CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF BRAC MICROFINANCE KIBULI, MAKINDYE DIVISION KAMPALA UGANDA

BY

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION ACCOUNTING AND FINANCE
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DECLARATION

I, Birungi Shamsah Abdallah, declare that the content of this research report is as a result of my original work and has been submitted for my academic award and it has never been submitted in this university or any other institution of higher learning.

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Date : 25th/02/2019

APPROVAL

I do hereby certify that this research report has been submitted in partial fulfillment of the requirements for the degree in Bachelor of business administration accounting and finance of Kampala International University Uganda, with my approval as a supervisor.

Sign: .... **Date:** 25-2-2019

Dr. Kirabo K. B. Joseph
(Academic Supervisor)

DEDICATION

Firstly I thank ALLAH for everything and also send peace and blessings to Prophet Muhammad (peace be upon him). I dedicate my research report to my lovely parents especially my mother Mrs. Zainabu Kadir and father Mr. Abdallah Islam for their commitment in educating me and unconditional support through this journey. I also dedicate this report to Ndutiye Ramadthan someone very important for his unconditional love and support towards my study and success not forgetting swabra, Karim, Aunt Aisha, aunt salama, uncle rajabu, uncle Amir, Uncle Ahmed, Uncle Shaban, uncle haruna and my sisters shakila and razia. Lastly I dedicate this report to my supervisor Dr. Kirabo. K. B. Joseph for all the support and assistance throughout my research.

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ABSTRACT

The study concerning the findings on the effect of credit risk management on the financial performance of Brac Microfinance. The study objectives were to investigate the relationship credit risk identification on the financial performance, to establish the relationship between credit risk monitoring and assess the relationship credit risk analysis on the financial performance of equity bank Uganda. The study was conducted from 30 respondents who were the employees of Brac Microfinance. The data was collected using closed ended questionnaires were data, the research was entirely a descriptive research design based on quantitative research. The study findings reveal that credit risk management had a significant contribution to financial performance. The study conclude that credit risk identification was low though with a significant effect on financial performance, the study conclude that risk identification need enhancement through improving forecasting improvements. The study on the second objective the study conclude that the credit risk analysis contribute significantly to financial performance of the banks, the study conclude that risk analysis has to be improved in the mechanisms to enhance financial performance and operations. On the third objective the study conclude that credit risk monitoring can generate financial performance of the bank, whereas the financial performance of the bank seemed relevant and significant, credit risk management is low that call for an enhancement of the staff and the instruments used in improving credit risk management to generate financial performance. The study recommends that bank's top management and board of directors must base their investment decisions primarily on risk management. They must use detailed information on integrated risk management at their company and weigh these risks against those of new investments. There is need for improving the financial performance of the commercial bank in the extent that customer base can be improved. There is need for strong cost reduction by management through credit risk analysis so as to save on the finances lost through operations that are not effectively guided in work to improve financial soundness of the commercial bank.

CHAPTER ONE
INTRODUCTION

1.0 Introduction

This chapter presents background of the study, statement of the problem, purpose of the study objectives, research questions, scope of the study and significance of the study and conceptual framework.

1.1.1 Background to the Study

The background of the study focused on historical, theoretical, conceptual and contextual perspective. The analysis of the background will take these different perspectives.

1.1.1 Historical Perspective

Credit risk management is an international aspect employed by financial institutions in the bid to reduce risks in the management of credit. On the international context on the global agenda organizations including the Microfinance across the globe. The research conducted by Benedikt, Ian, Judit, & Wolf (2007) studied the credit risk management policies for ten microfinance in the United States and found that advance credit risk management techniques (proxies by at least one collateralized loan) help permanent to achieve their target in loan level. A study conducted by Kuo& Enders (2014) of credit risk management policies for state microfinance in China and found that mushrooming of the financial market; the state owned Microfinance in China are faced with the unprecedented challenges and tough for them to compete with foreign microfinance unless they make some thoughtful change. In this thoughtful change, the reform of credit risk management is a major step that determines whether the state owned microfinance in China would survive the challenges or not. Research however faults some of the credit risk management policies in place The broad framework and detailed guidance for credit risk assessment and management is provided by the Basel New Capital Accord which is now widely followed internationally (Campbell, 2007). Most countries are implementing the 'better wait' and gradual approaches, in the face of huge challenges posed by Basel II. Significant number of countries has it in mind to suspend execution of Basel II or decide on simple approaches for determining credit risk (Gottschalk, 2007).

On the African continent Risk is inherent in all aspects of a commercial operation. However, for Microfinance and financial institutions, credit risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the microfinance's dealings with or lending to corporate, individuals, and other microfinance or financial institutions. Credit risk management needs to be a robust process that enables microfinance to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders. It is essential for microfinance having robust credit risk management policies and procedures that are sensitive and responsive to these changes (Chodechai, 2004). National Microfinance of Ethiopia, Ghana, South Africa issued guidelines on the Credit risk management function and it emphasizes on Policy guidelines, organizational structure and responsibility and procedural guidelines. Credit risk arises from nonperformance by a borrower. It may arise from either an inability or an unwillingness to perform in the pre-commitment contracted manner. The credit risk of a microfinance is also effect the book value of a microfinance. The more credit of a particular is in risk, the more probability of microfinance to be insolvent. Therefore, the status of depositor in the microfinance is at risk and probability of incurring loss from their deposited value (Chirwa, 2011).

Credit risk management in Ugandan organizations especially in the financial institutions sector is existence but still low, the Microfinance have performed with though much losses in their operations. In Uganda, the factors responsible for poor corporate performance especially in microfinance emanate from credit risks issues such as lack of transparency, accountability and poor ethical conduct (Kibirango, 1999). Financial institutions failures have been linked to self-inflicted causes resulting from microfinance owners; ICB(International Credit Microfinance), GBL(Greenland Microfinance), and Coop Microfinance were afflicted with the one-man management syndrome of corporate governance exemplified by Thomas Kato (ICB), Sulaiman Kiggundu (GBL) and USAID (Co-op Microfinance). There was no separation between senior management and the board of directors in ICB or GBL and that management took little account of depositor's interests.

1.1.2 Theoretical Perspective

The study will be based on the modern Portfolio Theory a hypothesis put forth by Harry Markowitz in his paper "Portfolio Selection is an investment theory based on the idea that risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward. It is one of the most important and influential economic theories dealing with finance and investment. The theory suggests that it is possible to construct an "efficient frontier" of optimal portfolios, offering the maximum possible expected return for a given level of risk. It suggests that it is not enough to look at the expected risk and return of one particular stock. By investing in more than one stock, an investor can reap the benefits of diversification, particularly a reduction in the riskiness of the portfolio. MPT quantifies the benefits of diversification, also known as not putting all of your eggs in one basket. The risk in a portfolio of diverse individual stocks will be less than the risk inherent in holding any one of the individual stocks (provided the risks of the various stocks are not directly related). Consider a portfolio that holds two risky stocks: one that pays off when it rains and another that pays off when it doesn't rain. A portfolio that contains both assets will always pay off, regardless of whether it rains or shines. Adding one risky asset to another can reduce the overall risk of an all-weather portfolio.

1.1.3 Conceptual Perspective

Mwisho(2011) define credit risk as the risk of losses caused by the default of borrowers. Default occurs when a borrower cannot meet his financial obligations. Credit risk can alternatively be defined as the risk that a borrower deteriorates in credit quality. Nelson (2002 Credit management as simply the means by which an entity manages its credit sales. It is a prerequisite for any entity dealing with credit transactions since it is impossible to have a zero credit or default risk. Credit risk management in this study is conceptualized as risk identification, risk monitoring and loans approval assessment. Risk identification refers to the process of identifying dangerous or hazardous situations and trying to characterize it. It is a procedure to deliberately analyze, review and anticipate possible risks (Barton, 2012).

Financial performance in terms of how well an organization accomplishes its objectives. It point out that performance refers to the quality and quantity of individual or group work achievement.

In this study performance is conceptualized through profitability, market growth and turnover. Financial Performance of an organization can be described in various form, such as; return on assets, return on sales, return on equity, return on investment, return on capital employed and sales growth. It is also a measure of the excess value a company has provided to its shareholders over the total amount of their investments.

1.1.4 Contextual Perspective

Credit risk management being an important aspect for any organization still lag behind in Ugandan sector given that most employees in the country stay in the prevalence of an environment supported by mixed managerial capabilities with limited regulations especially for the credit (Powell, Benjamin, Nowrasteh, 2012).

In Uganda, the lack of regulation and supervision of financial institutions presents a formidable barrier for financial institutions to improve operations and compliance. In the Somali context, it will be important that key financial institutions are engaged in structuring the transitional arrangements from informality (unregulated and unsupervised provision of financial services) to a formal business environment. For instance, the central microfinance needs to begin to provide inter-microfinance payment and settlement services to financial institutions and the government by acting as the microfinance of microfinance and cashier of the government and ensuring that the discharge of inter-microfinance payment obligations takes place across the settlement accounts of financial institutions maintained with the central microfinance in order to ensure settlement finality (Powell, Benjamin, Nowrasteh, 2012).

The Uganda financial sector is largely unregulated and unsupervised and recently has come under an unyielding threat of being cut off from the global financial system. Legal and regulatory weaknesses limit the institutional effectiveness of the central Microfinance to regulate and supervise financial institutions (Turyahebwa, 2013). Although the authorities in Uganda have enacted central microfinance acts and financial institutions laws, the Uganda financial sector remains unsupervised. Informal and unregulated provision of financial services is the norm in Uganda. Some of these financial institutions also act as quasi-micro-financing institutions facilitating the transfer of funds within the region, ensuring the transfer of funds for domestic and foreign trade and offering deposit and credit facilities. For this reason, the formalization approach for Uganda financial institutions (that is, regulation and supervision) will need to be graduated and well-ordered taking into consideration needs for orderly entry and exist in a formal and regulated business environment for financial services, including proper unwinding of problematic and unfit activities by financial institutions.

1.2 Problem Statement

Credit risk management in the financial institutions is fundamental and contributes highly to the safety and financial soundness of an organization. The financial institutions that have managed the credit in the organizations have attained high financial performance results in operations. In Uganda microfinance that have set high credit risk management are performing well (Turyahebwa, 2013). The performance of microfinance in Uganda is generally fair with the closure of Crane microfinance in October 2016 bringing shock to the economy given that it was the second largest microfinance in the economy (BOU, 2017). Brac microfinance performance is considerably low given the limited branch network in the upcountry. The microfinance low financial base has frustrated its expansion to many parts of Uganda with the microfinance currently only having 38 branches (Vision Reporter, 2017). The poor credit risk management in the microfinance has grossly contributed to loss of finance that made the microfinance (equity) to further inject more cash into the microfinance in 2018 (Juma, 2018). The credit risks management issues in the microfinance have caused financial performance constraints implying that failure to address can lead to the collapse of the financial performance of the microfinance. It was based on this that the researcher intends to conduct a study on credit risk management on financial performance of Brac Kibuli Kampala in order to boost financial performance.

1.3 Purpose of the study

The general objective of the study was to assess the effect of credit risk management on financial Performance of Microfinance institutions in Uganda: A Case of Brac microfinance.

1.4 Specific Research objectives

(i) To investigate the relationship credit risk identification and the financial performance of Brac microfinance Uganda

(ii) To establish the relationship between credit risk monitoring and the financial performance of Brac microfinance Uganda (iii)To assess the relationship credit risk analysis between the financial performance of Brac microfinance Uganda

1.5 Research Questions

(i) What is the relationship between credit risk identification and financial performance of Brac microfinance Uganda?

(ii) What is the relationship between credit risk monitoring and financial performance of Brac microfinance Uganda?

(iii) What is the relationship between of credit risk analysis and the financial performance of Brac microfinance Uganda?

1.6 Research Hypothesis

There is a significant relationship between of credit risk analysis and the financial performance of Brac microfinance Uganda.

1.7 Scope of the study

1.7.1 Subject Scope

The study focused on credit risk management on the avenues of risk identification, monitoring and risk analysis on financial performance of the Brac microfinance. The focus areas provide an avenue for assessing the constructs influence financial performance.

1.7.2 Geographical Scope

The study was conducted in Brac microfinance located in Kibuli, the study area. The study will be based on the study given that the area of the study contains the study environment for the study.

1.7.3 Time scope

The study took a period of 4 months from October 2018 to February 2019. The study will consider a period of 3 years considering the time from 2015 to 2018.The time chosen is sufficient to enable the researcher collect reliable information for the study in three years since it is the time when the microfinance experienced difficulty in financial performance.

1.8 Significance of the study

The study will help the government in policy making regarding taxation and other regulatory requirements of the commercial microfinance. To the researchers and academicians, the study will provide a useful basis upon which further studies on credit risk management practices in the private sector can be conducted

The study will improve not only researcher's scope of understanding credit risk management but also entire public hence gain exposure to the microfinacing industry. The dissertation will be used as reference material by future researchers interested in further research on credit risk management and its effects on financial performance of financial institutions.

This study will make 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 expected that it will aid policy makers in their effort to revamp the sector. It shall be of great relevance to the organizations under study as well as other financial institutions.

1.9 Operational Definitions of key terms

Nelson (2002) defined credit management as simply the means by which an entity manages its credit sales. It is a prerequisite for any entity dealing with credit transactions since it is impossible to have a zero credit or default risk. Credit risk management in this study is conceptualized as risk identification, risk monitoring and risk analysis.

Financial Performance of an organization can be described in various forms, such as; return on assets, return on sales, return on equity, return on investment, return on capital employed and sales growth. It is also a measure of the excess value a company has provided to its shareholders over the total amount of their investments.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter shows what other scholars have written about the credit risk management and the financial performance of Microfinance institutions. This chapter is present the empirical review of literature based on the credit risk management and financial performance, theoretical review, related literature based on the objectives and summary of literature.

2.1 Theoretical Review

Modern Portfolio Theory (MPT) proposes how rational investors should use diversification in order to optimize their portfolios. It also discusses how a risky asset should be priced. This does not mean that the early economists ignored financial markets. Fisher (1930) had already outlined the basic functions of credit markets for economic activity, specifically as a way of allocating resources over time and had recognized the importance of risk in the process. In developing their theories of money, Maynard (1936), Nicholas (1939) had already conceived of portfolio selection theory in which uncertainty played an important role

However, for many economists during this early period, financial markets were still regarded as mere casinos rather than markets properly speaking. In their view, asset prices were determined largely by expectations and counter-expectations of capital gains and thus they were held up by their own bootstraps as it were. John Maynard Keynes's beauty contest analogy is representative of this attitude (Maynard 1936).

As such, a good amount of ink was spent on the topic of speculative activity (i.e. the purchase/temporary sale of goods or assets for later resale). For instance, in their pioneering work on futures markets, Maynard (1923) argued that the price of a futures contract for delivery of a commodity will be generally below the expected spot price of that commodity (what Keynes called normal backwardation). This, Keynes and Hicks argued, was largely because hedgers shifted their price risk onto speculators in return for a risk premium. Nicholas (1939) went on to analyze the question of whether speculation was successful in stabilizing prices and, in so doing, expanded Keynes's theory of liquidity preference considerably.

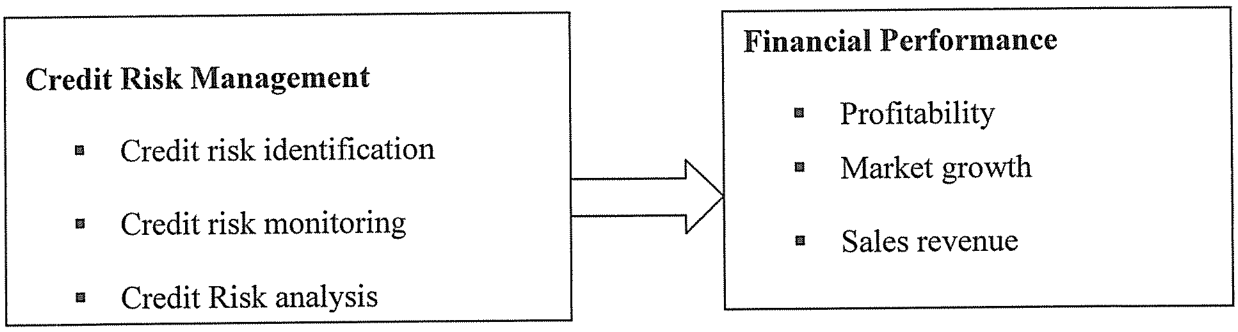
Williams (1938) was among the first to challenge the casino view economists held of financial markets and questions of asset pricing. He argued that asset prices of financial assets reflected the intrinsic value of an asset, which can be measured by the discounted stream of future expected dividends from the asset. This fundamentalist notion fit well with Irving Fisher's (1907, 1930) theory, and the value-investing approach of practitioners such as Benjamin Graham.

Markowitz (1999) realized that as the fundamentalist notion relied on expectations of the future, then the element of risk must come into play and thus profitable use could be made of the newly developed expected utility theory. Markowitz formulated the theory of optimal portfolio selection in the context of trade-offs between risk and return, focusing on the idea of portfolio diversification as a method of reducing risk -- and thus began what has become known as Modern Portfolio Theory or simply MPT.

2.2 Conceptual Review

Figure 2.1 Conceptual framework

Independent Variable **Dependent variable**



Source: Adopted from: (Abdou, 2009)

The conceptual framework was developed after review of related literature on the study variables. The model shown in the figure 2.1 above examines the relationship between credit risk management in terms of risk identification, risk monitoring and risk analysis and financial performance in terms of profitability, market growth and sales growth. The presence of positive credit risk management has an influence the financial performance in the organization. The situation of credit risk management if negative has a negative effect on the financial performance of the microfinance. Therefore the presence of a positive environment positively leads to financial performance in the microfinance.

2.3 Empirical studies

2.3.1 Relationship between risk identifications and financial performance

Risk identification refers to the process of identifying dangerous or hazardous situations and trying to characterize it. It is a procedure to deliberately analyze, review and anticipate possible risks (Barton, 2012). The first step in organizing the implementation of the risk management function is to establish the crucial observation areas inside and outside the corporation. The departments and the employees must be assigned with responsibilities to identify specific risks for example interest rate risks or foreign exchange risks are the main domain of the financial department. It is important to ensure that the risk management function is established throughout the whole corporation; apart from parent company, the subsidiaries too have to identify risks and analyze them.

Berger &Udell (2013) contend that risk analysis is consistent with the level of organizational control; classifies these as business (external) risks and operational (internal) risks. Risk identification on this parameter is influenced by the need have prior knowledge of the possible knowledge that could cause harm to the operations of business. The state of work environment provides for tools to use under evaluation of the risks of the projects. The presentation did provide an aspect of risk prior knowledge that seem to be right though difficult in assessing for risk contingency.

Risk identification includes scenario analysis or risk mapping. Organizations with proper risk identification provide ground for financial performance. The frequency and severity of the risks through risk mapping which could assist the organization to stay away from high frequency and low severity risks and instead focus more on the low frequency and high severity risk. Risk identification process includes risk-ranking components where these ranking are usually based on impact, severity or dollar effects (Barton, 2002). Accordingly, risk identification helps to sort risk according to their importance and assists the management to develop risk management strategy to allocate resources efficiently.

Kromschroder& Luck (2008) argued that risk identification is vital for effective mitigation of credit risk. In order to manage credit risks effectively, management of microfinance have to know what risks face the microfinance. The important thing during risk identification is not to miss any risks out and this can be done through establishing an appropriate credit risk environment. This is the responsibility of the board of directors who should approve and periodically (at least annually) review the credit risk strategy and significant credit risk policies of the microfinance.

Gates (2006) argued that risk analysis by the microfinance reflect the tolerance for risk and the level of profitability the microfinance expects to achieve for incurring credit risk. Inspection by branch managers and financial statement analysis are the main methods used in risk identification. The main techniques used in risk management are establishing standards, credit worthiness analysis, risk rating and collateral. Senior management of a microfinance is responsible for implementing the credit risk strategy approved by the board of directors. This includes ensuring that the microfinance's credit-granting activities conform to the established strategy, that written procedures are developed and implemented, and that loan approval and review responsibilities are clearly and properly assigned. Senior management must also ensure that there is a periodic independent internal assessment of the microfinance's credit-granting and management functions.

According to Bofondi (2013) argued that risk identification has been heavily influenced by known problems or prior incidents. This reactionary mode typically limits the amount of creative thought that is invested in identifying all potential scenarios of what could go wrong. Fortunately, many organizations are evolving towards a more proactive approach by assembling organizational teams and utilizing outside expertise to recognize risks to the enterprise. One popular approach is to identify risks through compartmentalization that is focusing on each process, department or organizational group as a unique entity.

2.3.2 Relationship between credit risk monitoring and financial performance

Babbel&Santomero, (2007) argued that risk monitoring is the process of keeping track of the identified risks, monitoring residual risks and identifying new risks, ensuring the execution of risk plans, and evaluating their effectiveness in reducing risk. Risk monitoring and control records risk metrics that are associated with implementing contingency plans. Risk monitoring and control is an ongoing process for the life of the project.

Risk Monitoringis the process for tracking identified risks, monitoring residual risks, identifying new risks, executing risk response plans, and evaluating their effectiveness throughout the project life cycle. The "planned risk responses" which are integrated into the project management plan by the process integrated change control are therefore executed if the risk triggers fire. But the result of these risk responses must be evaluated too. In addition the process Risk Monitoring and control has to evaluate whether on the "project assumptions are still valid, risk has changed from its prior state, proper risk management policies and procedures are being followed and contingency reserve should be modified in line with the risk of the project (Akkizidis&Khandelwal, 2008).

Musyoki (2011) argued that risk monitoring is the main function of the risk manager is to monitor; measure and control credit risk. The Risk Manager's duty includes identification of possible events or future changes that could have a negative impact on the institution's credit portfolio and the microfinance's ability to withstand the changes. Effective risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place.

Risk monitoring can be used to make sure that risk management practices are in line and proper, risk monitoring also helps microfinance management to discover mistake at early stage, (Al-Tamimi& Al-Mazrooei, 2007). Monitoring is the last step in the corporate risk management process. According to Parrenas (2005), the shareholders of the institutions can use their rights to demand information in order to judge the efficiency of the risk management system. The director's report enables the shareholders to assess the status of the corporation knowledgeably and thoroughly.

Mwisho (2011) argue that in many firms, fancy value-risk models, are up and running. But, in many more cases, they are still in the implementation phase. In the interim, simple ad hoc limits and close monitoring substitute for elaborate real time systems. While this may be completely satisfactory for institutions that have little trading activity and work primarily on behalf of clients, the absence of adequate trading systems elsewhere in the industry is a bit distressing.

There are three stages in the credit risk monitoring process, namely; the simple risk control of the business avoiding being over concentrated in any one sector, estimating the probability of defaulting and assessing recovery, the link between economic capital and return (Babbel&Santomero, 2007. Clearly microfinance would like to set minimum rates of return they expect to earn on their portfolios after provisioning. The link between economic profit and risk is the next stage in advancing the practice of credit risk management and risk management is used as a strategic management tool to align RAROC (Risk Adjustment Returns on Capital) with ROE (Return on Equity). Each microfinance must understand what drives the share price of the microfinance and thus must understand the link between economic capital, intellectual property owners IPOs (Intellectual Property Owners) and ROE.

Kithinji (2010) argued that risk monitoring in particular enables the venturing, what rate of return they require to make a particular investment and how to mitigate an activity's potential losses. There are many conceptual studies made on risk analysis in reference to measurement and mitigation of risk. In practice, it is useful to classify the different risks according to the amount of damage they possibly cause (Fuser, Gleiner and Meier, 2009). This classification enables the management to divide risks that are threatening the existence of the corporation from those which can cause slight damages. Frequently, there is an inverse relationship between the expected amount of loss and its corresponding likelihood, i.e. risks that will cause a high damage to corporation, like earthquakes or fire, occur seldom, while risks that occur daily, like interest rate or foreign exchange risks, often cause only relatively minor losses, although these risks can sometimes harm the corporations seriously.

A comprehensive risk analysis and mitigation methods for various risk arising from financing activities and from the nature of profit and loss sharing is the source of funds especially investment account holders are explained by Sundararajan (2007). He concludes that the application of modern approaches to risk analysis, particularly for credit and overall microfinanceing risks is important for Microfinances. Also, he suggests that the need to adopt new measures is particularly critical for Microfinances because of the role they play and the unique mix of risks in finance contract.

Moore (2007) suggests that microfinance need to start collecting data, and there can be significant advantages in pooling information and using common definitions, standards, and methodologies for credit risk which is argued can lead to significant losses in all financial institutions. Finally, he found out that risk analysis particularly on measuring risk in microfinanceing institutions is important for risk management practices.

2.3.3 Relationship between risk analysis and financial performance

Credit risk analysis (finance risk analysis, loan default risk analysis) and credit risk management is important to financial institutions which provide loans to businesses and individuals. Credit can occur for various reasons: microfinance mortgages (or home loans), motor vehicle purchase finances, credit card purchases, installment purchases, and so on. Credit loans and finances have risk of being defaulted (Nafula, 2009). To understand risk levels of credit users, credit providers normally collect vast amount of information on borrowers. Statistical predictive analytic techniques can be used to analyze or to determine risk levels involved in credits, finances, and loans, i.e., default risk levels.

Credit risk involves facilitate in 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, 2010). 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.

Personal credit scores are normally computed from information available in credit reports collected by external credit bureaus and ratings agencies. Credit scores may indicate personal financial history and current situation. However, it does not tell you exactly what constitutes a "good" score from a "bad" score. More specifically, it does not tell you the level of risk for the lending you may be considering (Mwisho, 2011). Internal credit scoring methods described in this page address the problem. It is noted that internal credit scoring techniques can be applied to commercial credits as well.

Klein (2012) shows that credit risks can motivate borrowers to repay loans, when the legal environment makes it difficult for microfinances to enforce credit contracts. In this model borrowers repay their loans because they know that defaulters will be blacklisted, reducing external finance in future. Vercammen (2008) show that if microfinances exchange information on defaults, borrowers are motivated to exert more effort in their projects. In both models, default is a signal of bad quality for outside microfinance and carries the penalty of higher interest rates, or no future access to credit. Loan defaults and nonperforming loans need to be reduced.

Aduda and Gitonga (2015) explain that microfinance as financial institutions extend credit to their customers in form of loans, overdrafts, off balance sheet activities (i.e., letter of credit (LC) guarantees), and credit card facilities. Microfinance grant credit to enhance their revenue streams, maintain a competitive edge, to act as its bargaining power in the industry, as well as to enhance their relationship with their customers.

Prior studies suggests that a good credit risk architecture, policies and structure of credit risk management, credit rating system, monitoring and control contributes to the success of credit risk management system Bagchi (2014). Similarly, Muninarayanappa and Nirmala (2014) in a related study opined that the success of credit risk management require maintenance of proper credit risk environment, credit strategy and policies. Thus the ultimate aim should be to protect and improve the loan quality. In the same vein, findings from Salas and Saurina (2012) revealed that growth in GDP, rapid credit expansion, microfinance size and capital ratio had a significant impact on the non-performing loans.

Felix and Claudine (2014) examined the association between the performance of microfinanceand credit risk management. As part of their findings, they observed that return on equity and return on assets both measuring profitability were inversely related to the ratio of non-performing loan to total loan of financial institutions thereby leading to a decline in profitability. Also, Hosna, et al. (2009) in their study opined that credit risk has a significant positive effect on the profitability of commercial microfinance in Sweden. Correspondingly, Kithinji (2010) examined the effects of credit risk management on commercial microfinance profitability in Kenya.

2.4 Related studies

Ngugi (2011)did a study on Commercial micro financing crises in Kenya and investigated the causes of nonperforming loans. Their objectives included, to investigate the actions that microfinance managers have taken to mitigate that problem and the level of success of such actions. Using a sample of 30 managers selected from the ten largest microfinance the study found that national economic downturn was perceived as the most important external factor. Customer failure to disclose vital information during the loan application process was considered to be the main customer specific factor. They found that many financial institutions that collapsed in Kenya since 1986 failed due to non-performing loans. The study concluded that lack of an aggressive debt collection policy was perceived as the main microfinance specific factor, contributing to the non performing debt problem in Kenya.

Valsamakis (2005) carried out a study on risk to earnings or capital due to borrowers' late and nonpayment of loan obligations. His objective was to assess whether risk of non-repayment will result to loan default. He found that Credit risk encompasses both the loss of income resulting from the sector inability to collect anticipated interest earnings as well as the loss of principal resulting from loan defaults. Credit risk arises because of the possibility that the expected cash flows from advances and securities held, might not be paid in full. He concluded that credit risk is considered the most lethal of the risks firms face.

Waweru and Kalani (2009) studied commercial micro financing crises in Kenya. They found that some of the causes of non-performing loans in Kenyan microfinance were national economic downturn, reduced consumer, buying ability and legal issues. This current study appreciate that the nonperforming loan and loan delinquency concepts are similar. However this study differs significantly from Waweru and Kalani (2010) in terms of area of study, and study methodology. These researchers covered commercial microfinances in Kenya while this current study focuses on microfinance institutions in Kenya. The microfinance and microfinance sectors operate under different regulatory authorities. Although Commercial micro-finances have a primary role of providing credit ,there is historical evidence of credit rationing even to creditworthy borrowers by commercial microfinance all over the world only 1.5 percent of MSEs receive loans from commercial microfinance in Kenya (International Centre for Economic Growth 1999). It is unclear, how the rest, who form the majority, meet their working and investment needs.

Mohammad (2008) did a study on risk management in Bangladesh Micro-financing Sector. His main objective was to investigate the contribution of credit risk on non-performing loans. He found that, the crux of the problem lies in the accumulation of high percentage of non-performing loans over a long period of time. As per him unless NPL ratio of the country can be lowered substantially they will lose competitive edge in the wave of globalization of the microfinance service that is taking place throughout the world. Since they have had a two-decade long experience in dealing with the NPLs problem and much is known about the causes and remedies of the problem, he concluded that it is very important for the lenders, borrowers and policy makers to learn from the past experience and act accordingly.

Aboagye and Otieku, (2010) conducted a study on Credit Risk Management and Profitability in financial institutions in Sweden. The main objective was to find out if the management of the risk related to that credit affects the profitability of the financial institutions. They found that credit risk management in financial institutions has become more important not only because of the financial crisis that the world is experiencing nowadays but also the introduction of Basel II. They concluded that since granting credit is one of the main sources of income in financial institutions, the management of the risk related to that credit affects the profitability of the financial institutions (Aboagye and Otiekun, 2010).

Haron and Hin (2007) did a study on credit risks experienced by commercial microfinance. His objective was to find out the complexities of a number of their products, as well as their relative novelty in the contemporary financial services market, combined with the fiduciary obligations of the microfinance when it acts as a custodian, imply that for Microfinance, credit risk is very important for consideration. He found that Investment Account Holders may be considered in the absence of misconduct and negligence by the microfinance to bear credit and market risks of assets if their funds have been invested by the microfinance, the latter must be considered as being exposed to the credit risk arising from its management of those funds. He concluded that that Microfinance are exposed to a number of credit risks that differ from those that are faced by conventional microfinance.

Khan and Ahmad (2001) carried a study on risks arising from profit-sharing investment deposits. The objective of the study was to find out whether micro financers considered these unique risks more serious than conventional risks faced by financial institutions. The results of survey of risk perception in different modes of financing showed that risk level is considered elevated. They concluded that the high perception of risks may be an indication of the low degree of active risk management due to the absent of risk control through internal processes and control, especially in the case of credit risk.

Ngugi (2001) postulates that in order to determine the needs of the local micro-financing sector with regard to risk management, the central microfinance of Kenya conducted a survey in September 2004 that would provide a status position on the extent to which risk management is practiced in the financial institutions operating in Kenya. The survey revealed that there is a high level of awareness in microfinanceing institutions on the importance of employing systematic methods of identifying, analyzing and controlling or mitigating risks.

There have been debate and controversies on the impact of credit risk management and microfinance's financial performance. Some scholars e.g., (Arnold, 2003) amongst others have carried out extensive studies on this topic and produced mixed results; while some found that credit risk management impact positively on microfinance financial performance, some found negative relationship and others suggest that other factors apart from credit risk management impacts on microfinance's performance. Specifically, Kargi (2011) found in a study of Nigeria microfinance from 2004 to 2008 that there is a significant relationship between micro-finances performance and credit risk management. He found that loans and advances and non-performing loans are major variables that determine asset quality of a microfinance.

Musyoki and Kadubo (2011) also found that credit risk management is an important predictor of microfinance's financial performance; they concluded that microfinance success depends on credit risk management. Kithinji (2010) analyzed the effect of credit risk management (measured by the ratio of loans and advances on total assets and the ratio of non-performing loans to total loans and advances on return on total asset in Kenyan microfinance between 2004 to 2008). The study found that the bulk of the profits of commercial microfinance are not influenced by the amount of credit and non-performing loans. The implication is that other variables apart from credit and non-performing loans impact on microfinance profit. Kithinji (2010) result provides the rationale to consider other variables that could impact on microfinance's performance.

2.5 Research Gaps

The study reviewed the different related studies that were conducted on the topic credit risk management and performance; with this many studies were conducted on the topic. The studies range from Khan and Ahmad (2001) carried a study on risks arising from profit-sharing investment deposits; Ngugi (2001) postulates that in order to determine the needs of the local microfinance sector with regard to risk management. Musyoki and Kadubo (2011) also found that credit risk management is an important predictor of microfinance's financial performance; they concluded that microfinance success depends on credit risk management. Haron and Hin (2007) did a study on credit risks experienced by commercial microfinance, Aboagye and Otieku, (2010) conducted a study on Credit Risk Management and Profitability in financial institutions in Sweden. All these studies were conducted in the environment outside Somaliland, besides the time during which these were carried was in before 2011, these therefore present a theoretical gap on the ideas that were studied, it presents time and geographical gap given that these studies are not current and were not conducted in Uganda. It is based on these that the study intended to investigate and fill the time, geographical and theoretical gaps.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter discusses the methodology that was used in the study. This included research design, research population, sample population, sampling techniques, data sources, data collection methods, data processing and analysis, ethical consideration and anticipated limitations of the study.

3.1 Research design

The study adopted a case study design on both qualitative and quantitative aspects. This method is preferred because it is an ideal method that eases the collection of information from the respondents at both individual and group levels. The research design was descriptive in nature in that there were provision of detailed information e-procurement and financial performance of commercial microfinance. The research findings were displayed in table form which has figures in percentage form. The researcher went ahead to describe the findings from the tables

3.2 Study Population

A study population is a complete collection of all elements that are of interest to the researcher. It is therefore the totality of objects or individuals having one or more characteristics in common that are of interest to the researcher for the purposes of collecting information. The total research population is the employees of Brac microfinance who were 32 respondents. The population of the study was conducted for the study.

3.3.1 Sample Size

A sample of 30 respondents was chosen from the employee using the Slovene method of calculating the sample size. The sample is restricted to the information required and the purpose of the study a sample of 30 respondents were chosen for the purpose of the study using Slovene's Formula states that, given a population, the minimum Sample size is given by:

$$n = \frac{N}{1 + N\alpha^2}$$

Where;n = the sample size

N = total population of respondents, that is 30.

α = the level of significance, that is 0.05

$$n = \frac{N}{1 + N\alpha^2}$$

$$n = \frac{32}{1 + 32\ (0.05)}$$

$$n = \frac{32}{1+32 * 0.0025}$$

$$n = \frac{32}{1.08}$$

N= 29.62

n = 30

A sample size of 30 respondents were selected to participate in the study.

3.3.2 Sampling techniques

The researcher used simple random sampling to select the respondents. The researcher used simple random sampling was employed in form of rotary, without replacement till the number of respondents was got. The information was collected using simple random sampling in order to give chance to all the respondents without biases.

3.4 Sources of data

In this study two types of data used by the researcher, in the secondary and primary data was used. In recognition to this, the researcher collected data that is relevant to the research problem.

3.4.1 Primary Data

Primary data is that data collected afresh and for the first time, have not been processed. While the secondary data is one which have been already collected by someone else for other purposes and can be used to compile data or raw data. Questionnaires and interview were the common research tools used to collect data. This is aimed at collecting primary data from the respondents of from the microfinance.

3.4.2 Secondary Data

The secondary data was obtained through notes, correspondences and minutes of meetings, project plan journals. In this study the researcher used documents and other records that are already published to access information on credit risk management and financial performance.

3.5 Data collection tools

3.5.1 Questionnaire

These are inter-related questions designed by the researcher and given to the respondents in order to fill in data/information. Here, self-administered questionnaires were employed containing both open and close-ended questions. This reduced costs of movement and also because the researcher is dealing with literate people who have the capacity of filling the forms.

3.6 Data collection Procedure

Before the administration of the questionnaires

An introduction letter was obtained from the faculty of business and management for the researcher to solicit approval to conduct the study in Brac microfinance. When approved, the researcher secured a list of the qualified respondents from the offices in charge and selected respondents through purposive sampling from this list to arrive at the minimum sample size. The researcher then produced over 30 copies of the questionnaire and trained the research assistants.

During the administration of the questionnaires

Specifically, the researcher and the assistants were requested the respondents to do the following:

To sign the informed consent, to answer completely all questions and not to leave any item of the questionnaires unanswered and to avoid biases and to be objective in answering the questionnaires. Some respondents were guided on what to do by data collectors and as such, some questionnaires were retrieved on spot, while others retrieved after some days or weeks.

After the administration of the questionnaires

On their return, the researcher edited and entered the questionnaire responses into the SPSS software for further processing and analysis. Finally, a report was prepared and after approval from the supervisor, the final copy will be submitted to faculty of business management for final examination.

3.7 Data Processing and Analysis

3.7.1 Data processing

The researcher classified answers to the questions into categories as a process which involves editing, copying and tabulating the research data for presentation in chapter four of this research study. The information was edited, sorted, cleaned and examined and entered in SPSS for statistical analysis.

3.7.2 Data analysis and presentation

Analysis of the data collected during this research enlisted statistical methods. First, the demographic characteristics of the respondents were analyzed by use of frequencies and percentages. The first, second and third objectives will require the determination of the means and standard deviation on the credit risk identification, credit risk monitoring and loan approval There was further employment of regression technique to determine the effects that constructs of credit risk management on financial performance of Brac. The data on both the independent/dependent variables (Credit risk management and performance of commercial microfinances) is interpreted using the following mean ranges:

Mean range	respondent	interpretation
3.26—4.00	strongly agree	Very High
2.51---3.25	Agree	High
1.76---2.50	Disagree	Low
1.00—1.75	strongly disagree	very Low

Through Pearson correlation analysis based on significance values of 0.05 level of significance.

3.7 Ethical considerations

The ethical considerations included the following

i. To ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the following activities will be implemented by the researcher;
ii. The respondents were coded instead of reflecting the names for purposes of confidentiality.

iii. Solicit permission through a written request to the concerned officials of the secondary schools included in the study.

iv. Acknowledge the authors quoted in this study and the author of the standardized instrument through citations and referencing.

3.8 Limitations of the study and counteraction measures

The validity of the study is likely to face some threats borne out of the following situations;

Intervening or confounding variables would have been beyond the researcher's control such as honesty of the respondents and personal bias. To minimize such conditions, the researcher requested the respondents to be as honest as possible and to be impartial/ unbiased for answer the questionnaires.

Instrumentation was another limitation of this study. The research tools were used in this study were the researcher made. However, validity and reliability tests were done to arrive at a reasonable measuring tool.

Language Barrier the questionnaires were structured in English and some of the respondents may have a problem comprehending them. To counter this barrier, research assistants were used to translate the information to the respondents.

CHAPTER FOUR
DATA PRESENTATION, INTERPRETATION AND ANALYSIS

4.0 Introduction

This chapter deals with analysis interpretation and presentation of the research findings. The analysis and research findings were interpreted and analyzed basing on the research questions. The study was set to assess the effect of credit risk management on financial Performance of Microfinance institutions in Uganda: A Case study of Brac microfinance. The objectives were to determine the relationship credit risk identification and the financial performance of Brac microfinance Uganda. To establish the relationship between credit risk monitoring and the financial performance of Brac microfinance Uganda and to assess the relationship credit risk analysis between the financial performance of Brac microfinance Uganda. The findings were obtained through the use of a questionnaire from the respondents of Brac. The questionnaire was administered to 30 respondents who answered them effectively.

4.1 Demographic information

This part presents the background information of the respondents who participated in the study. The purpose of this background information was to find out the characteristics of the respondents and show the distribution of respondents in the study.

Table 4.1: Showing Gender respondents

Respondents	Frequency	Percentage
Male	18	60
Female	12	40
Total	**30**	**100**

Source: Primary data, 2019

From table 4.1, it can be seen that the majority of respondents are male that is 18 representing 60% of the total number of respondents, 12 respondents are female representing 40% of the respondents. This is a clear sign that gender sensitivity was taken care off so the findings therefore cannot be doubted on gender grounds; they can be relied for decision making.

4.1.2 Academic Qualifications of respondents

Table 4.2: Showing academic qualifications of the respondents

Academic qualifications	Frequency	Percentage
Certificate	8	26.7
Diploma	4	13.3
Degree	14	46.7
Others	4	13.3
Total	**30**	**100**

Source: Primary data, 2019

From table 4.2 above indicate that majority of the respondents were 14 for degree holders representing 46.7% followed by certificate level with 8 respondents representing 26.7% , diploma followed with 4 respondents representing 13.3% and others with the same with 13.3%. This implies that the respondents are well educated and therefore the information obtained from them can be relied on for the purpose of this study. It is of no suspicion therefore that information is attained from highly educated respondents. Information can therefore be relied on for decision making in this topic.

4.1.3 Age distribution of respondents

Table 4.3: Showing age distribution of respondents

Respondents	Frequency	Percentage
20–29	4	13.3
30– 39	13	43.3
40 – 49	8	26.6
50+	5	16.7
Total	**30**	**100**

Source: Primary data, 2019

Table 4.3 above shows that, majority of respondents were aged between 30–39 years 13(43.3%) respondents followed, by 40-49 years represented by 8(26.6) respondents, followed by 50+

represented by 5(16.7%) respondents and 20-29 represented by 4(13.3%). From the above analysis, it can be concluded that majority of the respondents are mature hence the information obtained from them can be trusted and looked at as true and good representation of the information the researcher was looking.

4.1.4 Time of service

Table 4.4: Showing time of service of respondents

Time of work	Frequency	Percentage
Less than 1 year	5	16.7
Between 1-3 years	10	33.3
Between 3-5 years	06	20.0
6 years above	09	30.0
Total	**30**	**100**

Source: Primary data, 2019

Results in table 4.4 indicate that majority of the respondents had worked for many years 10 representing 33.3% followed by 9 respondents representing 30% for 6 years and above, between 3-5 years had 20% of the respondents and those less than 1 year had 16.7% of the respondents, those interviewed respondents had worked in the organization for a good period of time thus genuine information about the organization was given by the respondents to the researcher, thus enabling him to make conclusions.

4.2 Credit risk management Brac Microfinance institutions in Uganda

The independent variable in this study was credit risk management in Brac microfinance and it was broken into three parts namely; Risk identification (with 6 questions), credit risk monitoring (with 6 questions) and credit risk analysis (with 6 questions). Each of these questions was based on the four point Likert scale where by respondents were asked to rate the credit risk management by indicating the extent to which they agree or disagree with each question and their responses were analyzed using SPSS and summarized using means and rank as indicated in table 4.2;

Table 4.5: Credit risk management in Brac Microfinance institutions in Uganda

Items on credit risk management	Mean	Interpretation
Credit risk identification		
The risk department identifies and assesses core risks and opportunities for the microfinance	2.40	Poor
There is estimating of the credit risks in terms of time	2.37	Poor
There is credit risk identification at the loan approval phase	2.32	Poor
The microfinance conducts identification risk at the collateral security presentation	2.55	Good
There is critical credit risk identification through a risk management department	2.25	Poor
The microfinance has a credit risk identification policy that guide the risk process	2.25	Poor
Average mean	**2.35**	**Poor**
Items on credit risk monitoring	**Mean**	**Interpretation**
There is effective risk planning in the commercial microfinance on the credit	2.30	Poor
The microfinance conducts risks evaluations to detect the risks strength	2.57	Good
The microfinance has key risks controls from causing harm to business operations	2.37	Poor
The microfinance has an effective credit default assessment on the loans	2.37	Poor
The microfinance does loan recovery assessments on the loans provided to the borrowers	2.42	Poor
There is an utmost risk monitoring staff in the microfinance	2.27	Poor
Average mean	**2.38**	**Poor**
Credit Risk Analysis		
The microfinance conducts a credit risk analysis on businesses and individuals before lending	2.35	Poor
The microfinance uses a credit scoring model in credit risk assessment	2.70	Good
The microfinance considers physical and financial characteristics in credit scoring models for personal loans	2.35	Poor
The microfinance faces intense challenges such as government controls in credit risk analysis	3.12	Good
The microfinance contacts the credit bureau to assist in decision making to lend their customers	2.22	Poor
The microfinance has a credit manual that documents and elaborates the strategies for managing Credit	2.20	Poor
Average Mean	**2.49**	**Poor**
Overall mean	**2.74**	**Fair**

Source: Primary data, 2019

Mean range	Respondent	Interpretation
3.26—4.00	Strongly agree	Very High
2.51---3.25	Agree	High
1.76---2.50	Disagree	Low
1.00—1.75	strongly disagree	Very Low

The status, risk identification is that risk department identifies and assesses core risks and opportunities for the microfinance had the mean of 2.40, interpreted as poor, There is estimating of the credit risks in terms of time with mean of (2.37, interpreted as poor). This implies that the administration of the microfinance needs put more emphasis on time allocated for assessing the risks involved before any credit giving take place. The study results concerning, There is credit risk identification at the loan approval phase had the mean of 2.32, interpreted as poor, The microfinance conducts identification risk at the collateral security presentation had the mean of 2.55, interpreted as good and implying that the microfinance staff responsible for credit processing is always so keen in valuing the collateral security presented. There is critical credit risk identification through a risk management department had the mean of 2.25, interpreted as poor, The microfinance has a credit risk identification policy that guide the risk process had the mean 2.25, interpreted as poor. This absolutely indicates that the credit risk identification policy is still weak. The study results indicate credit risk identification had 2.35, and was interpreted as poor. This is an indication that the respondents convinced that there are credit risk identification policies put in place by the credit processing staff.

The study results on credit risk monitoring reveal that; there is effective risk planning in the commercial microfinance on the credit had the mean responses of 2.30, and was interpreted as poor. The microfinance conducts risks evaluations to detect the risks strength had the mean of 2.57, and interpreted as good. This implies that the respondents the microfinance gives an upper hand to evaluation of risks before issuing out any credit to its customers. The microfinance has key risks controls from causing harm to business operations had the mean of 2.37, interpreted as poor, The microfinance has an effective credit default assessment on the loans had the mean response was 2.37, interpreted as poor. This implies that has long way to curb down the credit defaulting. The microfinance does loan recovery assessments on the loans provided to the borrowers had the mean of 2.42, interpreted as poor, there is an utmost risk monitoring staff in the microfinance had the mean of 2.27, interpreted as poor. The study results on effect of credit risk monitoring had the average mean of 2.38, interpreted as poor. This critically shows that poor credit risk monitoring strategies may lead to down fall of the microfinance and therefore the administration should employee more tact's of solving the credit risks that may arise any time.

The findings on credit risk analysis. The conducts a credit risk analysis on businesses and individuals before lending had the mean of 2.35, interpreted as good, The microfinance uses a credit scoring model in credit risk assessment, the mean response was 2.70, interpreted as good indicating that the microfinance uses the credit scoring model in credit risk assessment rightly.

The microfinance considers physical and financial characteristics in credit scoring models for personal loans had the mean of 2.35, interpreted as poor; the microfinance faces intense challenges such as government controls in credit risk analysis had the mean of 3.12, interpreted as good. This implies that there favorable government controls in credit analysis for the microfinance. The microfinance considers physical and financial characteristics in credit scoring models for personal loans had the mean of 2.35, interpreted as poor, the microfinance faces intense challenges such as government controls in credit risk analysis had the mean of 3.12, interpreted as good. This implies that there favorable government controls in credit analysis for the microfinance. The study results on the effect of credit risk analysis on the mean of 2.49, interpreted as poor. This shows that the staff responsible for credit risk analysis has poor techniques for handling risks that may occur after the issuance of credit to a customer.

4.3 Financial performance of Brac microfinance Limited

The dependent variable in this study was financial performance of Brac Microfinance limited. The results provided attained from the field of the findings are presented, the variable was based on financial performance. Each of these questions was based on the four point Likert scale where by respondents were asked to rate the credit risk management by indicating the extent to which they agree or disagree with each question and their responses were analyzed using SPSS and summarized using means and rank as indicated in table 4.6;

Table 4.6 Level of financial performance of Brac Microfinance

Items on Financial performance	Mean	Interpretation
Our profitability has improved over time as a result of our Operational risk management system	2.25	Poor
The bank registered high profits over the sales in the previous years	2.45	Poor
The operational risk management system has enabled us reduce the number of fraud cases	2.42	Poor
The sales capacity of the business is steadily growing	2.47	Poor
There is effective marketing accounting to sales growth	2.42	Poor
The customer loyalty has increased the sales of the business	2.80	Good
The customer base has increased over the last year	3.32	Good
Our market has grown n over time as a result of operational risk management systems improvement	2.45	Poor
Our organizational capacity is expanding in operations	2.45	Poor
There is a steadily moving sales growth in the operations	2.62	Good
Average mean	**2.56**	**Good**

Source: Primary data, 2019

The study findings from the table 4.6 on level of financial performance of Brac Microfinance. The profitability has improved over time as a result of our operational risk management system had the mean of 2.25, interpreted as poor, The bank registered high profits over the sales in the previous years with mean of (2.45, interpreted as poor). This implies that the bank all long attained little profits.

Concerning the findings on, the operational risk management system has enabled us reduce the number of fraud cases had the mean of 2.42, interpreted as poor, The sales capacity of the business is steadily growing had the mean of 2.47, interpreted as poor and implying that the sales of the Microfinance are still low and the bank should develop the strategies designed to improve the financial performance.

2.42 was presented as the mean of there is effective marketing accounting to sales growth, interpreted as poor, The customer loyalty has increased the sales of the business had the mean 2.25, interpreted as good. This shows that administration should maintain their ways of handling customers.

The findings on, the customer base has increased over the last year had the mean of 3.32, interpreted as good, Our market has grown n over time as a result of operational risk management systems improvement had the mean of 2.45, interpreted as poor and implying that there is need for the bank administration to employ measures to lift the market growth.

The study findings from the table on level of financial performance of Brac Microfinance institution. Our organizational capacity is expanding in operations had the mean of 2.35, interpreted as poor, There is a steadily moving sales growth in the operations with mean of (2.62, interpreted as poor). This implies that there is a promising sales growth of bank.

The study on level of financial performance of Brac Microfinance institutions represented with the average means 2.56, and was interpreted as good. This is an indication that the level of financial performance of the bank is quite promising and therefore the staff responsible should maintain their ways of operation.

4.4 Objective one; Relationship between credit risk identification and the financial performance of Brac Microfinance Uganda

The first objective in this study was to investigate the relationship credit risk identification and the financial performance of Brac Microfinance Uganda. To achieve this objective the researcher correlated the mean on the relationship between credit risk identification and the financial performance of Brac Microfinance Uganda. Using the Pearson's Linear Correlation Coefficient, as indicated in table 4.4; determine the relationship between credit risk identification and the financial performance of Brac Microfinance Uganda.

Table 4.7: Pearson correlation between credit risk identification and the financial performance of Brac Microfinance Uganda at 0.05 Level of significance.

Variables Correlated	r-value	Sig	Interpretation
Credit risk identification Vs Financial Performance	.323	.011	Significant correlation

Source: Primary data, 2019

Results in Table 4.7 indicated a significant relationship between credit risk identification and the financial performance of Brac Microfinance Uganda at 0.05 Level of significance, since the sig. value (.011) was less than 0.05 and thus there was significant correlation. This finding can be witnessed in the r-values of .323 and a significant value of .011. This research finding means that credit risk identification had a high bearing on financial performance.

4.5 Objective two; Relationship between credit risk monitoring and the financial performance of Brac Microfinance Uganda

The second objective in this study was to investigate the relationship credit risk monitoring and the financial performance of Brac Microfinance Uganda. To achieve this objective the researcher correlated the mean on the relationship between credit risk monitoring and the financial performance of Brac Microfinance Uganda. Using the Pearson's Linear Correlation Coefficient, as indicated in table 4.5; determine the relationship between credit risk monitoring and the financial performance of Brac Microfinance Uganda.

Table 4.8: Pearson correlation between credit risk monitoring and the financial performance of Brac Microfinance Uganda at 0.05 Level of significance.

Variables Correlated	r-value	Sig	Interpretation
Credit risk monitoring Vs Financial Performance	.413	.034	Significant correlation

Source: Primary data, 2019

Results in Table 4.8 indicated a significant relationship between credit risk monitoring and the financial performance of Brac Microfinance Uganda at 0.05 Level of significance, since the sig. value (.034) was less than 0.05 and thus there was significant correlation. This finding can be witnessed in the r-values of .413and a significant value of .034. This research finding means that credit risk monitoring had a high bearing on financial performance.

4.6 Objective three; Relationship between credit risk analysis and the financial performance of Brac Microfinance Uganda

The first objective in this study was to investigate the relationship credit risk analysis and the financial performance of Brac Microfinance Uganda. To achieve this objective the researcher correlated the mean on the relationship between credit risk analysis and the financial performance of Brac Microfinance Uganda. Using the Pearson's Linear Correlation Coefficient, as indicated in table 4.9; determine the relationship between credit risk analysis and the financial performance of Brac Microfinance Uganda.

Table 4.9: Pearson correlation between credit risk analysis and the financial performance of Brac Microfinance Uganda at 0.05 Level of significance.

Variables Correlated	r-value	Sig	Interpretation
Credit risk analysis Vs Financial Performance	.293	.541	Significant correlation

Source: Primary data, 2019

Results in Table 4.9 indicated a significant relationship between credit risk analysis and the financial performance of Brac Microfinance Uganda at 0.05 Level of significance, since the sig. value of .541 was greater than 0.05 and thus there was no significant correlation. This finding can be witnessed in the r-values of .541and a significant value of 0.541, the finding means that credit risk analysis had a high bearing on financial performance.

CHAPTER FIVE
DISCUSSIONS, CONLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussions, conclusions, recommendations and suggested areas that need further research following the study.

5.1 Discussion of findings

The discussion of the findings was presented based on the statistical data obtained in chapter four and backed by empirical evidence from chapter.

5.1.1 Relationship credit risk identification and the financial performance of Brac microfinance Uganda

The study indicated that a relationship exist between credit risk indication The study findings reveal that there exist a significant effect between credit risk identification and financial performance. More so the findings were analyzed based on the fact that risk identification contributes to financial performance, the results are in agreement with the previous authors such as Bofondi (2013) argued that risk identification has been heavily influenced by known problems or prior incidents. This reactionary mode typically limits the amount of creative thought that is invested in identifying all potential scenarios of what could go wrong. Fortunately, many organizations are evolving towards a more proactive approach by assembling organizational teams and utilizing outside expertise to recognize risks to the enterprise. One popular approach is to identify risks through compartmentalization that is focusing on each process, department or organizational group as a unique entity.

Kromschroder& Luck (2008) argued that risk identification is vital for effective mitigation of credit risk. In order to manage credit risks effectively, management of bank have to know what risks face the bank. The important thing during risk identification is not to miss any risks out and this can be done through establishing an appropriate credit risk environment. This is the responsibility of the board of directors who should approve and periodically (at least annually) review the credit risk strategy and significant credit risk policies of the bank.

5.1.2 Relationship between credit risk monitoring on the financial performance of Brac Microfinance

The study results on credit risk monitoring on the financial performance. The findings reveal that the effect of credit risk monitoring has a significance relationship between credit risk monitoring and the financial performance. The study findings are in agreement with the previous authors presented in the previous such as Mwisho (2011) argue that in many firms, fancy value-risk models, are up and running. But, in many more cases, they are still in the implementation phase. In the interim, simple ad hoc limits and close monitoring substitute for elaborate real time systems. While this may be completely satisfactory for institutions that have little trading activity and work primarily on behalf of clients, the absence of adequate trading systems elsewhere in the industry is a bit distressing. There are three stages in the credit risk monitoring process, namely; the simple risk control of the business avoiding being over concentrated in any one sector, estimating the probability of defaulting and assessing recovery, the link between economic capital and return (Babbel&Santomero, 2007. Clearly banks would like to set minimum rates of return they expect to earn on their portfolios after provisioning. The link between economic profit and risk is the next stage in advancing the practice of credit risk management and risk management is used as a strategic management tool to align RAROC (Risk Adjustment Returns on Capital) with ROE (Return on Equity). Each bank must understand what drives the share price of the bank and thus must understand the link between economic capital, intellectual property owners IPOs (Intellectual Property Owners) and ROE.

5.1.3 Relationship between credit risk analysis on the financial performance of Brac Microfinance

The findings on study results reveal that there a exist no significant relationship between credit risk analysis on financial performance of Brac Microfinance. The findings are in agreement with the previous authors who argued that the credit risks analysis facilitate financial performance of the organizations. The results are in agreement with Klein (2012) who argued that credit risks can motivate borrowers to repay loans, when the legal environment makes it difficult for banks to enforce credit contracts. In this model borrowers repay their loans because they know that defaulters will be blacklisted, reducing external finance in future. Vercammen (2008) and Padilla & Pagano (2014) show that if banks exchange information on defaults, borrowers are motivated to exert more effort in their projects. In both models, default is a signal of bad quality for outside banks and carries the penalty of higher interest rates, or no future access to credit. Loan defaults and nonperforming loans need to be reduced (Sandstorm, 2013).

Personal credit scores are normally computed from information available in credit reports collected by external credit bureaus and ratings agencies. Credit scores may indicate personal financial history and current situation. However, it does not tell you exactly what constitutes a "good" score from a "bad" score. More specifically, it does not tell you the level of risk for the lending you may be considering (Mwisho, 2011). Internal credit scoring methods described in this page address the problem. It is noted that internal credit scoring techniques can be applied to commercial credits as well.

5.2 Conclusions

The study concerning the findings on the effect of credit risk management on the financial performance of Brac Microfinance. On the first objective, the study conclude that credit risk identification was low though with a significant effect on financial performance, the study conclude that risk identification need enhancement through improving forecasting improvements.

The study on the second objective the study conclude that the credit risk analysis contribute significantly to financial performance of the banks, the study conclude that risk analysis has to be improved in the mechanisms to enhance financial performance and operations.

On the third objective the study conclude that credit risk monitoring can generate financial performance of Brac Microfinance, whereas the financial performance of the bank seemed relevant and significant, credit risk management is low that call for an enhancement of the staff and the instruments used in improving credit risk management to generate financial performance.

5.3 Recommendations

Objective (1)

The organization's top management and board of directors must base their investment decisions primarily on risk management. They must use detailed information on integrated risk management at their company and weigh these risks against those of new investments. The board of directors of financial institutions should be made up of individuals who understand the risks of derivatives and structured products. The risk management committee must actively monitor the firm's risks. Top executives' risk appetite must be defined, known, and monitored by the board Issuers of structured products need to be more responsible. They must retain a large fraction of the baskets of loans they issue, possibly the entire equity tranche and a fraction of the more senior tranches in the presence of risk correlation between tranches. This should heighten the incentive to apply better risk management in loan issuance and obtain better portfolios of loans to securitize.

Objective (Two)

There is need for improving the financial performance of Microfinance the extent that customer base can be improved. The financial performance seems to be moderate, to improve it management need to enhance operations and search for a more reliable customer base since the prevailing is not sufficient enough to guide work in the organizations. There is need for strong cost reduction by management through credit risk analysis so as to save on the finances lost through operations that are not effectively guided in work. There is need for enhancement of operations through directional performance, search for new ways of operations to avert the workloads prevailing in the company operations.

Objective (Three)

There is evidence that credit risk management influence financial performance of Equity bank, there is need for coordination of financial operations with performance management to attain financial success for the bank. The management needs to provide sound internal mechanism through control of expenditures to attain a financial stable business. The management needs to institute management teams for enhancing direct operations for the organizational establishments

5.4 Areas of further study

Because of time and resources, the researcher recommends for the adoption of the following further areas of credit risk management and financial performance of Brac Microfinance

- Credit policy and performance of Microfinance companies
- Interest rate and performance of Microfinance companies

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Appendix i: Research Questionnaire

Dear respondent,

I am a student of Kamala International University pursuing bachelor's degree of business administration Accounting and Finance. As part of my study at Kampala International University, I am conducting a study on "Credit Risk Management and financial Performance of Brac microfinance.

Please spare some time and answer the questions that follow. Your response will be kept strictly confidential and will only be accessed by the research team. The information provided will only be used for academic purposes in this study.

Thank you very much for your time and cooperation.

Yours Cordially,

....

Researcher

Section A: Demographics of respondents (Pick the appropriate response)

1. Gender
   1) Male ☐
   2) Female ☐
2. Highest level of qualification
   1) Certificate and Diploma ☐
   2) Degree ☐
   3) Masters ☐
   4) others ☐
3. Age
   a) 20 - 29 ☐
   b) 30 – 39 ☐
   c) 40 – 49 ☐
   d) 50+ ☐

4. How long have you worked in this organization

1) Less than 1 year ☐
2) Below 1-3 years ☐
3) Between 3-5 years ☐
4) 6 years and above ☐

The use of Likert scale were 1= Strongly disagree, 2= Disagree, 3= Agree, 4= Strongly Agree.

Direction: please tick the column corresponding rating that best describes your response using the guide below

Score	**Mode of response**	**Description**
4	Strongly agree	You agree with no doubt
3	Agree	You agree with some doubt
2	Disagree	You disagree with some doubt
1	Strongly disagree	You disagree with no doubt

SECTION B: Credit Risk Management in commercial microfinances

		Rankings			
	Credit Risk Identification	**1**	**2**	**3**	**4**
1.	The risk department identifies and assesses core risks and opportunities for the microfinance				
2.	There is estimating of the credit risks in terms of time				
3.	There is credit risk identification at the loan approval phase				
4.	The microfinance conducts identification risk at the collateral security presentation				
5.	There is critical credit risk identification through a risk management department				
6.	The microfinance has a credit risk identification policy that guide the risk process				
	Credit Risk Monitoring				
1.	There is effective risk planning in the commercial microfinances on the credit				

2.	The microfinance conducts risks evaluations to detect the risks strength				
3.	The microfinance has key risks controls from causing harm to business operations				
4.	The microfinance has an effective credit default assessment on the loans				
5.	The microfinance does loan recovery assessments on the loans provided to the borrowers				
6.	There is an utmost risk monitoring staff in the microfinance				
	Credit Risk Analysis				
1.	The microfinance conducts a credit risk analysis on businesses and individuals before lending				
2.	The microfinance uses a credit scoring model in credit risk assessment				
3.	The microfinance considers physical and financial characteristics in credit scoring models for personal loans				
4.	The microfinance faces intense challenges such as government controls in credit risk analysis				
5.	The microfinances contacts the credit bureau to assist in decision making to lend their customers				
6.	The microfinance has a credit manual that documents and elaborates the strategies for managing Credit				

Section C: Financial Performance of the organization

		RANKING			
	Response	**1**	**2**	**3**	**4**
1	Our profitability has improved over time as a result of our Operational risk management system				
2	The microfinance registered high profits over the sales in the previous years				
3	The operational risk management system has enabled us reduce the number of fraud cases				
4	The sales capacity of the business is steadily growing				
5	There is effective marketing accounting to sales growth				
6	The customer loyalty has increased the sales of the business				
7	The customer base has increased over the last year				
8	Our market has grown n over time as a result of operational risk management systems improvement				
9	Our organizational capacity is expanding in operations				
10	There is a steadily moving sales growth in the operations				

Appendix ii: Time frame for the study

ACTIVITIES	DURATION (months)				
	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019
Pilot study					
Study analysis					
proposal design					
proposal development					
Proposal writing					
Data collection					
Final report writing and submission					

Appendix iii: Research Budget

ITEM	QUANTITY	UNIT COST	AMOUNT
		Stationary	
Papers	2 Reams	20,000/=	40,000/=
Sub total		**20,000/=**	**40,000/=**
		Equipments	
Umbrella	1	10000/=	10000/=
Sub total			**10,000**
		Facilities	
Transport		100,000/=	100,000/=
Meals	10 times	10,000/=	100,000/=
Sub total			**200,000/=**
		Printers	
Miscellaneous			100,000
Total			**350,000**