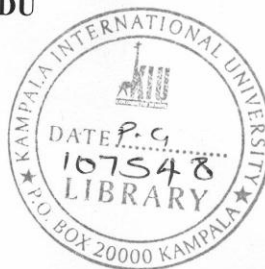


**CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF
MICROFINANCE DEPOSIT TAKING INSTITUTIONS IN
KAMPALA, UGANDA**

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**A THESIS SUBMITTED TO THE COLLEGE OF ECONOMICS AND
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ABSTRACT

The purpose of the study was to examine the relationship between credit risk management practices and financial performance of microfinance deposit taking Institutions in Kampala, Uganda. The objectives of the study were (i) to examine the relationship between credit risk identification and financial performance of microfinance deposit taking institutions in Kampala, Uganda, (ii) to establish the relationship between credit risk appraisal and financial performance of microfinance deposit taking institutions in Kampala, Uganda, (iii) to find out the relationship between credit risk monitoring and financial performance of microfinance deposit taking institutions in Kampala, Uganda, (iv) to examine the relationship between credit risk mitigation and financial performance of microfinance deposit taking institutions in Kampala, Uganda. This study adopted descriptive survey and correlation research designs. The study targeted a population were members of staff in finance and credit departments from 3 licensed micro finance deposit taking institutions in Kampala, Uganda namely Finca Uganda Ltd, Pride Microfinance Ltd, UGAFODE Microfinance Ltd, (BOU, 2015). The sample of the study was 60 members of staff. Primary data was collected using questionnaires. A Statistical Package for Social Scientist (SPSS) was used to produce frequencies, descriptive and inferential statistics which was used to derive conclusions and generalisations regarding the population. Pearson linear correlation coefficient was also used to show the relationship between various credit risk management practices and financial performance. Return on equity (ROE), Return on assets and adequate provision for bad loans were used as the financial performance indicators while credit risk identification, credit risk appraisal, credit risk monitoring and credit risk mitigation as credit risk management indicators. Multiple regression analysis was used to examine the relationship between return on equity, return on assets and adequate provision for bad loans and credit risk identification, credit risk appraisal, credit risk monitoring and credit risk mitigation. The findings indicated that credit risk identification and credit risk appraisal had a strong significant positive relationship on financial performance of MDIs while credit risk monitoring and credit risk mitigation had a moderate significant positive relationship on financial performance of MDIs. From regression analysis, the coefficient of determination also known as the R square was 80.5%. This means that the combined effect of the predictor variables explains 80.5% of the variations in financial performance. Credit risk appraisal and credit risk identification contribute more to the financial performance of MDI's when compared with credit risk monitoring and credit risk mitigation. The study concluded that credit risk identification, credit risk appraisal, credit risk monitoring and credit risk mitigation are strong variables in determining financial performance of MDIs in Kampala Uganda. The study recommended that the appraisal process should identify and analyse all loss exposures, and measure such loss exposures. This should guide in selection of technique or combination of techniques to handle each exposure. The appraisal process should capture key issues like the capitalisation of the business, capacity of the applicant, value of the collateral, and repayment history and conditions that is economical, political before a project is financed. The study recommended that MDIs should continue emphasizing on effective credit risk identification, credit risk appraisal, and credit risk monitoring and credit risk mitigation techniques to enhance maximum financial performance. The study contributed to knowledge in that While a concept of credit risk management may be well established in commercial banks of other countries like Kenya, and Nigeria, no evidence has been established in micro finance deposit taking institutions in Kampala, Uganda that is Pride Microfinance Ltd, Finca microfinance Uganda limited and Ugafode microfinance ltd, and hence there has been a contribution to knowledge in the MDI's in Kampala which filled the contextual gap.