CREDIT MANAGEMENT AND FINANCIAL
PERFORMANCE OF MICROFINANCE INSTITUTIONS IN UGANDA
A CASE STUDY OF PRIDE MICRO FINANCE LTD
KABALANGALA BRANCH

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UNIVERSITY

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DECLARATION

This research report is my original work and has never been presented in any other University for examination for an award of a degree.

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14th/09/2016

Date
APPROVAL

This is to certify that the research report produced by Sawani Samson, has been under my supervision, and is ready for submission to college of college of economics and management science. Department of Accounting and Finance for examination with my approval as supervisor.

MR. ADONIA TUKUNDANE

 SIGNED .................................. DATE 14/09/2016
DEDICATION

To my beloved parents, my lovely one, for your love, encouragement and financial support that you have given toward this achievement.

To special thanks goes to Mr. Pie Honkaya and his family members for their support and encouragement towards perusing this course.

Also my special appreciation goes to all my brothers and sisters Womakuyu Francis, Kasola Rogers, Masede Micheal and my late father Namasoko Alfred and Womakuyu Francis and Wanzala Bonny and my step father Mugamba Rogers.

I would like to dedicate this work to my lovely one Mugide Stella for your love for me and not letting me down at any minute in the due course.

Finally, to all my classmates for cooperation during time of doing course works and final exams.
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<tr>
<td>AFMIs</td>
<td>Association for Micro Finance Institutions</td>
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<td>AROA</td>
<td>Adjusted Return on Assets</td>
</tr>
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<td>FSS</td>
<td>Financial Self Sufficiency</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>LLR</td>
<td>Loan Loss Reserve Ratio</td>
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<td>MDI</td>
<td>Micro Finance Development Institutions</td>
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<td>MSEs</td>
<td>Medium and Small scale Enterprises</td>
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<td>NGOs</td>
<td>Non-Government Organizations</td>
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<td>PAR</td>
<td>Portfolio at Risk</td>
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<td>PMFIs</td>
<td>Pride Micro Finance Institutions</td>
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<td>SPSS</td>
<td>Statistical Package for Social Science</td>
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ABSTRACT

Credit management is one of the most important activities in any company and cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature. Sound credit management is a prerequisite for a financial institution’s stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. As with any financial institution, the biggest risk in pride microfinance is lending money and not getting it back. The study sought to determine the effect of credit management on the financial performance of Microfinance Institutions in Uganda. The study adopted a descriptive survey design. The population of study consisted of 59 MFIs in Uganda that are members of AMFI. A census study was used to carry out the research. Primary data was collected using questionnaires where all the issues on the questionnaire were addressed. Descriptive statistics were used to analyze data. Furthermore, descriptions were made based on the results of the tables. The study found that client appraisal; credit risk control and collection policy had effect on financial performance of PMFIs in Uganda. The study established that there was strong relationship between financial performance of PMFIs and client appraisal, credit risk control and collection policy. The study established that client appraisal, credit risk control and collection policy significantly influence financial performance of PMFIs in Uganda. Collection policy was found to have a higher effect on financial performance and that a stringent policy is more effective in debt recovery than a lenient policy. The study recommends that PMFIs should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery.
CHAPTER ONE

1.0 Background of the study

Pride microfinance institution was founded in 1995 as a non-governmental organization with the support of the Norwegian Agency for Development Cooperation. Its major objective was to offer credit to the poor, targeting those in the agricultural sector.

In 1999, it was incorporated as a limited company and changed its name to Pride Africa Uganda Limited. In 2003, the Uganda government acquired 100 percent shareholding in the enterprise, changing the name to Pride Microfinance Limited. In 2005, it attained the status of an MDI according to the Banking Act of 2003. It is a member of the Association of Microfinance Institutions in Uganda. In February 2016, Ugandan media reported that the government was planning to merge PMFL with Post Bank Uganda, to form an agricultural bank.

Pride microfinance institution provides financial services to that segment of the Ugandan population who are not served or are unable to access financial services through Ugandan commercial banks.

PMFL's focus is the micro, small and medium size entrepreneurs. As an MDI, PMFL is a Tier III Financial Institution. It is therefore prohibited from dealing in foreign exchange and cannot issue checking accounts. As of December 2013, the institution's total assets were valued at approximately US$56.84 million (UGX: 147.4 billion), with shareholders' equity of approximately US$18.1 million (UGX46.97 billion). As of December 2013, Pride Microfinance employed 585 people and served 373,667 customers.

According to poverty eradication action plan 2000 the development of microfinance service became an important policy intervention recommended in all plans of the government in a way reducing poverty and in this context that over the last few years, the government of Uganda in collaboration with donors and other stakeholders have initiated a number of programs aimed at developing microfinance industries. The recognition is evidenced by the rapid advances in the government, donors and practitioners in the development and implementation of the program that
supports microfinance initiatives in Uganda, as well as dramatic expansion of microfinance industries.

The microfinance industries had for a long time operated under a number of constraints among others included lack of legal recognition, weak institutional capacity and unsustainable source of funding.

As explained in the annual supervision report issued (No. 2, December 2011) the potential of using institutional credit and other financial services for poverty alleviation in Uganda is quite significant. About 18 million people, or 60% of the population, are poor and mostly out of the scope of formal banking services. According to the National Micro and Small Enterprise Baseline Survey of 1999, there are close to 1.3 million MSEs employing nearly 2.3 million people or 20% of the country’s total employment and contributing 18% of overall GDP and 25% of non-agricultural GDP. Despite this important contribution, only 10.4% of the MSEs receive credit and other financial services. The formal banking sector in Uganda over the years has regarded the informal sector as risky and not commercially viable (Omino, 2005).

According to the Poverty Reduction Strategy Paper (PRSP) of 1999, a large number of Ugandans derive their livelihood from the MSEs. However, in spite of the importance of this sector, experience shows that provision and delivery of credit and other financial services to the sector by formal financial institutions, such as commercial banks has been below expectation. This means that it is difficult for the poor to climb out of poverty due to lack of finance for their productive activities. Therefore, new, innovative and pro-poor modes of financing low-income households and MSEs based on sound operating principles need to be developed (Omino, 2005). Microfinance institutions fill a needed gap within the financial services industry by offering small loans, or micro-loans, to people unable to access conventional loan services.

Pride Microfinance institutions vary in size and function with some organizations focusing entirely on micro financing, while others work as extensions of large investment banks. People living in under-developed areas can access needed financial resources through the services provided by microfinance institutions. In the past, microfinance institutions (MFIs) established using either an NGO or a savings and credit co-operative societies framework have been
important sources of credit for a large number of low income households and MSEs in the rural and urban areas of Uganda.

Microfinance institutions in Uganda are regulated under the Microfinance Act, 2003 and the microfinance Regulations issued there under sets out the legal, regulatory and supervisory framework. The Microfinance Act became operational with effect from 30th June 2008. The principal object of the Microfinance Act is to regulate the establishment, business and operations of microfinance institutions in Uganda through licensing and supervision.

The Act enables Deposit Taking Microfinance Institutions licensed by the Central Bank of Uganda to mobilize savings from the general public, thus promoting competition, efficiency and access. It is therefore, expected that the microfinance industry will play a pivotal role in deepening financial markets and enhancing access to financial services and products by majority of the Ugandan (Central Bank of Uganda, 2013).

Before the enactment of this bill, the PMFIs operating in Uganda (over 200) were unregulated unless they optionally entered the Association for Microfinance Institutions (AMFI), based in Nairobi and funded by a USAID grant. Under the new bill, MFIs operating in Uganda are vulnerable to the fines imposed by the CBU that can reach ugx 1 million (equivalent to USD 14,376) for every guideline to which they do not comply.

According to Kimanthi Mutua, chairman of the AMFI, the new regulations will protect the 60 percent of the Ugandan population who are out of the scope of the formal banking services from bogus MFIs. (Micro capital, 2007).

Many MFIs access commercial borrowing to fund their portfolio. Other sources of funds for operational and financial activities are International NGOs and Aid Agencies including: USAID, IFC, UNDP, HIVOS, DANIDA, European Commission, OIKO Credit, World Vision, Churches and individual donors among other. Some commercial banks have also invested in microfinance institutions. MFI Members shares have also been a source for funds for the MFIs

1.2 Problem statement

Sound credit management is a prerequisite for a financial institutions stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor
financial performance and condition. According to Gitman (1997), the probability of bad debts increases as credit standards are relaxed. Firms must therefore ensure that the management of receivables is efficient and effective. Such delays on collecting cash from debtors as they fall due have serious financial problems, increased bad debts and affects customer relations. If payment is made late, then profitability is eroded and if payment is not made at all, then a total loss is incurred. On that basis, it is simply good business to put credit management at the front end by managing it strategically. As with any financial institution, the biggest risk in microfinance is lending money and not getting it back. Credit risk is a particular concern for MFIs because most micro lending is unsecured (traditional collateral is not often used to secure microloans Craig Churchill and Dan Coster (2001). The people covered are those who cannot avail credit from banks and such other financial institutions due to the lack of the ability to provide guarantee or security against the money borrowed. Many banks do not extend credit to these kinds of people due to the high default risk for repayment of interest and in some cases the principle amount itself. Therefore these institutions required to design sound credit management that entails the identification of existing and potential risks inherent in lending activities.

1.3 Purpose of the study
This study was to examine the relationship between credit management and financial performance of pride microfinance

1.4 Research Objective
To find out the effect of credit management on the financial performance of pride Microfinance
To find out procedures which ensure the collection of debt, meeting of service targets and the prevention of escalation in arrear debt
To examine the degree of financial performance in pride Microfinance ltd

1.5 Research questions
What is the effect of credit management on the financial performance of pride microfinance in Uganda?
What are the procedures employed by pride microfinance to manage credit.
What is the financial performance of pride micro finance institutions in Uganda?

1.6 Significance of the study
The results of this study were valuable to researchers and scholars, as it formed a basis for further research.

Scholars used this study as a basis for discussions on credit management and financial performance. It also provided the scholars with empirical studies that was to used in their studies.

The study will also add to the body of knowledge in the finance discipline by bridging gaps in credit management research in general.

This study made several contributions to both knowledge building and practice improvement in credit management and financial performance. From a theoretical standpoint, the study proposes a comprehensive framework of studying changes in credit management and financial performance.

It also aided policy makers in their effort to restore the sector. It was of great relevance to the organizations under study as well as other financial institutions.

The non-financial business firms, whether manufacturing or service oriented also benefited from the research findings. This is because the result of the study enabled the users especially PMFIs to appraise its credit policies and to review its operations critically for more result oriented approach in the dealing with its credit facilities.

1.7 Scope of the study
Geographical scope, the study was carried out in following pride micro finance branches; Kampala city branch, Bukoto branch, I Banda branch and kabala gala branch. Time scope the study lasted for period of seven months. Content scope the was specifically to assess the effects of credit management and financial performance
CHAPTER TWO

LITERATURE REVIEW

2.1. Theoretical Review

Previous literature has shown that there exists information asymmetry in assessing bank lending applications (Binks and Ennew, 1997). Information asymmetry describes the condition in which relevant information is not known to all parties involved in an undertaking (Ekumah and Essel, 2003).

Studies on transaction costs have shown that transaction costs occur “when a good or a service is transferred across a technologically separable interface”. Therefore transaction costs arise every time a product or service is being transferred from one stage to another, where new sets of technological capabilities are needed to make the product or service. Therefore, it may very well be more economical to maintain the activity in-house, so that the company will not use resources on example contacts with suppliers, meetings and supervision.

Managers must therefore weigh the internal transaction costs against the external transaction costs, before the company decides whether or not to keep some activity in-house. Williamson (1981). This chapter will review the asymmetric information theory and Transaction cost theory in credit management.

2.2 Asymmetric Information Theory

Information asymmetry refers to a situation where business owners or manager know more about the prospects for, and risks facing their business, than do lenders (PWHC, 2002) cited in Eppy.1 (2005). It describes a condition in which all parties involved in an undertaking do not know relevant information. In a debt market, information asymmetry arises when a borrower who takes a loan usually has better information about the potential risks and returns associated with investment projects for which the funds are earmarked. The lender on the other hand does not have sufficient information concerning the borrower (Edwards and Turnbull, 1994).

Binks et al (1992) point out that perceived information asymmetry poses two problems for the banks, moral hazard (monitoring entrepreneurial behavior) and adverse selection (making errors
Banks will find it difficult to overcome these problems because it is not economical to devote resources to appraisal and monitoring where lending is for relatively small amounts. This is because data needed to screen credit applications and to monitor borrowers are not freely available to banks.

Bankers face a situation of information asymmetry when assessing lending applications (Binks and Ennew, 1996, 1997). The information required to assess the competence and commitment of the entrepreneur, and the prospects of the business is either not available, uneconomic to obtain or difficult to interpret. This creates two types of risks for the Banker (Deakins, 1999). The risk of adverse selection which occurs when banks lend to businesses which subsequently fail (type II error), or when they do not lend to businesses which go on to become successful, or have the potential to do so (type I error) Altman (1971).

2.2.1 Transactions Costs Theory
First developed by Schwartz (1974), this theory conjectures that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit worthiness of their clients. Suppliers also have a better ability to monitor and force repayment of the credit. All these superiorities may give suppliers a cost advantage when compared with financial institutions.

Three sources of cost advantage were classified by Petersen and Rajan (1997) as follows: information acquisition, controlling the buyer and salvaging value from existing assets. The first source of cost advantage can be explained by the fact that sellers can get information about buyers faster and at lower cost because it is obtained in the normal course of business. That is, the frequency and the amount of the buyer’s orders give suppliers an idea of the client’s situation; the buyer’s rejection of discounts for early payment may serve to alert the supplier of a weakening in the credit-worthiness of the buyer, and sellers usually visit customers more often than financial institutions do.

2.3 Financial Performance Measures
According to Hermes and Lensink (2007), the financial systems approach, which emphasizes the importance of financial sustainable microfinance programs, is likely to prevail the
poverty lending approach. The argument is that microfinance institutions have to be financially sustainable in order to guarantee a large-scale outreach to the poor on a long-term basis. Measuring and comparing the performance of MFIs is difficult due to both a lack of publicly available financial information and differences in reporting in a mostly nonregulated industry. (Michael and Miles, 2007)

A myriad of financial ratios are available for assessing the performance of MFIs (CGAP 2003) The Seep Network and Alternative Credit Technologies, 2005) Although it is difficult to synchronize the different interpretations of all the ratios, they provide alternative perspectives in assessing the performance of MFIs for each of the domains namely, profitability, efficiency, leverage and risk. In essence, interpreting the determinants of MFIs financial performance due cognizance should be taken of the precise focus of each ratio.

### 2.3.1 Financial Profitability

Return on Assets (ROA) falls within the domain of performance measures and tracks MFIs' ability to generate income based on its assets. The ratio excludes non-operating income and donations. ROA provides a broader perspective compared to other measures as it transcends the core activity of MFIs namely, providing loans, and tracks income from operating activities including investment, and also assesses profitability regardless of the MFIs funding structure. ROA is expected to be positive as a reflection of the profit margin of the MFI, otherwise it reflects non-profit or loss. In banks and other commercial institutions, the commonest measures of profitability are Return on Equity (ROE), which measures the returns produced for the owners, and Return on Assets (ROA), which reflects that organization's ability to use its assets productively.

\[
ROE = \frac{\text{After-tax profits}}{\text{Starting (or period-average) equity}}
\]

\[
ROA = \frac{\text{After-tax profits}}{\text{Starting (or period-average) assets}}
\]
These are appropriate indicators for unsubsidized institutions. But donor interventions more typically deal with institutions that receive substantial subsidies, most often in the form of grants or loans at below-market interest rates. In such cases, the critical question is whether the institution will be able to maintain itself and grow when continuing subsidies are no longer available. To determine this, normal financial information must be “adjusted” to reflect the impact of the present subsidies. Three subsidy-adjusted indicators are in common use: Financial Self-sufficiency (FSS), Adjusted Return on Assets (AROA), and the Subsidy Dependence Index (SDI).

2.3.2 Efficiency

Efficiency of MFIs is measured by the share of operating expense to gross loan portfolio in most cases. The ratio provides a broad measure of efficiency as it assesses both administrative and personnel expense with lower values indicating more efficient operations.

\[
\text{Operating Expense Ratio} = \frac{\text{Personnel and administrative expense}}{\text{Period-average gross loan portfolio}}
\]

The debt equity ratio is a member of the asset/liability management ratios and specifically attempt to track MFIs leverage. This measure provides information on the capital adequacy of MFIs and assesses the susceptibility to crisis. Microfinance investors mainly rely on this ratio as it helps to predict probability of an MFI honoring its debt obligations. However its use should always be contextualized as high values could lead to growth of MFIs.

The Operating Expense Ratio is the most widely used indicator of efficiency, but its substantial drawback is that it will make an MFI making small loans look worse than an MFI making large loans, even if both are efficiently managed. Thus, a preferable alternative is a ratio that is based on clients served, not amounts loaned:

\[
\text{Cost per Borrower} = \frac{\text{Personnel and administrative expense}}{\text{Period-average number of active borrowers [x GNI per capita]}}
\]
If one wishes to benchmark an MFI’s Cost per Client against similar MFls in other countries, the ratio should be expressed as a percentage of per capita Gross National Income (which is used as a rough proxy for local labor costs).

2.3.3 Credit Risk Exposure
The credit risk exposure (CR) is measured by the sum of the level of loans past due 30 days or more and still accruing interest namely Portfolio at Risk (PAR-30). In robustness tests we include further measures of credit risk by estimating various econometric specifications for three additional different explanatory variables; the write-off ratio (WOR) which is the value of loans written off during the year as uncollectible, as a percentage of average gross loan portfolio over the year.

An additional measure of credit risk is the Risk Coverage Ratio (RC) which is measured as the Adjusted Impairment Loss Allowance/PAR>30 Days and finally Loan Loss Reserve Ratio (LLR). This is measured as the ratio of loan loss reserves to gross loans or simply put as Loan loss reserve/Value of loans outstanding. It is an indicator of how much of the gross loan portfolio has been provided for but not charged off. It is important to note that only WOR and LLR are measures of default, while PAR is a measure of risk of default.

2.4 Credit Management Variables
Key Credit management variables include;

2.4.1 Client Appraisal
The first step in limiting credit risk involves screening clients to ensure that they have the willingness and ability to repay a loan. Microfinance Institutions use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000). The 5Cs help MFIs to increase loan performance, as they get to know their customers better.

These 5Cs are: character, capacity, collateral, capital and condition. Character refers to the trustworthiness and integrity of the business owners. It’s an indication of the applicant’s willingness to repay and ability to run the enterprise. Capacity assesses whether the cash flow of the business (or household) can service loan repayments. Capital - Assets and liabilities of the business and/or household. Collateral - Access to an asset that the applicant is willing to cede in case of non-payment, or a guarantee by a respected person to repay a loan in
default. Conditions-A business plan that considers the level of competition and the market for the product or service, and the legal and economic environment. These 5Cs need to be included in the credit scoring model.

The credit scoring model is a classification procedure in which data collected from application forms for new or extended credit line are used to assign credit applicants to good or bad credit risk classes (Constantinescu et al., 2010). Inkumbi (2009) notes that capital (equity contributions) and collateral (the security required by lenders) as major stumbling blocks for entrepreneurs trying to access capital. This is especially true for young entrepreneurs or entrepreneurs with no money to invest as equity; or with no assets they can offer as security for a loan. Any effort to improve access to finance has to address the challenges related to access to capital and collateral.

One way to guarantee the recovery of loaned money is to take some sort of collateral on a loan. This is a straightforward way of dealing with the aspect of securing depositors' funds.

2.4.2 Credit Risk Controls
Key Credit controls include loan product design, credit committees, and delinquency management. (Churchill and Coster, 2001)

2.4.2.1 Loan product design.
MFIs can mitigate a significant portion of default risk by designing loan products that meet client needs. Loan product features include the loan size, interest rate and fees, repayment schedule, collateral requirements and any other special terms. Loan products should be designed to address the specific purpose for which the loan is intended.

2.4.2.2 Credit Committees
Establishing a committee of persons to make decisions regarding loans is an essential control in reducing credit (and fraud) risk. If an individual has the power to decide who will receive loans, which loans will be written off or rescheduled, and the conditions of the loans, this power can easily be abused and covered up. While loan officers can serve on the credit committee, at least one other individual with greater authority should also be involved. The credit committee has the responsibility not only for approving loans, but also for monitoring their progress and, should borrowers have repayment problems, getting involved in delinquency management.
2.4.2.3 Delinquency Management
To minimize such delinquency MFIs can use the following delinquency management methods Institutional Culture: A critical delinquency management method involves cultivating an institutional culture that embraces zero tolerance of arrears and immediate follow up on all late payments. MFIs can also remind clients who have had recent delinquency problems that their repayment day is approaching.

2.4.2.4 Client Orientation
A logical first step toward developing a zero-tolerance institutional culture is to communicate this concept to each new client before anybody receives a loan.

2.4.2.5 Staff Incentives
Creating staff involvement in discouraging delinquency, through a staff incentives system, can be effective. Delinquency Penalties: Clients should be penalized for late payment. This could include delinquency fees pegged to the number of days late and limiting access to repeat loans based on repayment performance.

2.4.2.6 Loan Rescheduling
Given the vulnerability of the target market, it is common for borrowers to be willing but unable to repay. After carefully determining that this is indeed the case it may be appropriate to reschedule a limited number of loans. Only done under extreme circumstances, this may involve extending the loan term and/or reducing the installment size.

2.4.3 Collection Policy
There are various policies that an organization should put in place to ensure that credit management is done effectively, one of these policies is a collection policy which is needed because all customers do not pay the firms bills in time. Some customers are slow payers while some are non-payers. The collection effort should, therefore aim at accelerating collections from slow payers and reducing bad debt losses (Kariuki, 2010)

2.5 Empirical Review
Pyle (1997), in his study on bank risk management held that banks and similar financial institutions need to meet forthcoming regulatory requirements for risk measurement and
capital. However, it is a serious error to think that meeting regulatory requirements is the sole or even the most important reason for establishing a sound, scientific risk management system. It was held, managers need reliable risk measures to direct capital to activities with the best risk/reward ratios. They need estimate of the size of potential losses to stay within limits imposed by readily available liquidity, by creditors, customers and regulators. They need mechanisms to monitor positions and create incentives for prudent risk taking by divisions and individuals.

Nagarajan (2001) in his study of risk management for microfinance institutions in Mozambique found that risk management is a dynamic process that could ideally be developed during normal times and tested at the wake of risk. It requires careful planning and commitment on part of all stakeholders. It is encouraging to note that it is possible to minimize risks related losses through diligent management of portfolio and cash-flow, by building robust institutional infrastructure with skilled human resources and inculcating client discipline, through effective coordination of stakeholders.

Achou and Tenguh (2008) also conducted research on bank performance and credit risk management found that there is a significant relationship between financial institutions performance (in terms of profitability) and credit risk management (in terms of loan performance). Better credit risk management results in better performance thus, it is of crucial importance that financial institutions practice prudent credit risk management and safeguarding the assets of the institutions and protect the investors interests. This is also true for micro finance institutions. Method used by the researchers is mixed research method.

Matu (2008) carried out a study on sustainability and profitability of microfinance institutions and noted that efficiency and effectiveness were the main challenges facing Uganda on service delivery. Soke Fun Ho and Yusoff (2009), in their study on credit risk management strategies of selected financial institutions in Malaysia the majority of financial institutions and banks losses stem from outright default due to inability of customers to meet obligations in relation to lending, trading, settlement and other financial transactions.

Credit risk emanates from a bank’s dealing with individuals, corporate, financial institutions or sovereign entities. A bad portfolio may attract liquidity as well as credit risk. The aim of credit
risk management is to maximize a bank’s risk-adjusted rate of return by maintaining credit risk exposure within acceptable boundary. The efficient management of credit risk is a vital part of the overall risk management system and is crucial to each bank’s bottom and eventually the survival of all banking establishments. It is therefore important that credit decisions are made by sound analyses of risks involved to avoid harms to bank’s profitability. They held effective management of credit risk is an essential component of a comprehensive technique to risk management and critical to the long-term success of all banking institutions.

Oral (2009) did a study on the relationship between capital structure and financial performance of microfinance institutions in Uganda it revealed that short-term debt significantly impacted MFI outreach positively. Long term debt however showed positive relationship with outreach but was not significant with regard to default rates, both short and long term debts showed expected results but were not significant indicating that maturity may not necessarily be of essence. Generally highly leveraged MFIs were found to perform better by reaching out to more clients. It was also revealed that such MFIs also enjoyed economies of scales and therefore were better able to deal with moral hazards and adverse selections which also enhanced their ability to manage risks.

Sindani (2012) in her study on Effectiveness of Credit Management System on Loan Performance: Empirical Evidence from Micro Finance Sector in Uganda found out that Credit terms formulated by the microfinance institutions do affect loan performance. The involvement of credit officers and customers in formulating credit terms affects loan performance. Interest rates charged had a negative effect on the performance of the loans, the higher the interest rates the lower the loan performance.

Credit risk controls adopted by microfinance institutions have an effect on loan performance, credit insurance, signing of covenants with customers, diversification of loans, credit rating of customers, reports on financial conditions, refrain from further borrowing had an effect on loan performance. Collection policies adopted by microfinance institution had an effect on loan performance, stringent policy had a great impact on loan performance, and the lenient policy had an effect but was not as great as that of stringent policy.
Wangechi (2012) in her study on Factors influencing sustainability of microfinance institutions in Kenya studied Kenya Women Finance Trust and found out that the quality of service delivered influenced KWFT Sustainability by attracting new customers through word of mouth advertising, improving on the reputation of the organization, improving financial performance and profitability, lowering operating costs and also increased customer retention rates hence boosting the overall quality of the organization.

She also found out that staff competencies contributed to increased efficiency and that training boost employees morale hence sustainability and that the staffs at KWFT had all the needed skills to effectively carry their duties efficiently and that lack of training attributed to poor performance of KWFT. The study concluded that the level of education of the staff contributed to increased efficiency at KWFT.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design
The study adopted descriptive survey design. Descriptive research was used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation. The technique was appropriate as it involved a careful in depth study and analysis on the effect of credit management on the financial performance of PMFIs in Uganda.

3.2 Target Population
The population of study consisted of 59 respondents that are the members of PMFIs from which 53 respondents was selected and questionnaire was administered to them for filling, census study was also used to carry out the research.

3.3 Determination of Sample size
The total 53 respondents was used in this study in line with Krejcie and Morgan (1970) table guide for the sample determination which states that the sample will always be selected as the representative of the total population. Random sampling was also used to collect data from several branches as shown in table below.

<table>
<thead>
<tr>
<th>Branches</th>
<th>Population</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>kabala gala</td>
<td>29</td>
<td>28</td>
</tr>
<tr>
<td>Kampala city</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>Bukoto</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Ibanda</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>59</td>
<td>53</td>
</tr>
</tbody>
</table>

3.4 Data Collection instruments
Data collection instruments that were used are questionnaire, annual reports and financial statements on record and data from the Mix market. Primary data was collected using
questionnaire where all the issues on the questionnaire were addressed. Secondary data was also collected from annual reports and financial statements on record as at 31st December 2012.

The secondary data from the financial statements includes the after tax profit, total assets, written off debt, and value of loans outstanding. The research was administered by use questionnaires to each respondent in the study. The questionnaire had both open and close-ended questions.

The closed ended questions was used to test the rating of various attributes and this helped in reducing the number of related responses in order to obtain more varied responses. Semi structured interview refers to the use of already prepared questions during the study (Shenghverzy, 2003).

The open-ended questions provided additional information that may not have been captured in the close-ended questions.

3.5 Data Source
Primary data was collected using a questionnaire to obtain perceptions of respondents. Secondary data was also reviewed using data sources which include KIU library reading materials, World Bank journals, publications and research journals.

3.6 Data Validity and Reliability
The reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials. Although unreliability was always present to a certain extent, there was generally a good deal of consistency in the results of a quality instrument to gathered data at different times. The tendency toward consistency found in repeated measurements is referred to as reliability (Carmines and Zeller, 1979)

One method of testing for reliability is the internal consistency method. The internal consistency method provides a unique estimate of reliability for the given test administration. The most popular internal consistency reliability estimate is given by Cronbach’s alpha. It is expressed as $\alpha = \frac{Np}{1 + p(N-1)}$ Where $N$ equals the number of items and $p$ equals the mean interitem correlation.
Validity is defined as the extent to which the instrument measures what it is designed to measure (Allen and Yen, 1979). Content validity pertains to the degree which the instrument fully assesses or measure the construct of interest. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data was collected for the study.

3.7 Data Analysis
The data that was collected through questionnaire was tabulated and analyzed using the Statistical Package for the Social Sciences (SPSS) software package these includes mean and standard deviations. Descriptive statistics was used to analyze data. Furthermore, descriptions were made based on the results of the tables.
CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Data Analysis

4.1.1 General Information

Table 1: 4.1: Period within which PMFI had been in existence

<table>
<thead>
<tr>
<th>Period of time</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>10</td>
<td>18.9</td>
</tr>
<tr>
<td>Between 5 to 10 years</td>
<td>20</td>
<td>37.7</td>
</tr>
<tr>
<td>Between 10 to 15 years</td>
<td>15</td>
<td>28.3</td>
</tr>
<tr>
<td>Between 10 to 15 years</td>
<td>8</td>
<td>15.1</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100</td>
</tr>
</tbody>
</table>

The study sought to establish the length of time which the MFI s had been in existence in the organization, from the findings 37.7% of the respondents indicated 5 to 10 years 28.3% of the respondents indicated 10 to 15 years 18.9% of the respondents indicated less than 5 years whereas 15.1% of the respondents indicated for more than 15 years this implies that most of the MFIs had been in existence for 5 to 10 years.
Table 2: 4.2: Adoption of Credit Management Practices

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>46</td>
<td>86.8</td>
</tr>
<tr>
<td>No</td>
<td>7</td>
<td>13.2</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research findings 2016

The study sought to determine the organizations that had adopted Credit Management practices. From the findings 86.8% of the respondents indicated that their organizations had adopted Credit Management practices, whereas 13.2% indicated that their organizations had not, this implies that a significant number of organizations had adopted the use Credit Management practices.

Table 3: 4.3: Clients the organization has

<table>
<thead>
<tr>
<th>Number of clients</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 100 clients</td>
<td>10</td>
<td>18.9</td>
</tr>
<tr>
<td>Between 100 to 250 Client</td>
<td>15</td>
<td>28.3</td>
</tr>
<tr>
<td>Between 250 to 500 clients</td>
<td>23</td>
<td>43.4</td>
</tr>
<tr>
<td>above 500 clients</td>
<td>5</td>
<td>9.4</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research findings 2016

The study sought to determine the number of clients the organization had, from the findings 43.4% of the respondents indicated that their organization had Between 250 to 500 clients 28.3% of the respondents indicated that their organization had Between 100 to 250 Clients 18.9% of the respondents indicated that their organization had Less than 100 clients whereas 9.4% of the respondents indicated that their organization above 500 clients this implies that majority of the organizations featured in this study had Between 250 to 500 clients.
4.2.2 Client Appraisal

Table 4: Extent to which PMFI use client appraisal in Credit Management

<table>
<thead>
<tr>
<th>Number of clients</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>19</td>
<td>35.8</td>
</tr>
<tr>
<td>Great extent</td>
<td>24</td>
<td>45.3</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>10</td>
<td>18.9</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research findings 2016

The study sought to determine the extent to which PMFIs used client appraisal in Credit Management, from the findings 45.3% of the respondents indicated to a great extent, 35.8% of the respondents indicated to a very great extent whereas 18.9% of the respondents indicated to a moderate extent, this implies that most PMFIs used client appraisal in Credit Management to a great extent.
Table 5: 4.5: Level of agreement on client appraisal in MFIs

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Mean</th>
<th>Std dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client appraisal is a viable strategy for credit management.</td>
<td>21</td>
<td>30</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1.70</td>
<td>0.26</td>
</tr>
<tr>
<td>The MFI has competent personnel for carrying out client appraisal.</td>
<td>16</td>
<td>33</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>1.77</td>
<td>0.27</td>
</tr>
<tr>
<td>Client appraisal considers the character of the customers seeking credit facilities</td>
<td>15</td>
<td>36</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1.75</td>
<td>0.29</td>
</tr>
<tr>
<td>Aspects of collateral are considered while appraising clients</td>
<td>18</td>
<td>32</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>1.72</td>
<td>0.27</td>
</tr>
<tr>
<td>Failure to assess customers capacity to repay results in loan defaults</td>
<td>16</td>
<td>35</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1.74</td>
<td>0.29</td>
</tr>
</tbody>
</table>

Source: Research findings

The study sought to establish the level at which respondents agreed or disagreed with the above statements relating to client appraisal in MFIs, from the findings majority of them respondents agreed that Client appraisal is a viable strategy for credit management as shown by a mean of 1.70, Aspects of collateral are considered while appraising clients as shown by a mean of 1.72, Failure to assess customers capacity to repay results in loan defaults as shown by a mean of 1.74, Client appraisal considers the character of the customers seeking credit facilities as shown by a mean of 1.75 and that the MFIs have competent personnel for carrying out client appraisal as shown by a mean of 1.77.
### 4.2.3 Credit Risk Controls

**Table 6: Extent to which PMFI use credit risk control in Credit Management**

<table>
<thead>
<tr>
<th>Number of clients</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>15</td>
<td>28.3</td>
</tr>
<tr>
<td>Great extent</td>
<td>30</td>
<td>56.6</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>8</td>
<td>15.1</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research findings 2016

The study sought to determine the extent to which PMFIs used credit risk control in Credit Management, from the findings 56.6% of the respondents indicated to a great extent, 28.3% of the respondents indicated to a very great extent whereas 15.1% of the respondents indicated to a moderate extent, this implies that PMFIs used credit risk control in Credit Management to a great extent.

**Table 7: Level of agreement on credit risk control in PMFIs**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imposing loan size limits is a viable strategy in credit management</td>
<td>22</td>
<td>28</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td></td>
<td>1.6</td>
</tr>
<tr>
<td>The use of credit checks on regular basis enhances credit management</td>
<td>17</td>
<td>30</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td></td>
<td>1.7</td>
</tr>
<tr>
<td>Flexible repayment periods improve loan repayment</td>
<td>14</td>
<td>37</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td></td>
<td>1.7</td>
</tr>
<tr>
<td>Penalty for late payment enhances customers commitment to loan repayment</td>
<td>20</td>
<td>32</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td></td>
<td>1.6</td>
</tr>
</tbody>
</table>
The use of customer credit application forms improves monitoring and credit management as well, as shown by a mean 1.66, and that the use of credit checks on regular basis enhances credit management as shown by a mean 1.79.

| Source: Research Findings 2016 |

4.2.4 Collection policy

Table 8: 4.8: Extent to which MFI use collection policy in Credit Management

<table>
<thead>
<tr>
<th>Number of clients</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>18</td>
<td>34.0</td>
</tr>
<tr>
<td>Great extent</td>
<td>32</td>
<td>60.4</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>3</td>
<td>5.7</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research findings 2016
The study sought to determine the extent to which PMFIs use collection policy in Credit Management, from the findings 60.4% of the respondents indicated to a great extent, 34.0% of the respondents indicated to a very great extent whereas 5.7% of the respondents indicated to a moderate extent, this implies that MFIs use collection policy in Credit Management to a great extent.

Table 9: 4.9: Level of agreement on collection policy of MFIs

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Mean</th>
<th>Std dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available collection policies have assisted towards effective credit management</td>
<td>12</td>
<td>35</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>1.8</td>
<td>0.27</td>
</tr>
<tr>
<td>Formulation of collection policies have been a challenge in credit management</td>
<td>36</td>
<td>10</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>1.4</td>
<td>0.28</td>
</tr>
<tr>
<td>Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults</td>
<td>33</td>
<td>10</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>1.5</td>
<td>0.25</td>
</tr>
<tr>
<td>Staff incentives are effective in improving recovery of delinquent loan</td>
<td>22</td>
<td>30</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1.6</td>
<td>0.27</td>
</tr>
<tr>
<td>Regular reviews have been done on collection policies to improve state of credit management.</td>
<td>15</td>
<td>35</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>1.7</td>
<td>0.28</td>
</tr>
<tr>
<td>A stringent policy is more effective in debt recovery than a lenient policy</td>
<td>17</td>
<td>36</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.6</td>
<td>0.30</td>
</tr>
</tbody>
</table>

Source: Research findings 2016

The study sought to establish the level at which respondents agreed or disagreed with the above statements relating to collection policy of PMFIs. From the findings majority of the respondents strongly agreed that formulation of collection policies have been a challenge in credit management as shown by a mean of 1.45 others agreed that enforcement of guarantee policies
provided chances for loan recovery in case of loan defaults as shown by a mean of 1.57, staff incentives are effective in improving recovery of delinquent loans as shown by a mean of 1.60, a stringent policy is more effective in debt recovery than a lenient policy as shown by a mean of 1.68. Regular reviews have been done on collection policies to improve state of credit management as shown by a mean of 1.77, and available collection policies have assisted towards effective credit management as shown by a mean of 1.89.

4.2.5 Regression Analysis

Table 10: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R square</th>
<th>Adjusted Square</th>
<th>R</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.892(a)</td>
<td>0.796</td>
<td>0.761</td>
<td>0.2467</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research findings 2016

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.761 an indication that there was variation of 76.1% on financial performance of PMFIs in Uganda due to changes in client appraisal, credit risk control and collection policy at 95% confidence interval. This shows that 76.1% changes in financial performance of PMFIs could be accounted for by client appraisal, credit risk control and collection policy. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.892.
Table 11: 4.11: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>0.896</td>
<td>4</td>
<td>0.224</td>
<td>2.213</td>
<td>0.012(a)</td>
</tr>
<tr>
<td>Residual</td>
<td>5.184</td>
<td>48</td>
<td>0.108</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6.08</td>
<td>52</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research findings 2016

From the ANOVA statistics in the table above, the processed data, which is the population parameters, had a significance level of 0.012 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The calculated value was greater than the critical value (1.699 < 2.213) an indication that client appraisal, credit risk control and collection policy significantly influence financial performance of PMFs in Uganda. The significance value was less than 0.05 an indication that the model was statistically significant.

Table 12: 4.12: Coefficients

<table>
<thead>
<tr>
<th>Mode 1</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>Constant</td>
<td>0.218</td>
<td>0.141</td>
<td>1.608</td>
</tr>
<tr>
<td></td>
<td>Client Appraisal</td>
<td>0.239</td>
<td>0.165</td>
<td>0.205</td>
</tr>
<tr>
<td></td>
<td>Credit risk control</td>
<td>0.392</td>
<td>0.271</td>
<td>0.027</td>
</tr>
<tr>
<td></td>
<td>Collection policy</td>
<td>0.284</td>
<td>0.157</td>
<td>0.413</td>
</tr>
</tbody>
</table>

Source: Research findings 2016
From the data in the above table the established regression equation was

\[ Y = 0.218 + 0.239X_1 + 0.392X_2 + 0.284X_3 \]

From the above regression equation it was revealed that holding client appraisal, credit risk control and collection policy to a constant zero, financial performance of PMFIs would be 0.218, a unit increase in client appraisal would lead to increase in performance of PMFIs in Uganda by a factor of 0.239, a unit increase in credit risk control would lead to increase in performance of PMFIs in Uganda by a factor of 0.392 and also unit increase in collection policy would lead to increase in performance of PMFIs by a factor of 0.284.

The study also found that all the p-values were less than 0.05 an indication that all the variables were statistically significant in influencing financial performance of PMFIs in Uganda.
CHAPTER FIVE

SUMMARY, INTERPRETATION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Summary

The study revealed that MFIs use client appraisal in Credit Management to a great extent. Further it established that client appraisal is a viable strategy for credit, Aspects of collateral are considered while appraising clients, failure to assess customer’s capacity to repay results in loan defaults, client appraisal considers the character of the customers seeking credit facilities and that PMFIs have competent personnel for carrying out client appraisal.

The study established that PMFIs use credit risk control in Credit Management to a great extent. The study further established that interest rate charged affects performance of loans in the PMFI, Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk, the use of credit checks on regular basis enhances credit management, Penalty for late payment enhances customers commitment to loan repayment, the use of customer credit application forms improves monitoring and credit management, flexible repayment periods improve loan repayment and finally that the use of credit checks on regular basis enhances credit management.

The study revealed that PMFIs use collection policy in Credit Management to a great extent. Formulation of collection policies have been a challenge in credit management, enforcement of guarantee policies provides chances for loan recovery in case of loan defaults, Staff incentives are effective in improving recovery of delinquent loans, a stringent policy is more effective in debt recovery than a lenient policy, regular reviews have been done on collection policies to improve state of credit management, and finally that available collection policies have assisted towards effective credit management.

5.1 Interpretation of Findings

From the findings as shown in Table 4.10, the value of adjusted R squared was 0.761 an indication that there was variation of 76.1% on financial performance of PMFIs in Uganda due to
changes in client appraisal, credit risk control and collection policy at 95% confidence interval. R is the correlation coefficient which shows the relationship between the study variables, there was a strong positive relationship between the study variables as shown by 0.892.

From research finding as shown on Table 4.11, the calculated value was greater than the critical value (1.699 < 2.213) an indication that client appraisal, credit risk control and collection policy significantly influence financial performance of PMFIs in Uganda. The significance value was of 0.012 which was less than 0.05 an indication that the model was statistically significant.

The regression equation established from table 4.12 indicated that that holding client appraisal, credit risk control and collection policy to a constant zero, financial performance of MFIs would be 0.218, a unit increase in client appraisal would lead to increase in performance of PMFIs in Uganda by a factor of 0.239, a unit increase in credit risk control would lead to increase in performance of PMFIs in Uganda by a factor of 0.392 and also unit increase in collection policy would lead to increase in performance of PMFIs by a factor of 0.284. The significance of the variables was supported by the t values whose significance values were less than 0.05 which indicates that the variables were statistically significant in influencing financial performance of PMFIs in Uganda.

5.2 Conclusion

From the findings, the study found that client appraisal; credit risk control and collection policy had effect on financial performance of PMFIs. The study established that there was strong relationship between financial performance of MFIs and client appraisal, credit risk control and collection policy.

The study revealed that a unit increase in client appraisal would lead to increase in financial performance of MFIs in Uganda; this is an indication that there was positive association between client appraisal and financial performance of PMFIs, an increase in credit risk control would lead to increase in financial performance of PMFIs in Uganda, which shows that there was positive relationship between financial performance of PMFIs and credit risk control and a unit increase in collection policy would lead to increase in performance; this is an indication that there was a positive relationship between financial performance of PMFIs and collection policy. Client
appraisal, credit risk control and collection policy significantly influence financial performance of PMFs in Uganda.

5.3 Recommendations for Policy
The study recommends that MFIs should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery.

The study also recommends that there is need for PMFs to enhance their client appraisal techniques so as to improve their financial performance. Through client appraisal techniques, the PMFs will be able to know credit worth clients and thus reduce their non-performing loans.

There is also need for PMFs to enhance their credit risk control this will help in decreasing default levels as well as their non-performing loans. This will help in improving their financial performance.
Areas for further research

1. Further research should also be done on the relationship between credit management and nonperforming loans on Microfinance Institutions in Uganda and on the reasons for loan default in microfinance organizations from the client's perspective.

2. Further research is recommended on the effect of Credit Reference Bureaus on loan performance in microfinance institutions in Uganda.
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APPENDICES

APPENDIX I: QUESTIONNAIRE

Part A: General Information

1. For how long has your MFI been in existence?
   Less than 5 years [ ]
   Between 5 to 10 years [ ]
   Between 10 to 15 years [ ]
   Above 15 years [ ]

2. Has your organization adopted Credit Management Practices?
   Yes [ ]
   No [ ]

3. How many clients does your organization have?
   Less than 100 clients [ ]
   Between 100 to 250 clients [ ]
   Between 250 to 500 clients [ ]
   Above 5000 clients [ ]

Part B: Credit Risk Management Practices

CLIENT APPRAISAL

4. To what extent does the MFI use client appraisal in Credit Management?
   Very great extent [ ]
   Great extent [ ]
   Moderate extent [ ]
   Low extent [ ]
   Not tall [ ]
5. What is your level of agreement on the following statements relating to client appraisal in MFIs?

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client appraisal is a viable strategy for credit management.</td>
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<td>The MFI has competent personnel for carrying out client appraisal.</td>
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<td>Client appraisal considers the character of the customers seeking credit facilities</td>
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<td>Aspect of collateral are considered</td>
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36
while appraising clients

<table>
<thead>
<tr>
<th>Failure to assess customers capacity to repay results in loan</th>
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**CREDIT RISK CONTROL**

6. To what extent does the MFI use credit risk control in Credit Management?

- Very great extent [ ]
- Great extent [ ]
- Moderate extent [ ]
- Low extent [ ]
- Not at all [ ]
7. What is your level of agreement on the following statements relating to credit risk control in MFIs?

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
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</thead>
<tbody>
<tr>
<td>Imposing loan size limits is a viable strategy in credit management</td>
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<td>The use of credit checks on regular basis enhances credit management</td>
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<td>Flexible repayment periods loan repayment.</td>
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<td>Penalty for late payment enhances customers commitment to loan repayment</td>
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<td>The use of customer credit application forms improves monitoring and credit management as well.</td>
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<td>Credit committees involvement in making decisions regarding loans are essential in reducing default / credit risk</td>
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<td>Interest rates charged affect performance of loans in the MFI</td>
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**COLLECTION POLICY**

8. To what extent does the MFI use collection policy in Credit Management?

- Very great extent
  - [ ]
- Great extent
  - [ ]
9. What is your level of agreement on the following statements relating to MFIs?

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
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<tr>
<td>Available collection policies have assisted towards effective credit management.</td>
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<td>Enforcement of guarantee policies</td>
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<td>provides chances for loan recovery in case of loan defaults</td>
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<td>------------------------------------------------------------</td>
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<td>Staff incentives are effective in improving recovery of delinquent loans.</td>
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<tr>
<td>Regular reviews have been done on collection policies to improve state of credit management.</td>
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<td>A stringent policy is more effective in debt recovery than a lenient policy</td>
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