinance undertakes continuous checks to ensure that all the credit granting criteria are met during loan processing and pride microfinance has one the soundest credit granting criteria in Uganda. One of the managers was quoted saying,

> *"You know we are working in a very competitive environment…new microfinance institutions are always opening and reducing credit terms, but because we have been in this work for some good years we set our terms and conditions clear to our clients,…we also look at our clients and their risk profiling…"*

This notwithstanding, a significant proportion of the interviewees indicated that there were flaws in credit risk identification and their reason was that the number of defaulters seemed to be rising. This therefore, implies that pride microfinance has done a lot to identify risks in the bank but however, credit defaulters or bad debts have not reduced to level they want.

4.4.2.1 Correlation results for credit risk identification and performance of PMF

The first null hypothesis stated, *"Credit risk identification positively affects the performance of pride micro finance"* Spearman correlation coefficient (r) was used to test the hypothesis. Table 7 presents the test results.

Table 7: Correlation results for credit risk identification and the performance

			Financial performance
Spearman's	Credit risk	Correlation	.935**

rho	identification	Coefficient	
		Sig. (2-tailed)	.000
		N	83
**. Correlation is significant at the 0.05 level (2-tailed).			

Findings show that there was a moderate positive correlation (rho = .935; p=.000) between credit risk identification and financial performance. The coefficient of determination (rho^2 = $.935^2$) shows that credit risk identification accounted for 87.4% change in financial performance. These findings were subjected to a test of significance (p) and it is shown that the significance of the correlation (p = .000) is less than the recommended critical significance at 0.05. Thus, the relationship was significant. Because of this, the hypothesis *"Credit risk identification positively affects the performance of pride micro finance"* was accepted.

Thus, the implication of the findings was that Credit risk identification positively affects the performance of pride micro finance. The significant influence implies that a change in credit risk identification relates to a significant change in financial performance. The positive nature of the correlation implied that the change in credit risk identification correlated with financial performance in the sense that more use of credit risk identification could bring about an improvement in financial performance and vice versa.

4.4.2.2 Regression results for credit risk identification and the performance

A further analysis was conducted using a regression to determine the influence of credit risk identification on financial performance of pride microfinance. Findings are presented in Table 8, accompanied by analysis and interpretation.

Table 8: Model summary for credit risk identification and financial performance

Regression Statistics					
R Square	.920				
Adjusted R Square	.844				
Standard Error	.22233				
Observations	83				
ANOVA					
	df	*Sum of Square*	*Mean Square*	*F*	*Sig F*
Regression	1	22.000	22.000	445.060	.000
Residual	81	4.004	.049		
Total	82	26.004			
	Coefficients	*Standard Error*	*t Stat*	*P-value*	
Intercept	.569	.097	21.103	.000	
Credit risk identification	.920	.027	21.096	.000	

Findings in Table 8 show a strong linear relationship between credit risk identification and financial performance. The adjusted R Square shows that credit risk identification account for 84.4% change in financial performance. These findings were subjected to an ANOVA test, which showed that the significance (Sig F = .000) of the Fishers ratio (F = 445.060) was less than the critical significance at .05. Hence, the findings were accepted.

4.4.3 Findings on the prevalence of credit risk assessment criteria in pride microfinance

A total of 10 items were used to assess views of the respondents in line with credit risk assessment. The responses were computed by making an aggregate of responses given by respondents to the 10 –items rated on a five point Likert scale and categorized according to their frequencies, percentages, means and standard deviation as follows:

Table 9: Descriptive Statistics on the on credit risk assessment techniques used

SN	Statements on Land registration	Percentage responses (%)					Mean	Std. Dev.
		SA	A	N	D	SD		
1	Staffs at Pride follow an approved procedure in loan appraisal.	20.4% (17)	24.4% (20)	43.2% (36)	7.2% (6)	6% (5)	2.59	1.250
2	All loans disbursed are covered with an insurance policy.	15.6% (13)	20.4% (17)	38.4% (32)	13.2% (11)	12% (10)	3.08	1.202
3	There is an internal auditing to check on credit risk.	4.8% (4)	24% (20)	42% (35)	14.4% (12)	3.6% (3)	3.28	1.203
4	The institution has a system of regular independent credit and compliance audits	6.1% (5)	18% (15)	25% (33)	39.6% (21)	18% (9)	3.34	1.161
5	Borrowers have sufficient cash flow to cover loan repayments	9.6% (8)	12% (10)	15% (18)	42% (35)	14.4% (12)	3.47	1.223
6	There are always internal controls at Pride to mitigate the credit risk.	2.4% (2)	4.8% (6)	30% (25)	45.6% (38)	14.4% (12)	3.59	1.326
7	There is a credit manual to guide credit analysts and officers on credit analysis	10.8% (9)	4.8% (4)	24% (20)	36% (30)	24% (20)	3.60	1.126
8	Staffs at pride are usually sensitized on risk management.	7.2% (6)	8.4% (7)	22.8% (19)	39.6% (33)	20.4% (17)	3.72	1.434
9	All loans are secured by perfected collateral.	4.8% (4)	15.6% (13)	16.8% (14)	33.6% (28)	28.8% (24)	4.01	1.121
10	There is a credit committee to screen all loans before disbursement	3.6% (3)	4.8% (4)	13.3% (11)	48% (40)	32.4% (27)	4.13	.823

The results in table 9 above revealed that a total of 06 items out of 10 registered means above 3.5, while 04 items had mean values below 3.5, in respect to the five-point Likert scale of 1-strongly disagree to 5-strongly agree. It was established that in line with the statement as to whether there is a credit committee to screen all loans before disbursement, a mean value of 4.13 was observed. This implies that pride microfinance employs a technique of credit committee to assess the terms and conditions of a loan before it is given to a client - a good mechanism of assessing credit and reducing on losses that would arise due to poor assessment. Further, as to whether all loans are secured by perfected collateral, the registered mean value was 4.01, with 33.6% and 28.8% of the respondents agreeing or strongly agreeing, respectively. This implies that pride microfinance employs perfect collaterals to secure the loans given to clients. This too is a good mechanism of reducing on risks associated with loans in case there is default.

Concerning whether staffs at pride are usually sensitized on risk management, the observed mean value was 3.72. This essentially means that by sensitizing staffs about risk management, it provides them with the required knowledge on how best they can control credit risk and this is vital in managing loan finance. Similarly, as to whether there is a credit manual to guide credit analysts and officers on credit analysis, a mean value of 3.60 was registered. This clearly shows that by having credit manual, the bank has one of the modern techniques where credit analysts can adequately analyze the strengths and weaknesses of a loan before it is given out. Further, a mean value of 3.59 was recorded in line with whether there are always internal controls at Pride to mitigate the credit risk. Internal controls can be a good tool to assess and predict risks in the bank. This therefore, means that Pride microfinance has the required team, resources, and skills in the bank to assess and control risks, which are all vital for improved financial performance of a bank.

Relatedly, a mean value of 3.47 was registered concerning whether borrowers have sufficient cash flow to cover loan repayments. This means that the bank deals with clients who are capable of paying back and this puts it a driving seat to determine its cash flow which reduces credit loss to the company. These responses critically imply that pride microfinance has a credit risk committee which undertakes the assessment of loans before they are disbursed; the micro finance has the manual in place, undertakes sensitization and endowed with internal controls, all of which signify an adequate credit risk assessment in the organization.

On the other hand however, some of the respondents' views showed that there were still areas where Pride MDI fell short in respect to credit risk assessment, given the lower mean values that were registered. For instance, a mean value of 3.34 was observed in respect to whether the institution has a system of regular independent credit and compliance audits. This was an indication that Pride microfinance was still lacking in her independent credit and compliance audits, a situation which can affect financial performance, since it creates an environment where problems may not be easily detected so as to come up with a quick solution. Further, a mean of 3.28 was registered in respect to whether there is an internal auditing to check on credit risk had, with over 42% of the respondents indicating that they were not even sure about this assertion. This thus leaves a big question as to whether the company has a well-functioning internal audit which is known in detecting financial errors as they arise as this is vital in controlling credit risks. It was also noted that a mean response of 3.08 was registered concerning whether all loans disbursed are covered with an insurance policy, while 2.59 was the observed mean value in line with whether Staffs at Pride follow an approved procedure in loan appraisal. These responses served to show the loopholes in the retention polices used by the bank as not catering for losses that may incur. This means that most of the respondents doubted that the micro finance has a regular independent credit and compliance audits and the required insurance policy. These are too vital if loans disbursed out are too be retrieved.

The above position seemed to tally exactly with what interviewees reported that Pride microfinance undertook credit risk assessment and this had resulted into improvement in performance of the institution. Generally, most of the interviewees indicated that pride microfinance had put in place a complement that any loans disbursed be covered with an insurance policy, follow an approved procedure in loan appraisal, loans are secured with perfected collaterals; has a credit manual to guide credit analysts and officers on credit analysis and all borrowers have sufficient cash flow to cover loan repayments. One of the credit managers was quoted in the following verbatim,

> *"As pride microfinance, our systems are self-regulating and that is why we have been growing fast and fast every year from being just a microfinance to a MDI,…. why? It is because we take time to make thorough assessment of credits before they are reimbursed to our borrowers…."*

He added;

> *"….we assess both the loan and the person taking the loan. We first make sure that insurance is paid and the person we are borrowing has a good credit background or profile with our bank…this is the reason why you have not had us into wars with our clients and this has been the cornerstone to our performance…"*

This verbatim implies that pride microfinance undertakes the necessary credit risk assessment before it gives out a loan and among such criteria includes critical assessment of borrowers and the loan they want to take whereby they hide their money into insurances and this may be the reason to their improvement in performance.

4.4.3.1 Correlation results for credit risk assessment and the performance

To test if there was an effect of credit risk assessment on financial performance of pride micro finance, a spearman rho correlation coefficient was computed and the results are shown in Table

10. To verify this hypothesis, a null hypothesis was derived that *"Credit risk assessment positively influences performance of pride micro finance"*

Table 10: Correlation results for credit risk assessment and the performance

			Financial performance
Spearman's rho	Credit risk assessment	Correlation Coefficient	.962**
		Sig. (2-tailed)	.000
		N	83
**. Correlation is significant at the 0.01 level (2-tailed).			

Findings show that there was a positive and statistically significant correlation (rho = .962; p=.000) between credit risk assessment and financial performance of Pride Microfinance. Since the correlation does imply causal-effect as stated in the first objective, the coefficient of determination (rho^2/ $.962^2$= .925), which is a square of the correlation coefficient was computed and expressed as a percentage to determine the change in financial performance due to credit risk assessment. Thus, findings show that credit risk assessment accounted for 92.5% change in financial performance. These findings were subjected to a test of significance (p) and it is shown that the significance of the correlation (p = .000) is less than the recommended critical significance at 0.05. Thus, the effect was significant. Because of this, the hypothesis "Credit risk assessment positively influences performance of pride micro finance" was accepted.

The implication of these findings is that Credit risk assessment positively influences the financial performance of Pride Microfinance. The significant influence implied that a changein credit risk assessment can strongly influencefinancial performance and therefore, financial performance in Pride Microfinance could be strongly explained by variations in credit risk assessment. The positive nature of the relationship implied that an improvement in credit risk assessment would result into an improvement in financial performance at Pride Microfinance and vice versa.

4.4.3.2 Regression results for credit risk assessment and the performance

Further analysis was conducted using a regression to determine the influence of credit risk assessment on financial performance. Findings are presented in Table 11, accompanied with an analysis and interpretation.

Table 11: Model summary for credit risk assessment and the performance

Regression Statistics					
R Square	.892				
Adjusted R Square	.890				
Standard Error	.18647				
Observations	83				
ANOVA					
	df	*Sum of Sqaure*	*Mean Square*	*F*	*Sig F*
Regression	1	23.187	23.187	666.819	.000
Residual	81	2.817	.035		
Total	82	26.004			
	Coefficients	*Standard Error*	*t Stat*	*P-value*	
Intercept	2.336	.068	34.176	.000	
Credit risk assessment	.944	.019	25.823	.000	

Findings in Table 11 show a strong linear relationship between credit risk assessment and financial performance. Going by the adjusted R Square, it is shown that credit risk assessment account for 89% change in financial performance, implying that credit risk assessment has a positive effect on financial performance. These findings were subjected to an ANOVA test, which showed that the significance (Sig F = .000) of the Fishers ratio (F = 666.819) was less than the critical significance at .05. Hence, the findings were accepted.

4.4.4 Findings on the use of credit risk monitoring in pride microfinance

To indentify the respondents'views on credit risk monitoring tools used by pride microfinance, a total of 9 questionnaire items were presented such that the respondents could express their opinions. Their responses were computed by making an aggregate of responses given by respondents to the 9-items in line with the 5point Likert scale of (1=Strongly Disagree, 2=Disagree, 3=Not sure, 4=Agree and 5=Strongly Agree), which sought to measure the adoption of credit risk monitoring techniques in pride microfinance which were categorized according to their frequencies, percentages, means and standard deviations as follows:

Table 12: Descriptive Statistics on the credit risk monitoring employed

SN	Statements on Land registration	Percentage responses (%)					Mean	Std. Dev.
		SA	A	N	D	SD		
1	The institution frequently reviews securities held as collateral when necessary	7.2% (6)	24.4% (20)	43.2% (36)	20.4% (17)	6% (5)	3.12	1.541
2	Continuous monitoring is done to ensure compliance with credit terms and identification of early signs of irregularity	15.6% (13)	16.8% (14)	42% (35)	10.8% (9)	14.4% (12)	3.13	1.091
3	Credit limits are reviewed regularly at least annually or more frequently	4.8% (4)	24% (20)	42% (35)	15.6% (13)	2.4% (2)	3.14	1.180
4	The institution constantly monitors collateral value against credit outstanding	4.8% (4)	18% (15)	40.8% (34)	24.4% (20)	9.6% (8)	3.33	1.250
5	The institution monitors the borrowers' business performance regularly after	9.6% (8)	14.4% (12)	42% (35)	21.6% (18)	12% (10)	3.36	1.043

	loan extension ,and takes appropriate measures based on this monitoring							
6	The credit department of Head office carries out screening functions fully and adequately	2.4% (2)	4.8% (6)	30% (25)	45.6% (38)	14.4% (12)	3.58	1.326
7	The institution increases the frequency of monitoring business performance according to the seriousness of problem loans	10.8% (9)	4.8% (4)	24% (20)	36% (30)	24% (20)	3.67	1.072
8	The organization adequately monitors whether the terms and conditions stipulated at the time of loan approval are observed	7.2% (6)	8.4% (7)	22.8% (19)	39.6% (33)	20.4% (17)	4.11	.950
9	Internal audits check whether terms and conditions are being observed	4.8% (4)	15.6% (13)	16.8% (14)	33.6% (28)	28.8% (24)	4.18	.472

The results in table 12 above revealed that the means for most of the items were below 3.5. It was found out that out of the 9-items that were introduced; 5-items had mean responses below 3.5 while the remaining 4-items had a data mean of above 3.5. Based on the scale of 1-strongly disagree to 5-strongly agree, any data mean of below 3.5 indicates that majority of the responses were not in agreement with the particular questionnaire items. This thus, statistically means that Pride microfinance lacked in credit risk monitoring, a situation that can affect financial performance. Among the items that confirm this statistical claim is the mean value of 3.33 in line with whether the institution constantly monitors collateral value against credit outstanding. Since a biggest number of respondents (40.8%) were not sure, this means that there is much doubt as to whether the microfinance takes the required time to monitor the value of collaterals which are given to them by clients. This step is too vital in resolving problems that may arise after a loaner has failed to pay back.

Concerning whether credit limits are reviewed regularly at least annually or more frequently, the observed mean response was 3.14. This implies that there is a possibility for pride microfinance to give out loans beyond the credit that was set, which has the potential to financially affect the performance of the bank since it can lack the required liquidity, hence poor performance. As to whether continuous monitoring is done to ensure compliance with credit terms and identification of early signs of irregularity, the mean value of 3.13 was observed, with over 42% of the respondents indicating that they were uncertain as to whether continuous monitoring on compliance with credit terms is done. Continuous monitoring is a crucial step in identifying loopholes contributing to lack of the required liquidity that is necessary for the bank to function.

Concerning whether the institution does frequently review securities held as collateral when necessary, the responses registered a mean value of 3.12. This implies that monitoring of securities and collaterals in general is doubted by a biggest number of respondents. This thus implies that there was doubt among most of the respondents on whether pride microfinance monitors the value of collaterals used by the clients and this is likely to affect their returns especially if the client fails to pay and they have to sell to the collateral. Still the implication is that credit limits are not reviewed and this may lead to lack of enough liquidity in the back.

Responses on whether internal audits do check whether terms and conditions are being observed had a mean value of 4.18. In addition, a mean of 4.11 was observed in line with whether the organization does adequately monitor whether the terms and conditions stipulated at the time of loan approval are observed. Further, majority of the respondents (mean =3.67) affirmed the view that the institution does increase the frequency of monitoring business performance according to the seriousness of problem loans had a mean value of, while a significant portion, mean = 3.58 held the view that the credit department of head office does carry out screening functions fully and adequately check and monitor branches had a mean value of. These responses implied that despite the challenges highlighted earlier in respect to credit monitoring, there are efforts to ensure that credit monitoring is done. This is key to solving credit risks associated with microfinance.

In addition, most of the key informants showed monitoring was being done in Pride microfinance, citing that Pride microfinance observes terms and conditions stipulated at the time of loan approval, credit limits are reviewed regularly, there is increased frequency of monitoring business performance according to the seriousness of problem loans and monitoring of branches to ensure that they comply with the credit manuals, all of which can enhance financial performance. One key informant was quoted thus;

> *"monitoring credit is too essential especially when it comes to this kind of work we because we deal with a number of unscrupulous people and some of them have been in this kind of work before and failed, so they come here to also fail pride microfinance, so even if we reimburse loans we go ahead to take steps to see whether there is compliance to the terms and conditions as agreed and if not complied on…we go ahead to advise or counsel out the loan…"*

The above verbatim implies that pride has been on forefront of monitoring credit especially when it comes to monitoring prospective or potential loan defaulters while ensuring the limits to give out, following of terms and conditions as stipulated in loan agreements and so many others.

4.4.3.1 Correlation results for credit risk monitoring and the performance

To test if there was an effect of credit risk monitoring on financial performance of pride microfinance, a spearman rho correlation coefficient was done by the study and the results are shown in Table 13 below. To verify this hypothesis, a null hypothesis was derived that "Credit risk Monitoring improves performance pride micro finance."

Table 13: Correlation results for credit risk monitoring and the performance

			Financial performance
Spearman's rho	Credit risk monitoring	Correlation Coefficient	.956**
		Sig. (2-tailed)	.000
		N	83

**. Correlation is significant at the 0.05 level (2-tailed).

Findings show that there was a moderate positive correlation (rho = .956; p=.000) between credit risk monitoring and financial performance. Since the correlation does imply causal-effect as stated in the previous objectives, the coefficient of determination (rho^2 = .913), which is a square of the correlation coefficient was computed and expressed as a percentage to determine the change in financial performance due to credit risk monitoring. Thus, findings show that credit risk monitoring accounted for 91.3% change in financial performance. These findings were subjected to a test of significance (p) and it is shown that the significance of the correlation (p =

.000) is less than the recommended critical significance at 0.05. Thus, the relationship was significant. Because of this, the hypothesis “Credit risk Monitoring improves performance pride micro finance” was accepted.

The implication of these findings is that “Credit risk Monitoring improves the financial performance Pride microfinance”. The positive nature of the correlation further implies that an improvement in credit risk monitoring in Pride Microfinance would result into a corresponding changein financial performance and vice versa.

4.4.3.3 Regression results for credit risk monitoring and the performance

Further analysis was conducted using a regression to determine the extent to which credit risk monitoring affect financial performance in Pride microfinance. Findings are presented in Table 14, accompanied with an analysis and interpretation.

Table 14: Model summary for credit risk monitoring and financial performance

Regression Statistics					
R Square	.915				
Adjusted R Square	.914				
Standard Error	.16500				
Observations	83				
ANOVA					
	Df	*Sum of Square*	*Mean Square*	*F*	*Sig F*
Regression	1	23.798	23.978	874.109	.000[a]
Residual	81	2.205	.027		
Total	82	26.004			
	Coefficients	*Standard Error*	*t Stat*	*P-value*	
Intercept	.524	.065	33.637	.000	
Credit risk monitoring	.957	.018	29.565	.000	

Findings in Table 14 show a strong linear relationship between credit risk monitoring and financial performance. From the adjusted R Square, it can be noted that credit risk monitoring accounts for 91.4% change in financial performance. These findings were subjected to an ANOVA test, which showed that the significance (Sig F = .000) of the Fishers ratio (F = 874.109) was less than the critical significance at .05. The results therefore show that credit risk monitoring significantly affects financial performance.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the findings from the study, discusses the empirical results in view of the research objectives, stated hypotheses and similar findings in other research elsewhere. The researcher's conclusions are presented and finally recommendations made for future studies on the subject of credit risk management and financial performance.

5.2 Summary

5.2.1 Credit risk identification and the performance of Pride microfinance

Credit risk indemnification had a significant effect on performance of pride microfinance. In particular, the positive significant effect implied that a change in credit risk identification could be attributed to the variations in financial performance in Pride microfinance. In this case, it was noted that credit risk identification contributed to a significant change in financial performance whereby improvement in credit risk identification caused improvement in financial performance and vice versa. Results of the regression analysis showed that credit risk identification affected financial performance in Pride Microfinance by a magnitude of 84.4% and thus accounted for the same variation in financial performance. This thus showed that there was a strong linear relationship between credit risk identification and financial performance.

5.2.2 Credit risk assessment and the performance of Pride microfinance

Credit risk assessment had a significant effect on performance of pride micro finance. In particular, the positive significant effect implied that a change in financial performance contributed to a significant change in financial performance whereby improvement in credit risk assessment caused improvement in financial performance and vice versa. Credit risk assessment accounted for 89% of the variation in financial performance. In addition, there was a strong linear relationship between credit risk assessment and financial performance.

5.2.3 Credit risk monitoring and financial performance of Pride microfinance

Credit risk monitoring had amoderatepositive effect on performance of pride micro financewhereby improvement in financial performance was attributed to credit risk monitoring and vice versa. Going by the results of the adjusted R-Square, Credit risk monitoring accounted for 91.4% variation in financial performance. In addition, the regression model showed that there was a strong linear relationship between credit risk monitoring and financial performance, implying that the two variables were positively correlated.

5.3 Discussion of findings

5.3.1 Credit risk identification and the performance of Pride microfinance

The first hypothesis stated, *"*Credit risk identification positively affects the performance of pride micro finance". Credit risk identification was conceptualized in this study as list of possible risks, credit granting criteria and Policy and Procedure for loan approval. The inferential statistics indicated that Credit risk identification positively affects the performance of pride micro finance. International Association of Insurance Supervisors (2003), Financial Services Authority (2002), and Rule (2001b) support the findings that credit risk identification has a strong relationship with financial performance in an organization. In the same view, Pritchard (2005) highlights credit risk identification is a critical step in the risk management process since it is an organized, thorough approach to finding real risk associated with lending in financial institutions.

Congruent with the study findings, Ashraf, Karlan and Yin (2006), assert that establishing a sound and well defined risk identification criteria is essential to approving credit in a safe and sound manner. The criteria should set out who is eligible for credit and for how much, what types of credit available, and under what terms and conditions the credits should be granted.

Contrary to study findings, Basel (2010) notes that credit risk identification covers the entire credit cycle starting from origination of a credit facility to its completion. It is from this cycle that risk events are identified and clearly described. For instance a high quality risk event describes the potential occurrence and how it would influence the financial institution. Therefore a financial institution must have in place written guidelines on the credit approval process and a checklist to ensure that all required information is factual and well captured. This is where the 5 C's of credit should be considered, that is, the borrower's character, capacity, capital, collateral and condition of the economy and these were not found to be done in Pride microfinance.

Furthermore, the findings of this study were in agreement with those of Namutebi (2006). In her study about credit risk identification and financial performance, she established that when like loan trading, portfolio securitization and derivatives and Insurance are ensured, they can lead to improved financial performance. Andersen (2001) points out that financial institutions use credit risk transfer polices and derivatives and this has gained significant importance in the financial sector, similar tostandard and poor's (2003b) and Fitch Ratings, (2004), who provide a review of the factors underlying banks' use of credit derivatives. Rule, (2001) pointed out that that banks and insurance companies are exposed to various credit, market and insurance risks in the course of their business, and they can manage these risks in three ways: Arrange for another entity to take on the risk at the outset.

5.3.2 Credit risk assessment and the performance of Pride microfinance

The second hypothesis stated, “Credit risk assessment positively influences performance of pride micro finance”. Credit risk assessment was conceptualized in this study as Loan appraisal and Probability of default. The inferential statistics indicated that Credit risk assessment positively influences performance of pride micro finance. Brannan, (2000) supports the above findings arguing that credit risk assessment is the primary tool for lenders to control borrower risk, and highlighted the fact that risks arise well before default occurs and warned against the construction of "bullet-proof" portfolios that can under perform. Lopez, (2000), supported this by discussing that there was value in diversification of credit portfolios and pointed out how this value can be measured. According to Abbink et al, (2006) ascertains that the objectives of credit risk management are to minimize bad loans by improving the risk/return profiles of the portfolio, price credit risk adequately or risk based pricing, maximize benefits from the potential credit opportunities, setting of concentration and exposure limits, active portfolio management, adhere to credit policies and maintain a reliable database.

However, contrary to study findings, Barnes et al (2001) contend that in credit risk modeling, the probability of default (PD) is one of the key parameters to be estimated for a financial institution’s performance sustainability to be ensured. It shows however that too little attention is paid to the different possible definitions of default in practice, although a clear understanding of the definition of default is crucial for a correct interpretation of any estimate of a probability of default. Che, (2002) further supports the study whiling pointing out that assessment of a loan proposal from different points of view should be done to decide whether the credit institution should go for finance or not. In order to select the borrower, Churchill (2002) maintains that security should not be the only thing to be relied upon. So it is the responsibility of the loan officers to investigate the client from different viewpoints, that is, the strength and weakness of the client so that the client will be able to repay the loan according to the repayment schedule with profit included therein.

5.3.3 Credit risk monitoring and the performance of Pride microfinance

The third hypothesis stated, “Credit risk Monitoring improves performance pride micro finance”. Credit risk monitoring was conceptualized in this study as Identify new risks, Loan portfolio analysis and Review credit policy and procedure. The inferential statistics indicated that Credit risk Monitoring improves performance pride micro finance. Findings of this research support other studies, which also established that without employing credit risk monitoring, it is likely that the financial performance will be affected. For instance, Beatty and Liao (2009) contend that credit risk monitoring is critical in assessing financial system stability, in that it is a key contributor to fluctuations in banks’ profitability and capital positions, which has a bearing on banks’ supply of credit to the economy. In principle, credit risk monitoring allows banks to recognize in their profit and loss statements the estimated loss from a particular loan portfolio/s, even before the actual loss can be determined with accuracy and certainty as events unfold and are actually written off.

Hugh (2011) further supports the findings while ascertaining that a proper credit monitoring system will provide the basis for taking prompt corrective actions when warning signs point to deterioration in the financial health of the borrower. Examples of such warning signs include unauthorized drawings, arrears in capital and interest deterioration in the borrowers operating environment. Financial institutions should have a system in place to formally review the status of the credit and financial health of the borrower at least once a year.

Hannington (2009), still in congruence with the study findings confirms that every microfinance institution is concerned about fraud and theft and the performance of the advanced facilities thus the need for Credit monitoring. When someone utilizes credit monitoring an agency keeps an eye on that person's credit report and financial activities, looking for signs for unauthorized activity. Credit control also known as credit management is a term used to describe the process of evaluating the level of risk associated with potential customers and assigning credit privileges to those customers accordingly (Chowdhury 2010).

However as some financial experts disagree about the efficacy of credit monitoring, others feel that such services are extremely valuable, because while they cannot prevent fraud, they can identify it early and put measure for mitigation in place before it escalates into a major problem which could require more resources and time to fix. For institutions that have been victims of fraud in the past, credit monitoring can also be useful tools for security, making people feel more comfortable (Roodman&Morduch, 2011).

5.4 Conclusions

5.4.1 Credit risk identification and the performance of Pride microfinance

The findings of this study showed that credit risk identification positively affects the performance of Pride Micro Finance. Centered on the empirical results of this study, it is concluded that Pride Micro Finance has the required credit risk identification criteria to support its financial performance. In the light of the study findings on credit risk identification financial performance of Pride Microfinance, it can be deduced that having in place credit risk assessment tools, setting credit limits, among other factors, can significantly contribute to financial performance of an institution.

5.4.2 Credit risk assessment and the performance of Pride microfinance

The findings of this study showed that credit risk assessment positively affects the performance of Pride Micro Finance. It can be inferred that, by having in place a credit committee, securing loans by perfected collateral, risk associated with the loans can be minimized, in case the clients default. In addition, ensuring that there is a required team and required resources in place to assess and control risk is a necessary ingredient towards improving financial performance of a banking institution. Thus, premised on the empirical results of this study, it is concluded that Pride Micro Finance undertakes the required credit risk assessment which has been vital in improving its financial performance.

5.4.3 Credit risk monitoring and the performance of Pride microfinance

The study findings showed that credit risk monitoring strongly and positively affects the financial performance of Pride microfinance. Thus, this shows that by having in place measures to ensure effective credit monitoring, such as by clearly observing the set terms and conditions, ensuring that the terms and conditions set at the time of loan approval are clearly observed, among others, can enhance loan repayment and consequently contribute to the financial performance.

5.5 Recommendations

5.5.1 Credit risk identification and the performance of Pride microfinance

(i) Considering that there is a significant positive relationship between credit risk identification and financial performance, there is a need for pride microfinance to put in place credit risk strategy which can be followed to ensure that finances are not lost in courtesy of poor credit risk identification.

(ii) It is important that the Bank of Uganda intervenes in operations of financial institutions like pride microfinance so as they can increase the use of insurance firms in a bid to transfer or share risk in case of default. This is because most of the problem loans that were reported in Pride microfinance seem to have a leakage with lack of insurance before re-imbursement.

(iii)It is also important for pride microfinance to start practicing advanced hedging methods for example use of derivative products like swaps, option, and futures. Derivatives provide insurance or protection against an event (default) that changes the value of the underlying asset (loan).

5.5.2. Credit risk assessment and the performance of Pride microfinance

(i) Credit risk assessment should be part and partial of MDIs policy in a bid to spread risk. In this case therefore, financial institutions must have a system of regular independent credit and compliance audits. This will be vital in making a closer check on the performance of the bank especially in finding out what causes increased defaults among the clients

(ii) Pride microfinance should endeavor to see that the credit rating models are continuously applied. This helps to ascertain how much interest rate to charge for a given loan as it summarize and quantify risk in a given loan portfolio. Since credit rating had a significant positive relationship with financial performance, it is important that while assessing projects, internal credit rating should be part and partial of the appraisal process. Technical staff should be trained to be able to conceptualize, design, and make operational an internal credit rating system that suits the banks' operations to control risk exposures.

5.5.3 Credit risk monitoring and the performance of Pride microfinance

(i) There is a need for pride microfinance to set portfolio limits as these will enhance financial performance

(ii) There is a need for pride microfinance to concentrate its loan portfolio in particular sectors of the economy while invested loan portfolio in different sectors of the economy

(iii) It is also important to make a detailed assessment of financial viability through use of tools like ratio analysis to judge the attractiveness and creditworthiness, liquidity levels, efficiency, profitability, leverage of the company before financing.

5.6 Limitations of the study

The study was successful, though some limitations were encountered.

Some potential respondents who were considered to hold key policy information could not be reached for interview despite several reschedules. While some respondents considered it a waste of time as they had participated in such research previously, with no financial rewards. Time was lost as the researcher offered explanations that the study was purely for academic purposes. Some respondents failed to return the questionnaires issued to them, which was a limitation on the researcher's progress as timelines, had to be revised and in some cases extra costs were incurred in availing extra questionnaires.

5.7 Contribution of the Study to Existing Body of Knowledge

While existing literature showed how credit risk management affected financial performance, none of the scholars gave evidence in the context of pride microfinance. Thus, the findings of this study provides this information about the effect of credit risk identification, assessment and monitoring affected on financial performance in pride microfinance, which can be referred to by other scholars.

Most of the existing research on credit risk management has been done in relation to the performance of Banks thus less detail given to microfinance institutions. It should be noted that microfinance institutions have grown in number currently at 99 against the 24 commercial Banks. Therefore what makes this research unique from the existing literature is that more attention was given to microfinance institutions with the biggest and fastest growing microfinance (pride microfinance) as a case study. This literature will thus be translated to other emerging microfinance institutions.

5.8 Areas for Further Research

These include:

- The study was limited to two variables; credit risk management and financial performance. There is therefore a need for further study to take into consideration of considering more than one variable that may be affecting financial performance of pride microfinance because it may not only be credit risk management but also others

- The study was also limited to few dimensions and indicators of credit risk management and financial performance. There is a need for future research to replicate the findings employing multidisciplinary measures of credit risk management and wider coverage of financial performance because it is likely that staff members in pride microfinance fair badly against such dimensions and indicators of financial performance.
- This study was limited to pride microfinance. This makes the study limited to pride microfinance and not in other financial institutions in Uganda. There is a need also for a further study to be replicated in other financial institutions to ascertain the similarity and differences in the findings.

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APPENDICES

APPENDIX 1

QUESTIONAIRE FOR CREDIT OFFICERS IN PRIDE MICROFINANCE LTD

Dear respondent,

Iam a student at Uganda management institute pursuing a Masters in Management studies (Project Planning and Management). I am researching on credit management and financial performance of pride micro finance.

Given your unique experience and position in credit financing, you have been chosen purposely for the study. Your response is therefore very instrumental to the success of my project. Kindly assist by answering the following questions as honestly as possible. The data sought shall purely be for research purpose and will therefore be treated with anonymity and utmost confidentiality.

SECTION A: BACK GROUND /BIOGRAPHICAL DATA OF RESPONDENTS

1. **Your gender**

   Male ☐ Female ☐

2. **Age group**

   Below 20 ☐ 20-25yrs ☐ 26-30yrs ☐ 31-35yrs ☐ 36yrs above ☐

3. Post held

(1) Department manager ☐

(2) Employee ☐

(3) Management ☐

4. No of years work

(1) below two years ☐

(2) 3-5 years ☐

(3) 6 years-above ☐

5. **Highest level of education**

(1) Masters ☐ (4) Degree ☐ (6) others specify.......................

(2) Post graduate ☐ (5) Diploma ☐

SECTION B

Please choose options that suit your level of agreement for each of the following questions. The options are:

Strongly agree	Disagree	Neutral	Agree	Strongly agree
5	4	3	2	1

CREDIT RISK MANAGEMENT

OBJECTIVE AREA	**OPTIONS**				
CREDIT RISK IDENTIFICATION	**1**	**2**	**3**	**4**	**5**
The organization does have quantitative and qualitative tools to identify credit risks					
The institution does review ,amends its credit risk profile on a regular basis					
The institution does have a documented credit risk management policy					
The institution does have a credit committee					
The institution does have credit risk strategy					
The organization does have a sound ,well defined credit granting criteria					
The organization does have adequate checks to ensure that all the credit granting					

criteria are met during loan processing					
The organization does have overall credit limits at the level of individual borrower					
The organization does have a clearly established process in place for approving new credits as well as the amendment ,renewal and re-financing of existing credits					
The organization does avoid credit concentration by setting credit limits against a specific counter party					
Authority for credit approval assigned to local credit officers is appropriately in line with management policy and business operations					
The institution has a second checking system ,where by the head office examines the loans approved by local credit officers					

CREDIT RISK ASSESSMENT					
There are always internal controls at Pride to mitigate the credit risk.					
All loans disbursed are covered with an insurance policy.					
Staffs at Pride follow an approved procedure in loan appraisal.					
Staffs at pride are usually sensitized on risk management.					
The institution has a system of regular independent credit and compliance audits					
Borrowers have sufficient cash flow to cover loan repayments					
There is an internal auditing to check on credit risk.					
There is a credit manual to guide credit analysts and officers on credit analysis					
There is a credit committee to screen all loans before disbursement					
All loans are secured by perfected collateral.					

CREDIT RISK MONITORING					
The credit department of head office does carry out screening functions fully and adequately check and monitor branches					
The organization does adequately monitor whether the terms and conditions stipulated at the time of loan approval are observed					
Internal audits do check whether terms and conditions are being observed					
The institution does constantly monitor collateral value against credit outstanding					
The institution does frequently review securities held as collateral when necessary					
The institution does monitor the borrowers business performance regularly after loan extension ,and take appropriate measures based on this monitoring					
The institution does increase the frequency of monitoring business performance according to the seriousness of problem loans					
Credit limits are reviewed regularly at least annually or more frequently					
Continuous monitoring is done to ensure compliance with credit terms and identification of early signs of irregularity					

Financial performance					
Loan repayments are promptly settled by clients					
A number of defaulters is reducing					
The portfolio at risk is reducing ie 30, 90 Day PAR					
Given the interest rate of the loan, clients are willing to stay with pride microfinance					

Penalties are given for late payments					
Profitability on credit given is adequate for the future of pride micro finance					
Management at pride micro finance set targets to achieve good loan performance.					
Credit officers with good loan performance are rewarded.					
Clients are given rewards for the good loan repayments.					

APPENDIX II:

INTERVIEW SCHEDULE/GUIDE FOR CREDIT MANAGERS

Dear respondent

I am requesting you to participate in this interview, which is aimed at collecting data on credit risk management and financial performance. You have been selected to be one of the respondents in this study. The information provided will be treated with strict confidentiality and will not be used for any other purpose except academic purposes. The study will ensure your anonymity and confidentiality. Thank you

How long have you worked with pride micro finance.

………………………………………………………………………………………………….

In your opinion how does credit risk identification affect performance at pride micro finance?

……………………………………………………………………………………………………

…………………………………………………………………………………………………..

How does credit risk assessment affect performance at pride micro finance?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

In your view briefly discuss the benefits of carrying out monitoring, evaluation and control practices?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

APPENDIX III: TABLE FOR DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION

N	*S*	*N*	*S*	*N*	*S*
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Source: Krejcie& Morgan (1970, as cited by Amin, 2005)

Note.—*N* is population size.
S is sample size.