

**CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF
MICROFINANCE INSTITUTIONS IN UGANDA: A CASE STUDY OF BRAC
MICROFINANCE NAMUKASA BRANCH KAYUNGA ROAD AND SEETA
BRANCH SEETA TRADING CENTRE MUKONO DISTRICT**

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**UGANDA CHRISTIAN
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DECLARATION

I Asiimire Dinavence, declare that the content of this dissertation is my original work and it has not been submitted to any other institution for any academic award.

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APPROVAL

This is to certify that this dissertation titled “Credit Risk Management and Financial Performance of Financial Institutions in Uganda” a case study of Namumukasa and Seeta Branches Mukono District has been written under my guidance as the university supervisor.

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Date.....

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University supervisor.

DEDICATION

I dedicate my research report to my lovely parents especially my mother Mrs. Kyogabirwe Annet and my father Mr. Rubagumya David for their commitment in educating me and unconditional support throughout this journey.

I also dedicate this report to my darling best friend Dr. George Alwodo for his unconditional love and support towards my study and success not forgetting my siblings Agaba Andrew, Niwesiima Prossy, Akatwijuka Ananiaus, Akampwera Agastus, Niwahereza Penlope, Akakunda Plaxanda and Akapuriira Ignitious

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TABLE OF CONTENTS

DECLARATION	ii
APPROVAL	iii
DEDICATION.....	iv
ACKNOWLEDGEMENT	v
ABSTRACT	ix
CHAPTER ONE	1
1.0 Introduction.....	1
1.1 Background of the Study	1
1.2 Problem statement	2
1.3 Purpose of the Study	3
1.4 Objectives of the Study.....	3
1.5 Research Questions.....	3
1.6.1 Content scope.....	3
1.6.2 Time scope.....	4
1.6.3 Geographical scope.....	4
1.7 significance of the research.....	4
CHAPTER TWO	6
LITERATURE REVIEW	6
2.1 Introduction.....	6
2.2 Key Definitions.....	6
2.2.1 Credit Risk.....	6
2.2.4 Financial Performance	7
2.2.5 Financial Institutions	8
2.2.6 Risk Identification	8
2.2.7 Risk Monitoring.....	8
2.2.8 Analysis of Credit Risk.....	9
2.3 Conceptual Structure	9
2.3.2 Credit risk theory	10
2.4 Empirical studies	10
2.4.1 Relationship between risk identification and financial performance.....	10
2.4.2 Credit risk management practices and financial performance.....	12
2.4.3 Relationship between credit risk monitoring and financial performance	14
2.4.4 Relationship between risk analysis and financial performance	16

2.4.5 Credit risk management and financial performance.	17
2.4.6 Relationship between employee training and financial performance.....	17
2.4.7 Relationship between economic conditions and financial performance.....	18
2.4.8 Challenges and possible solutions of Brac microfinance and financial performance	19
CHAPTER THREE	21
METHODOLOGY	21
3.0 Introduction	21
3.1 Research Design	21
3.2 Study Population.....	21
3.3.1 Sample Size	21
3.4 Sources of data.....	22
3.4.1 Primary Data	22
3.4.2 Secondary Data	22
3.5 Data collection methods	22
3.5.1 Questionnaire method.....	22
3.5.2 Interviewing method.....	22
3.6 Data collection tool.....	22
3.6.1 Questionnaires	22
3.6.2 Interview guides.....	23
3.7 Validity and Reliability.....	23
3.7.1 Validity	23
3.7.2 Reliability	23
3.7 The study's limitations and hoe the researcher's planned of action.	23
CHAPTER FOUR	25
DATA PRESENTATION, INTERPRETATION AND ANALYSIS	25
4.0 Introduction.....	25
4.1 Demographic information.....	25
4.1.1 Gender of respondents	25
4.2.1 AGE RESPONDENTS	26
4.3.1 EDUCATION RESPONDENTS.....	26
4.4.1 DEPARTMENT RESPONDENTS	27
4.5.1 TIME OF SERVICE.....	28
4.6.1 To find out the credit risk management practices used in financial institutions.....	28
4.6.2. To find out the relationship between credit risk management and financial performance	29

4.14 Correlation Analysis	40
4.15 Regression analysis.....	41
Conclusion for Regression Analysis	42
Regression Analysis for Sales Revenue	43
4.7.1 To find out the challenges facing financial institutions and possible solutions	46
4.7 showing challenges	46
4.8 showing solutions	46
CHAPTER FIVE	47
DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS	47
5.0 Introduction.....	47
5.1 Discussion of findings	47
5.1.1 Objective (one)	47
5.1.2 Objective (two)	47
5.1.3 Objective (three)	48
5.2 conclusion	49
5.2.1 Objective (one)	49
5.2.2 Objective (two)	50
5.2.3 Objective (three)	50
5.3 Recommendations.....	51
5.3.1 Objective (one)	51
5.3.2 objective (two)	51
5.3.3 Objective(there)	51
5.4 Areas of further study	52
5.5 REFERENCES	53
5.6 Appendix.....	56

ABSTRACT

The study concerning the findings on credit risk management and financial performance of Brac Microfinance. The study objectives were to investigate the credit risk management practices used by Brac microfinance, to find out the relationship between credit risk management and financial performance and lastly to identify the challenges facing the microfinance institution with their possible solutions. The study was conducted from 49 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 revealed that credit risk management had a significant contribution to financial performance. The study concluded that credit risk management practices used were client appraisal, collateral requirements and loan restructuring and recovery on the first objective, on the second objective it was concluded that the relationship was evident but complex strong correlations were observed between credit risk identification and monitoring with key financial performance and on the third objective it was concluded that the microfinance was facing challenges such as credit risk and client outreach. The study recommends that Brac microfinance should consider integrating more advanced credit scoring models and continuously updating them based on emerging data to improve accuracy and effectiveness, prioritize enhancing its monitoring systems and it should also focus on improving financial planning and resource management.

CHAPTER ONE

1.0 Introduction

This chapter provided an overview of the study, including its background, problem statement, purpose, objectives, research questions, scope, and significance.

1.1 Background of the Study

Credit risk management is a global practice used by financial institutions to minimize risks associated with lending. This is a key concern for microfinance institutions worldwide.

Kuo and Enders (2014), for instance, investigated credit risk management in Chinese state-owned microfinance firms. They discovered that these institutions had a difficult time competing with overseas microfinance organizations and faced serious obstacles as a result of the growing financial sector. They came to the conclusion that for these state-owned banks to survive and remain competitive, credit risk management needed to be reformed. They did point out certain flaws in several of the current credit risk management procedures, though.

All commercial activities in Africa must manage risk, but microfinance and financial institutions must do so even more so. The possibility that counterparties or borrowers won't fulfill their financial commitments on time is known as credit risk. The interactions and lending activities of microfinance institutions with people, companies, and other microfinance entities give rise to this risk.

Monetary establishments. For microfinance to proactively manage loan portfolios to reduce losses and generate a satisfactory rate of return for shareholders, credit risk management must be a strong process. Having credit risk management policies and procedures that are adaptable to these changes is crucial for microfinance (Chodechai, 2004).

Credit risk results from a borrower's non-performance. It could result from a failure to perform in the way agreed upon in the recommitment or from an unwillingness to do so. The book value of microfinance is also impacted by its credit risk. The likelihood of microfinance going bankrupt increases with the amount of credit. Although credit risk management is present in Ugandan

enterprises, particularly in the financial institutions sector, it is still minimal. Microfinance has operated with significant operational losses. In Uganda, credit risk issues such as a lack of accountability, transparency, and ethical behavior are the main causes of poor company performance, particularly in microfinance (Kibirango, 1999). Failures of financial institutions have been traced back to self-inflicted causes by microfinance owners; Thomas Kato (ICB), Sulaiman Kiggundu (GBL), and USAID (Co-op Microfinance) are three examples of how financial institutions suffered from the one-man management syndrome of corporate governance. In ICB and GBL, there was no division between the board of directors and senior management, and the management gave little consideration to the interests of depositors.

it that is at risk for an individual. As a result, the depositor's standing in microlending is vulnerable and there's a chance they could lose the money they deposited (Chirwa, 2011).

1.2 Problem statement

In financial organizations, credit risk management is essential and has a significant impact on an organization's safety and financial stability. High financial performance results in operations have been reached by the financial institutions managing the credit in the organizations. The performance of Brac microfinance is notably poor because of the small branch network in the upcountry. With little about 1,000 branches at the moment, microfinance's modest financial base has hindered its spread into many regions of Uganda (Patrick Bitature, 2022). According to Patrick Ayota, the Executive Director of the Deposit Protection Fund of Uganda (DPFU), 2020, the microfinance industry's inadequate credit risk management has significantly led to the loss of funding, forcing the industry to further infuse additional capital.

The COVID-19 pandemic's economic effects were predicted to cause credit losses in the global banking sector to rise in 2021 (Moody's Investors Service, 2021). Financial performance constraints have been brought about by credit risk management concerns in financial institutions, suggesting that the failure to address these issues could result in the financial institutions' collapse. The study will look into how Brac Microfinance's credit risk management performed financially both during and after the COVID-19 outbreak.

1.3 Purpose of the Study

This study aimed to understand how credit risk management affects the financial performance of BRAC Microfinance.

1.4 Objectives of the Study

The study focused on these goals:

To identify the credit risk management practices used by BRAC Microfinance.

To examine the relationship between credit risk management and the financial performance of BRAC Microfinance.

To find out the challenges faced by BRAC Microfinance and suggest possible solutions.

1.5 Research Questions

What credit risk management practices were used in BRAC Microfinance?

What was the relationship between credit risk management and the financial performance of BRAC Microfinance?

What challenges were faced in BRAC Microfinance and their potential solutions?

1.6.1 Content scope

The study's main objectives were to identify challenges, determine potential solutions to those challenges, and comprehend the relationship between credit risk management and Brac Microfinance Uganda's financial performance. It also concentrated on credit risk management practices and how credit risk management affected the financial performance of the organization.

1.6.2 Time scope

The study was to examine credit risk management and financial performance of Brac Microfinance from 2020- 2024 because there were unstable financial situations during and after COVID-19.

1.6.3 Geographical scope

The study was conducted at Brac Micro Finance Namumukasa Branch located at plot 52 Kayunga Road near Midway Supermarket and Seeta branch, Seta Trading Centre opposite Mukono stage, Seeta High Signpost in Mukono District.

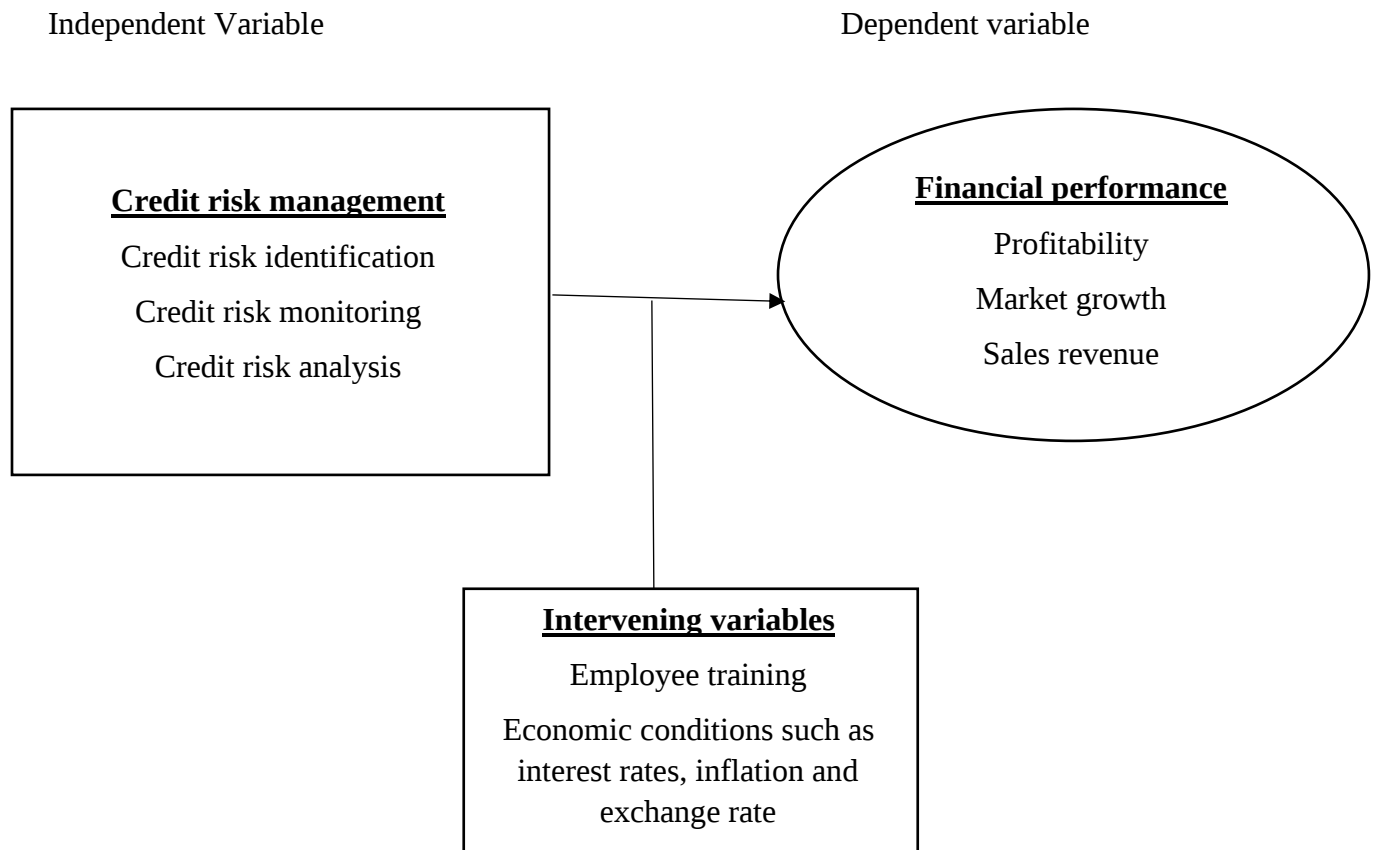
1.7 significance of the research

It offered actual data and insights into the efficacy of credit risk management techniques used by BRAC Microfinance Namumukasa Branch and Seeta Branch to policymakers. Comprehending how these tactics affect financial performance can aid legislators in creating rules and guidelines that support sustainable microfinance operations, thereby advancing financial inclusion and economic growth.

It provided the management of the Seeta and Namumukasa branches of Brac Microfinance with invaluable advice for maximizing their operational strategies. Through the identification of both effective and ineffective methods, management may optimize risk mitigation strategies, boost financial performance, and guarantee the microfinance institution's long-term viability.

The study provided further information on credit risk management and financial performance to other scholars.

1.8 Conceptual framework.



Source: Adapted from Abdou (2009)

In simpler terms, this framework helped show how managing credit risk can impact the financial performance of an organization, taking into account other factors that might also play a role.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, we explore existing research on how credit risk management impacts the financial performance of microfinance institutions.

2.2 Key Definitions

2.2.1 Credit Risk

The possibility of losing money as a result of a borrower defaulting on a loan is known as credit risk. Due to this kind of risk, lenders may not get their original loan amount plus interest, which could negatively impact their cash flow and raise collection expenses. Lenders assess a borrower's income and current debt in order to control credit risk (Basel Committee on Banking Supervision). Another way to define credit risk is the possibility that a borrower won't carry out their end of the bargain. Although it goes by several names, including counterparty risk, performance risk, and default risk, they all relate to the same problem: the consequences of a borrower's failure to fulfill their obligations. Credit risk is primarily composed of three factors:

Exposure: The sum at jeopardy in the event of a borrower failure.

2. Default Probability: The chance that the debtor won't fulfill their responsibilities.

3. Recovery Rate: According to Peter Moles and Ken Brown (2011), the amount of money that can be retrieved in the event of a borrower's default.

A popular framework for comprehending credit risk originates from Merton's structural approach, which saw equity as a call option on a company's assets. He explains this approach in his seminal study, "On the Pricing of Corporate Debt."

A comprehensive overview of credit risk is provided by Moored Choudhry (2011) in his book "An Introduction to Credit Risk Modeling." He talks about a range of credit risk management strategies, from conventional to cutting edge. According to Wheelmen & Hunger (2010), performance in this context refers to the results of organizational actions.

2.2.2 Management of Credit Risk

Managing credit risk entails responding to any possible drawbacks. This procedure usually adheres to a normal risk management framework, which entails determining the risk's source, estimating its magnitude, and selecting management tactics (Peter Moles & Ken Brown, 2011). To put it another way, credit risk management involves assessing and mitigating the possibility of suffering financial loss in the event that debtors default. Effective management is essential since this risk has a substantial impact on the stability and profitability of financial institutions (Bhatt et al., 2023; Tell et al., 2023). The key to effective credit risk management includes risk identification, measurement, monitoring, and control.

2.2.3 Performance Depending on the objectives of the company, there are several methods for measuring organizational performance. For example, Musah (2008) points out that depending on the organizational structure, performance should be evaluated using various measures. According to Kent & Weese (2000), an organization's performance is measured by how well it achieves its objectives.

According to other study (Richard et al., 2009; Thang & Truong, 2011; Morgan et al., 2003), there is a correlation between customer happiness, employee contentment, productivity, and profitability and organizational performance. Rezaei et al. (2018) advise measuring success using a variety of variables, including non-financial and financial ones.

The resource-based view (RBV) has caused a shift in performance emphasis from the industry to the unique assets of the company (Spanos & Lioukas, 2001). Additionally, employee motivation is emphasized by Saleem & Khurshid (2014) as a crucial indicator of organizational performance.

2.2.4 Financial Performance

A company's financial performance indicates how well it is doing financially over a given period of time. A number of measures, including revenue, profit, and return on equity, are used to evaluate it in order to determine how well the business generates income from its assets. Understanding financial performance is critical for stakeholders, including investors, executives, and regulators, to assess a company's market position and management effectiveness (Gungor & Gun, 2020).

Simply put, a company's financial performance shows how well it makes profits and builds shareholder value over time. This entails assessing the efficiency with which the business employs

its resources and meets its financial objectives. Key areas of concentration, as assessed by particular financial criteria, are expenses, equity, liabilities, and overall profitability (Lenglet, 2023). A more thorough understanding of financial performance examines how well a business achieves its goals and contrasts it with other businesses operating in the same sector or industry (Kaplan & Norton, 1992).

2.2.5 Financial Institutions

Whether they are corporate, public, or private entities, financial institutions work to maximize profits (Omar, 2009). They are essential in allowing money to flow from people who need to borrow money to those who save it (Goldsmith, 1969).

By providing a variety of financial services, such as credit origination and asset and debt management, these organizations act as intermediaries (Gurley & Shaw, 1960). They offer a range of financial services and solutions that help with risk management and resource allocation (Merton & Bodie, 1995). They also facilitate connections between investors and persons in need of loans or expenditures (Mishkin, 2016).

2.2.6 Risk Identification

Risk identification involves recognizing and detailing potential threats that could affect a project or objective. This process includes analyzing and forecasting risks in a systematic way to understand their context and contributing factors (Barton, 2012; Aven, 2015). The goal is to pinpoint risks that could impact a project and document their characteristics (Hopkin, 2017; PMBOK Guide, 2004).

2.2.7 Risk Monitoring

The process of tracking existing dangers, keeping an eye out for any that may still exist, and discovering new ones is known as risk monitoring. This guarantees that risk management plans are implemented correctly and evaluates the degree to which these plans reduce risks (Babbal & Santomero, 2007). Throughout a project's lifecycle, it entails routinely assessing and updating the risk profile to make sure that responses are efficient and that any new risks are dealt with right away (Hillson, 2002; PMI, 2004; ISO, 2009).

2.2.8 Analysis of Credit Risk

Analyzing credit risk is determining the likelihood that a borrower will miss payments on a loan or other credit commitment. This entails evaluating the borrower's credit history, financial stability, and ability to repay as well as the general state of the economy. Credit risk analysis has developed, with major contributions from a variety of finance

2.2.9 Employee Training: This methodical procedure helps people acquire the abilities and information required for their positions. Training is crucial for increasing employee productivity, according to Frederick Winslow Taylor's scientific management theories (Taylor, 1911). These days, structured instructional programs are used in employee training to improve work performance and organizational success (Armstrong, 2006).

2.2.10 State of the Economy

The current state of an economy, which alternates between expansion and recession, is referred to as its "economic conditions" (Marx, 1867). Adam Smith talked on the division of labor, productivity, and market dynamics in relation to these conditions (Smith, 1776). By examining ideas like comparative advantage, income distribution, and the effects of international trade, David Ricardo elaborated on this (Ricardo, 1817).

2.3 Conceptual Structure

In Modern Portfolio Theory (MPT), which provides a framework for valuing riskier assets, rational investors should diversify their holdings to balance risk and return. Early economists like as Fisher began studying financial markets and the role of risk, even though many of them considered financial markets to be speculative.

Keynes's work on futures markets and his beauty contest analogy challenged the notion that markets were solely speculative (Keynes, 1923). Williams (1938) contended that asset prices ought to represent their intrinsic value based on anticipated future dividends, which brought value investing into line with Fisher's theories and Benjamin Graham's beliefs.

Markowitz (1999) enhanced these ideas by emphasizing how important it is to include expected returns and risks when designing investment portfolios. Realized that risk would have to be taken

into account because the fundamentalist premise rested on hopes for the future. This would enable the profitable application of the recently developed expected utility theory. Markowitz established the idea of optimum portfolio selection in the context of trade-offs between risk and return, with a focus on portfolio diversity as a means of minimizing risk. This was the first instance of what is currently called Modern Portfolio Theory, or MPT for short.

2.3.2 Credit risk theory

Furthermore, the analysis was based on Macleod's credit risk theory (1889). The Credit Theory states that the debtor's responsibility to repay the debt and the creditor's acquisition of the right to demand payment from the debtor determine the value of credit (Macleod, 1889). This hypothesis, according to Chatterjee, Corbae, Dempsey, and Ríos-Rull (2020), addresses the reason behind loan default and offers lenders a framework for identifying, assessing, tracking, and managing credit risk exposure. However, the theory was later criticized for failing to systematically distinguish among the various kinds of credit because it could not explain whether the credit supply consists of paper money, coins, bank notes, bank deposits, or even tangible commodities like products and/or services (Lapavistas, 1991).

Investors will only support low-risk loans in the high-risk regime due to the significant default risk, even in cases where banks are seen highly skilled. In contrast, riskier loans are funded in the low-risk regime provided the bank is deemed competent enough to manage these risks (Thakor, 2016). According to the credit risk theory, in order to identify, assess, monitor, and control credit risk and improve loan performance, each lending company should have a policy for evaluating credit risk (Wanjiru, 2017). The flaw in this idea is that it is

2.4 Empirical studies

2.4.1 Relationship between risk identification and financial performance

A study by Onzere (2012) was done on the risk identification strategies adopted by Barclays Bank of Kenya to attain optimal performance. However, these studies mainly focused on the financial performance of the firms. Secondly, these studies were mainly surveys. While these studies are of importance to the researcher, none of them was done on the effect of risk management practices on performance of firms in the hospitality industry as they were either in the NGO or commercial banks hence a knowledge gap. It is therefore this gap which the researcher seeks to fill by providing

answer to the question: what effect does risk management practices have on the performance of hospitality industry in Kenya.

The practice of recognizing risky or hazardous situations and attempting to describe them is known as risk identification. It is a process to consciously consider, evaluate, and foresee potential dangers (Barton, 2012). Identifying the key observation areas both inside and outside the company is the first stage in planning the execution of the risk management function. In order to detect specific risks, departments and people must be allocated duties. For instance, the financial department's primary responsibility is to identify hazards related to interest rates and foreign exchange. Ensuring the establishment of a risk management function across the entire corporation is crucial, as subsidiaries must also identify and analyze hazards in addition to the parent company.

Scenario analysis and risk mapping are examples of risk identification. Businesses that identify risks effectively lay the foundation for successful financial outcomes. By using risk mapping to determine the frequency and severity of the risks, the organization may be able to avoid high frequency and low severity risks and instead concentrate more on low frequency and high severity risks. The risk identification process include risk-ranking elements, which are often ranked according to impact, severity, or financial repercussions (Barton, 2002). As a result, risk identification aids in softening risks in accordance with their significance and helps management create a risk management plan to effectively allocate resources.

According to Kromschroder & Luck (2008), identifying risks is essential to successfully mitigating credit risk. The management of microfinance must be aware of the dangers that the microfinance faces in order to successfully manage credit risks. During the risk identification process, it is crucial to identify all potential risks, which can be achieved by creating a suitable atmosphere for credit risk. The board of directors bears the obligation of approving and reviewing the credit risk strategy and major credit risk policies of the microfinance on a regular basis (at least once a year).

According to Berger & Udell (2013), risk analysis categorizes them into operational (internal) and business (external) risks based on the degree of organizational control. Identification of risks based on this criterion is impacted by the requirement to have previous

knowledge of potential information that could negatively impact business operations. The current state of the workplace offers resources for use in assessing the risks associated with the initiatives. Although it was challenging to analyze for risk contingency, the presentation did offer one component of prior knowledge about risk that seemed correct.

In Yusuwan et al.'s (2008) study on risk management practices on construction project businesses in Klang Valley, Malaysia, they concentrated on determining the degree of awareness of risk management. They made it their mission to look into the procedures followed while handling risks in building projects and to pinpoint the issues and difficulties associated with risk management. In order to conduct this study, 27 public and private firms operating in the Klang Valley were studied using questionnaire surveys and interviews. According to the survey, 44.4%, 29.6%, 14.8%, and 11.1% had never heard of risk management, heard about it rarely, attended training, and applied it, respectively. Their research revealed that risk management enhances financial performance and productivity. Jacob and Kwak (2003) emphasize how risk can be beneficial.

According to Gates (2006), a microfinance organization's risk analysis should take into account both its degree of profitability expectations and its risk tolerance when taking on credit risk. The two primary techniques for identifying risks are financial statement analysis and branch manager inspection. The four primary methods of risk management are risk rating, credit worthiness research, standard setting, and collateral. A microfinance company's senior management is in charge of carrying out the credit risk plan that the board of directors has approved. This entails making certain that the microfinance's credit-granting operations follow the predetermined plan, that Mitten procedures are created and put into practice, and that the roles responsible for loan approval and review are appropriately and transparently delineated. Also, senior management needs to guarantee that an impartial internal assessment is conducted on a regular basis.

2.4.2 Credit risk management practices and financial performance.

According to the Macaulay (1988) study, which examined the adoption of best practices for credit risk management in the US financial sector, more than 90% of those institutions have done so. Inadequate credit risk policies continue to be the primary cause of major issues in the business, which has led to a renewed focus on effective credit risk management in recent years. By keeping

credit exposure within reasonable bounds, an efficient credit risk management policy should aim to optimize the risk-adjusted rate of return for the financial sector. Additionally, it is necessary to manage both the risk associated with individual credit transactions and the credit risk across the board.

The impact of credit risk management techniques on loan default in SACCOS in Meru County, Kenya, was evaluated by Justus et al. (2017). The 44 credit officers of SACCOs in Meru County made up the population of the study, which used a descriptive research design. Data collection was done using a questionnaire. In order to analyze the data, several linear regressions were performed. Data that has been analyzed was shown in frequency tables and percentages. The study found a significant correlation between loan delinquency in SACCOs, collection policy, and credit risk controls. The study comes to the conclusion that loan default in SACCOs in Meru County was greatly influenced by credit risk management techniques. The report suggests that in order to effectively recover debt, SACCOs implement stricter policies regarding credit risk management procedures.

Gladys (2012) conducted research to determine the impact of credit risk management strategies on the amount of nonperforming loans that Kenyan commercial banks have as a result of evaluating SMEs. All Kenyan commercial banks were the subject of a descriptive study on credit risk management strategies. To investigate the connection between credit risk management and SME nonperforming loans in Kenyan banks, a regression analysis was created. The study found a negative correlation between nonperforming loans and credit risk management.

Muasya (2013) looked into the connection between loan losses and credit risk management procedures; the study focused on Kenyan commercial banks. This study used a descriptive research approach to investigate if loan portfolio losses in Kenyan commercial banks are correlated with credit risk management procedures. The majority of Kenyan commercial bank managers understood the need for information sharing among industry participants in order to mitigate risk, according to research findings that showed a significant number of Kenyan commercial banks had not implemented credit risk management information systems to effectively measure, monitor, control, and identify risk. Credit risk management procedures are

widespread throughout the majority of commercial and that credit risk management practices have a strong negative correlation with loan losses in Kenyan commercial banks, and that management of these commercial banks valued government legislation pertaining to credit risk management through the introduction of the Credit Sharing Information Act.

A study on the comprehensive management of credit risk and financial profitability was conducted by Bridgeforce in 2008. After doing a thorough analysis of the papers, the researcher came to the following conclusion: maintaining credit relationships that are constant throughout the credit life cycle and founded on all available customer.

2.4.3 Relationship between credit risk monitoring and financial performance

According to Babbel and Santamero (2007), risk monitoring is the act of tracking hazards that have been recognized, keeping an eye on lingering concerns, spotting new risks, making sure risk strategies are carried out, and assessing how well they work to reduce risk. Risk metrics related to putting backup plans into action are tracked by risk monitoring and management systems. For the duration of the project, risk monitoring and control are continuous processes.

Throughout the course of a project, risk monitoring is the act of tracking specified risks, keeping an eye on residual risks, finding new risks, carrying out risk response strategies, and assessing how well they work. If the risk results in a fire, the "planned risk responses" that are incorporated into the project management plan through process integrated change control are subsequently carried out. But it's also important to assess how these risk responses turned out. Furthermore, it is necessary to assess whether the project assumptions remain true, whether risk has changed from its previous state, whether appropriate risk management policies and procedures are being followed, and whether the contingency reserve needs to be adjusted to reflect the project's level of risk (Akkizidis & Khandelwal, 2008).

According to Musyoki (2011), a risk manager's primary responsibility is to measure, monitor, and control credit risk. One of the responsibilities of the risk manager is to identify potential events or future changes that can negatively affect the institution's credit portfolio and the microfinance's resilience to those changes. A reporting and review structure is necessary for effective risk management in order to guarantee that risks are properly recognized and evaluated

and that the proper controls and actions are taken.

According to Al Tamimi and Al-Mazrooei (2007), risk monitoring can be used to ensure that risk management procedures are appropriate and in line. It can also assist microfinance management in identifying errors early on. The final phase of business risk management is monitoring. As said by Parrenas

Mwisho (2011) argues that sophisticated value-risk models are operational in numerous organizations. However, they are still in the implementation stage in a great deal of other circumstances. Simple ad hoc limitations and careful observation can take the place of complex real-time systems in the interim. For institutions who primarily serve their clients and have minimal trading activity, this might be perfectly good, but it is concerning that there aren't any other suitable trading platforms in the market.

The credit risk monitoring process consists of three stages: basic risk control to prevent the company from being overly focused in any one area, calculating the likelihood of

The relationship between economic capital and return, defaulting and evaluating recovery (Babbel & Santomero, 2007). It is obvious that microfinance would wish to establish minimal rates of return that, after provisioning, they anticipate earning on their portfolios. The next step in developing credit risk management is to examine the relationship between economic profit and risk. Risk management is a strategic management tool that helps to balance ROE (return on equity) and RAROC (risk adjustment returns on capital). Every microfinance must comprehend what influences its share price and, as a result, the relationship between economic capital, IPOs (Intellectual Property Owners), and return on equity.

Sundararajan (2007) provides an explanation of a thorough risk analysis and risk mitigation techniques for a variety of risks resulting from financing operations, the type of profit and loss sharing, and the source of funds, particularly investment account holders. He comes to the conclusion that microfinances must apply contemporary methods of risk analysis, especially when it comes to credit and general microfinance hazards. Furthermore, he makes the argument that because of the function that microfinances play and the peculiar combination of dangers that they entail, it is imperative that new regulations be adopted.

Moore (2007) contends that data collection is necessary for microfinance and that there are major benefits to sharing information and adhering to uniform definitions, norms, and procedures for credit risk.

2.4.4 Relationship between risk analysis and financial performance

Financial institutions that lend money to people and businesses depend on credit risk management and credit risk analysis, including loan default risk analysis and finance risk analysis. Credit can arise from a number of sources, including microloan mortgages (or house loans), auto loans for the purchase of a vehicle, credit card purchases, installment purchases, and more. There is a chance that credit loans and money may be repaid (Nafula, 2009). Credit companies typically gather a tonne of data about borrowers in order to assess the risk levels of credit consumers. Techniques for statistical predictive analysis can be used to assess or ascertain the default risk levels associated with loans, credit, and money.

The process of credit risk analysis include helping to verify a client's willingness and capacity to repay a loan. The use of microfinance institutions

Typically, data from credit reports gathered by outside credit bureaus and rating agencies is used to calculate personal credit scores. Credit ratings can reveal a person's past and present financial circumstances. It does not, however, specifically define what separates a "good" score from a "bad" score. More precisely, it doesn't inform you of the degree of risk associated with any potential loans you may be considering (Mwisho, 2011). The issue is addressed by the internal credit scoring techniques detailed on this page. It is mentioned that commercial credits can also be scored using internal credit methods.

Previous research indicates that the effectiveness of the credit risk management system is influenced by the credit risk architecture, policies and structure of the credit risk management, the credit rating system, monitoring, and control. Bagchi (2014). In a related study, Muninarayanappa and Nirmala (2014) stated that maintaining an appropriate credit risk environment, credit strategy, and credit rules is necessary for the effectiveness of credit risk management. Therefore, safeguarding and raising the quality of the loans should be the ultimate goals. In a similar spirit, Salas and Saurina's (2012) research showed that the non-performing loan rate was significantly

impacted by GDP growth, quick credit expansion, microfinance size, and capital ratio. Klein (2012) demonstrates how credit risks might encourage debtors to return loans when the legal system makes it challenging for

2.4.5 Credit risk management and financial performance.

A study on the relationship between Kenyan commercial banks' financial performance and credit risk management was carried out by Kimotho and Gekara (2017). Examining the impact of credit risk management strategies on Kenyan commercial banks' financial performance was the aim of the study. The target population for the study included debt collection managers, credit risk managers, and credit analysts. The study used a descriptive research approach. The study found that credit risk management practices have a favorable impact on bank profitability and suggested that bank management should supervise the facilitation of credit risk management as a significant level of process and documentation standardization. The study suggested that the bank think about risk identification as a procedure for managing credit risk and concentrate on

The impact of credit risk management techniques on loan default in SACCOS in Meru County, Kenya, was evaluated by Justus et al. (2017). The 44 credit officers of SACCOs in Meru County made up the population of the study, which used a descriptive research design. Data collection was done using a questionnaire. In order to analyze the data, several linear regressions were performed. Data that has been analyzed was shown in frequency tables and percentages. The study found a significant correlation between loan delinquency in SACCOs, collection policy, and credit risk controls. The study comes to the conclusion that loan default in SACCOs in Meru County was greatly influenced by credit risk management techniques. The report suggests that in order to effectively recover debt, SACCOs implement stricter policies regarding credit risk management procedures.

2.4.6 Relationship between employee training and financial performance

An organization's improved financial performance is significantly influenced by employee training (Hanaysha & Tahir, 2016).

According to a 2013 study by Bhat, staff competency can be raised through training, which boosts organizational effectiveness. Training helps the worker become more confident by

improving their abilities and conduct.

An organization's financial standing improves when it invests in its personnel through training and development, as it also helps to sustain organizational performance (Hanaysha & Tahir, 2015). (Sultana, Irum, Ahmed & Mehmood, 2012).

Effective training programs overcome crucial organizational objectives, so a systematic, dynamic, and flexible approach is imperative for having a significant positive impact on organization development. Training and development measures the ability and preparedness of human resources towards achievement of organizational goals in due course (Wallach & Mueller, 2006). A high level of work-life in the organization leads to increasing profitability, better employment, and market penetration. The quality of work-life and training programs are strongly related. In business enterprises or organizations, balancing work-life quality is a continuum, therefore it concerns employee demands in the workplace and effective job design (Jehanzeb et al., 2013; Pallavi P. Kulkarni, 2013; Wallach & Mueller, 2006).

By supporting employee behavior, the careful training and development procedures foster a favorable attitude toward the company and eventually increase its profitability. Training and development enhance subject matter and help define organizational goals for each individual employee. According to Neelam Tahir's (2014) research evidence, the planned learning platform demonstrates how employees should perform their current jobs and strive for future ones. As a result, items such as "Training and development practices in organization is" are ranked according to semantic differential scaling (Innovative to conservative, modern to old fashioned, useful to unuseful and simple to complex). The concept of psychological empowerment was also extensively researched in the literature before being used in this investigation (Spreitzer, 2020a, 2020b).

2.4.7 Relationship between economic conditions and financial performance.

Interest rates, inflation, and financial success all have a dynamic and interwoven relationship with one another. These variables impact borrowing costs, consumer spending, investment returns, and general economic confidence. These variables then impact firm profitability and growth prospects as well as individual financial well-being.

An interest rate is defined in economic theory as a value obtained through the effort of a value saved or invested.

The interplay between currency transactions will be reflected in these rates (Patterson Dan Lygnerud, 1999). According to Patterson Dan Lygnerud, there are short-term and long-term rates (1999). The Central Bank influences short-term rates, which leads to the monopolization of money in that regard. However, long-term rates indicate the

The easiest way to define inflation is as a broad price increase that reduces a currency's buying power (McConnel and Brue, 2008). There are a few reasons why prices for goods and services rise due to inflation: when aggregate demand grows more quickly than aggregate supply. The expansion of bank interest rates, the government deficit, and the rise in foreign demand are all contributing factors to the mismatch between aggregate supply and demand (Haberler, 1960). According to Sukimo (2000), inflation also raises the cost of labor and commodities, which drives up the cost of items and their selling prices. A few indices of inflation include the Implicit Price Index (deflator GDP), Wholesale Price Index (WPI), and Consumer Price Index (CPI) (Majalah Tempo, 2002).

A value is the exchange rate

2.4.8 Challenges and possible solutions of Brac microfinance and financial performance

A number of additional difficulties that are particular to the microfinance sector and pertinent to its current stage of growth confront microfinance organizations. Even if each MFI is different, they all face the same difficulties, including as quick growth and expansion, changing management, and developing new products. Quick development and growth Operations at an MFI are strained in a number of ways by rapid development. Growth has put pressure on many MFIs' ability to develop new managers from within, resulting in quick promotions to fill management roles (such as new branch managers) with less expertise. Weak human resource planning or low training investment might increase the risk of operations being badly managed by inexperienced managers. The organization faces increased operational risk when the backgrounds of its employees do not align with their responsibilities. (Uzma Qureshi & David Roodman, 2006).

Control growth to allow time to develop internal systems and prepare staff for changes resulting from the expansion.

Carefully monitor loan growth and portfolio quality to better understand growth (e.g., number of loans per client, average loan size, growth in number of borrowers) and to not let growth mask increases in delinquency. The drive for expansion in order to increase financial sustainability may also result in "mission drift," or a lack of concentration on providing low-income clientele. Loan officers may be inclined to choose wealthier clients with more substantial loan requests if they are under pressure to maintain low delinquency and grow the loan portfolio. Box 6 illustrates that during a phase of swift expansion, closer observation and monthly trend reporting on loan volumes and portfolio quality are necessary to identify issues before they become serious. Internal audits can be useful in spotting fraud and issues with the quality of portfolios before they cause large losses. (Thomas Rhyne, 2001). Several risk management techniques are employed by MFIs in the face of rapid development.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This covered the population and sample size, sampling strategies, data sources, data collection methods, and safeguards for the validity and reliability of the data. It also talked about possible restrictions and methods for overcoming them, as well as the presentation and analysis of the data.

3.1 Research Design

A case study methodology that combines qualitative and quantitative techniques was used in this investigation. The descriptive study design aimed to give a thorough picture of credit risk management and how it affects organizations' financial performance. To comprehend creditworthiness, portfolio performance, and the efficacy of financial strategies, it examined the means and standard deviations of both independent and dependent variables. Making well-informed decisions to reduce risks and maximize rewards was much easier with this. The qualitative component contributed to the explanation of the quantitative data, giving the results more context and significance.

3.2 Study Population

56 workers from the Brac Microfinance Namumukasa and Seeta Branches in Mukono District was subjected to the study. It was anticipated that these staff members provided insightful commentary on credit risk management and how it affects financial performance. Their viewpoints were beneficial for both practical implementations in the microfinance industry and scholarly study.

3.3.1 Sample Size

The researcher selected a sample of 49 respondents, based on the sample size formula by Yamane (1967). This sample was carefully chosen to ensure the researcher gather relevant information needed for the study.

3.3.2 Sampling techniques

The researcher used simple random sampling to give a chance the respondents without bias.

3.4 Sources of data

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

3.4.1 Primary Data

This was obtained directly from employees of Brac Microfinance Namumukasa Branch and Seeta Branch Mukono District.

3.4.2 Secondary Data

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

3.5 Data collection methods

3.5.1 Questionnaire method

To rapidly acquire thorough information, the researcher created self-administered questionnaires with both open-ended and closed-ended questions. Because the researcher was working with literate individuals who were capable of filling out the forms, the strategy also saved expenditures associated with transportation

3.5.2 Interviewing method.

To gather comprehensive data regarding individual experiences, viewpoints, and motives, the researcher conducted in-person, phone, or video conference interviews. These methods yielded insights that were difficult to obtain through quantitative techniques such as surveys.

3.6 Data collection tool.

3.6.1 Questionnaires

The researcher created self-administered surveys with both open-ended and closed-ended items. This lowered transportation expenses in addition to the fact that the researcher was working with literate subjects who can complete the paperwork.

3.6.2 Interview guides

The researcher used interview guides that ensured consistency, reduced bias, and saved time in analyzing and understanding credit risk management and financial performance

3.7 Validity and Reliability.

3.7.1 Validity

The expert judgment approach was used to determine the relevance of the questions to measure the validity of the instruments. Before the actual data collecting period, the questionnaire was pre-tested by three (3) research professionals to get their feedback on whether the items would be relevant to the study variables and whether they might be used to address the particular objectives. The content validity index (CVI) was to be then calculated by the researcher by dividing the total number of items in the instrument by the total number of items that judges were deemed relevant (R), as indicated below:

$$CVI = \text{Number of items deemed valid by judges} / \text{Total number of items}$$

The instruments were deemed legitimate based on expert judgment if the resulting coefficient exceeded the required threshold of 0.70.

3.7.2 Reliability

Five (5) credit staff members from any bank in the Mukono District were pre-test the study instrument. Following this, the data was analyzed using SPSS Version 20.0. To check for internal consistency, Cronbach's (1951) alpha coefficient was produced using the same program. If the alpha value is more than 0.70, the device was regarded as trustworthy. If the alpha value is less than 0.70, the researcher was to examine the Cronbach's Alpha values for each item in the section to determine whether deleting some or all of the items caused the original Cronbach Alpha to rise beyond 0.70.

After making the required adjustments to the device, the researcher gathered data.

3.7 The study's limitations and how the researcher's planned of action.

It was difficult to get pertinent and thorough data, but the researcher planned to use techniques including setting clear goals and boundaries, creating a well-thought-out data-gathering tool, and

developing rapport and trust.

Subjectivity and bias, particularly during the data collection process, were to be expected; yet, the researcher hoped to create well-objective interview guidelines, uphold objectivity in the analysis, and guarantee ethical concerns.

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATION AND ANALYSIS

4.0 Introduction

The analysis, interpretation, and presentation of the research findings were the topics of this chapter. Based on the research questions, the analysis and findings were interpreted and examined. The goal of the study was to evaluate the financial performance and credit risk management of microfinance institutions in Uganda using Brac microfinance as a case study. The aims were to ascertain the credit risk management procedures followed by Brac microfinance, ascertain the correlation between credit risk management and the financial outcomes of Brac microfinance Uganda, and ascertain the obstacles encountered by Brac microfinance and potential remedies. The results were acquired by means of a survey administered to Brac's respondents. 49 responders were given the surveys, and they all provided thoughtful responses.

4.1 Demographic information

The background data of the respondents who took part in the study was provided in this section. Finding out the characteristics of the respondents and displaying the distribution of respondents in the study were the goals of this background data.

4.1.1 Gender of respondents

Table 4.1 Gender of respondents

Respondents	frequency	Percentage
Male	21	42.85
Female	28	57.14
total	49	100

Source: Primary data, 2024

From table 4.1, it can be seen that the majority of respondents are female that is 28 representing 57.14% of the total number of respondents, 21 respondents are female representing 42.85% of the respondents. This indicates unequivocally that gender sensitivity was considered, making it impossible to cast doubt on the findings for the purpose of making decisions based solely on gender.

4.2.1 AGE RESPONDENTS

Table 4.2 age respondents

respondents	frequency	Percentage
20-29	24	48.97
30-39	18	36.73
40-49	4	8.16
50 above	3	6.12
Total	49	100

Source: primary data, 2024

Table 4.2 above shows that, the majority of respondents were aged between 20-29 years 24(48.97%) respondents followed, by 30-39 years represented by 18(36.73) respondents, followed by 40-49 years represented by 4(8.16%) respondents and 50+ represented by 3(6.12%). The bulk of the respondents were mature, as can be inferred from the analysis above, which is why the information was collected.

4.3.1 EDUCATION RESPONDENTS

Table 4.3 Education respondent

RESPONDENTS	FREQUENCY	PERCENTAGE
Certificate	6	12.12
Diploma	7	14.28
Bachelor's degree	21	42.85
Master's degree	13	26.53
Other	2	4.08
Total	49	100

Source: primary data, 2024

From table 4.3 above indicates that majority of the respondents were 21 for Bachelor's degree holders representing 42.85%, followed by master's degree level with 13 respondents representing 26.53% , followed by diploma with 7 respondents representing 14.28%, followed by certificate

with 6 respondents represented 12.12% and others with 2 respondents represented 4.08%. This suggests that the respondents had a high level of education, which makes it possible to trust the data they provided when making decisions about this subject.

4.4.1 DEPARTMENT RESPONDENTS

Table 4.4 department respondents

RESPONDENT	FREQUENCY	PERCENTAGE
Retail banking	3	6.12
Corporate banking	5	10.20
Investment banking	8	16.33
Risk management banking	7	14.29
Asset management banking	2	4.08
Audit	3	6.12
Operations	5	10.20
Human resource	3	6.12
Marketing	6	12.24
Credit administration	7	14.29
Total	49	100

Source: primary data, 2024

Table 4.4 shows that most of the respondents were in investment banking with 8 respondents representing 16.33%, followed by credit administration and risk management banking departments with 7 respondents representing 14.29%, followed by marketing with 6 respondents representing 12.24%, followed by corporate banking and operations with 5 respondents representing 10.20%, followed by retail banking, audit and human resource with 3 respondents representing 6.12% and lastly asset management banking with 2 respondents representing 4.08% . This shows that information obtained was gotten from respondents in different departments so it can be relied on for decision making for the study.

4.5.1 TIME OF SERVICE

4.5 Showing time of service

Respondents	frequency	Percentage
Less than 1 year	3	6.12
1-3 years	23	46.94
4-6 years	20	40.82
7 above	3	6.12
total	49	100

Source: primary data, 2024

Results in table 4.5 indicate that majority of the respondents had worked from 1-3 years with the frequency of 23 representing 46.94%, followed by 20 respondents from 4-6 years representing 40.82% followed by respondents of less than 1 year and 7+ with 3 representing 6.12%. This shows that most respondents have worked in the organization for some good years so the information can be based on for decision making in this study.

4.6.1 To find out the credit risk management practices used in financial institutions

Credit risk management practices are strategies and techniques used to identify, assess and mitigate the risk of borrowers defaulting on their obligations

Table 4.6 showing the credit risk management practices used in the microfinance

Respondents	frequency	Percentage
Client appraisal	49	100
Credit scoring	36	73.4
Collateral requirement	49	100
Loan restructuring and recovery	49	100
others	9	18.37

From Table 4.6 above, the most credit risk management practices used were client appraisal, collateral requirement, and loan restructuring and recovery with 49 respondents representing

100%, followed by credit scoring with 36 respondents representing 73.4% and 9 respondents representing 18.37%. From the survey it can be concluded that the most credit risk management practices used by financial institutions are loan restructuring, recovery, collateral requirement, credit scoring, and client appraisal however there are some other practices such as risk-based pricing, regular monitoring, and credit limit management

4.6.2. To find out the relationship between credit risk management and financial performance

Response	Rankings
Strongly Disagree (SD)	1
Disagree (D)	2
Uncertain (U)	3
Agree (A)	4
Strongly Agree (SA)	5

Table 4.6 showing credit risk identification

A	Credit risk identification	SD(1)	D(2)	U(3)	A(4)	SA(5)	mean	Standard deviation
1.	The risk department identifies and assesses core risks and opportunities for microfinance	1	2	3	21	22	4.05	0.86
2.	There is an estimation of the credit risks in terms of time	2	1	1	22	23	4.04	0.76
3.	There is credit risk identification in the loan	2	3	6	24	14	3.87	1.02

	approval phase especially on the disbursement							
4.	Microfinance identifies risks at the collateral security presentation	0	4	5	32	8	3.63	1.01
5.	There is critical credit risk identification through a risk management department	0	1	7	26	15	3.71	1.02
6.	Microfinance has a credit risk identification policy that guides the risk process	1	2	1	34	6	4.00	0.89
7	Most clients default on loan repayments more than once due to financial difficulties	1	1	5	25	18	3.71	1.01
8	Microfinance has never declared bankruptcy in the past five years	0	0	0	13	36	4.73	0,44

Source: primary data, 2024

According to the survey, microfinance institutions identify and assess credit risks. Most respondents agreed that the institution has processes and policies in place for identifying credit risks, especially core risks and opportunities. However, there were some uncertainties and disagreements about the effectiveness of risk identification during the loan approval phase and collateral security.

Table 4.7 Showing Credit Risk Monitoring

B	Credit Risk Monitoring	SD(1)	D(2)	U(3)	A(4)	SA(5)	mean	Standard deviation
1.	There is effective risk planning in the financial institution on the credit	0	0	0	34	15	4.31	0.50
2	Microfinance conducts risk monitoring to detect the risks' strength.	0	0	0	31	18	4.29	0.45
3	The Microfinance risk controls from causing harm to business operations	0	0	1	28	20	4.19	0.61
4	The microfinance has an effective credit default assessment on the loans	0	0	1	35	13	4.23	0.59
5	The microfinance does loan recovery assessments on the loans provided to the borrowers	0	1	0	34	14	4.23	0.56
6	There is an utmost risk monitoring staff in the microfinance	0	0	1	41	7	4.09	0.50
7	Microfinance high costs in monitoring risks	0	0	3	37	9	4.90	0.66
8	Microfinance is interested in participating in further	0	1	4	39	5	3.84	0.69

	training on credit risk monitoring							
9	The Microfinance experienced a situation where the monitoring system failed to predict a credit risk accurately	23	16	8	2	0	1.67	0.91

Source: primary data, 2024

Table 4.8 evaluates the effectiveness of credit risk monitoring practices. There was a general agreement that the institution had effective risk planning and monitoring mechanisms in place. Respondents also acknowledged the importance of monitoring systems for assessing credit defaults and loan recoveries. However, there were concerns about the accuracy of the monitoring system and the high costs associated with risk monitoring. Overall, the monitoring process is seen as effective but with areas for potential enhancement.

Table 4.8: showing credit risk analysis

C	Credit risk analysis	SD(1)	D(2)	U(3)	A(4)	SA(5)	mean	Standard deviation
1.	Microfinance conducts a credit risk analysis on businesses and individuals before lending	0	1	11	32	5	3.66	0.82
2.	Microfinance uses a credit scoring model in credit risk assessment	0	0	7	36	6	3.72	0.80
3.	The Microfinance considers physical and financial characteristics in credit	0	3	12	26	8	3.57	0.84

	scoring models for personal loans							
4.	Microfinance faces intense challenges such as government controls in credit risk analysis	0	2	15	25	7	3.33	0.87
5.	Microfinance conducts the credit bureau to assist in decision-making to lend their customers	0	2	12	30	5	3.43	0.82
6.	Sometimes the borrower's collateral is insufficient for the loan borrowed	0	3	18	20	8	3.52	0.90
7.	The microfinance documents and elaborates the strategies for managing Credit	0	1	13	28	7	3.42	0.86
8.	Clients are always involved in legal disputes related to finances	22	11	13	1	2	1.75	0.90

Source: primary data, 2024

This table focuses on credit risk analysis practices, including the use of scoring models and handling of collateral. Respondents generally agreed that the institution uses credit scoring models and analyzes risks before lending. Challenges included dealing with insufficient collateral and government controls affecting the analysis process. The overall impression was that credit risk analysis is robust but could be improved by addressing collateral issues and external controls.

Table 4.9, showing employee training

A	Employee training	SD(1)	D(2)	U(3)	A(4)	SA(5)	mean	Standard deviation
1	There is employee training on credit risk in microfinance	0	0	2	28	21	4.19	0.58
2	Microfinance has only on-the-job training for the employees	28	12	0	1	0	1.74	0.98
3	Employee training is very effective in credit risk management	0	0	10	36	13	3.34	0.85
4	Employee training in microfinance is aligned with its goals and objectives	0	0	5	18	31	4.07	0.77
5	Employee training is offered quarterly on credit risk management	12	13	14	0	0	1.56	0.82
6	Training of employees is irrelevant in finance	30	17	15	0	1	1.68	0.86
7	Employees fail to apply what they learn from the training	29	15	12	0	0	1.71	0.88
8	There are no aspects of the training are found beneficial to employees	32	17	2	0	0	1.75	0.90

Source: primary data, 2024

The table examines the effectiveness and relevance of employee training on credit risk management. There was significant disagreement about the relevance and effectiveness of the training provided. Many respondents felt that on-the-job training was insufficient and that training does not align well with job requirements or was not applied effectively. This indicated a need for better-designed training programs that are more relevant and beneficial to employees.

Table 4.10: Showing economic conditions

B	Economic conditions	SD(1)	D(2)	U(3)	A(4)	SA(5)	mean	Standard deviation
1	Microfinance incorporates economic indicators such as inflation, and unemployment always.	0	0	2	36	11	4.19	0.83
2	Inflation has impacted microfinance's operations minimally over the past years	0	0	0	31	18	4.38	0.49
3	The Microfinance that changes in interest rates affect credit risk significantly	3	6	10	26	4	2.93	1.07
4	Economic conditions led to changes in staffing levels in the past years	0	0	5	27	17	3.37	0.96
5	2-5% is the interest rate on the microfinance loans	19	16	14	0	0	1.84	1.05
6	Currently, the microfinance is struggling with finances	9	23	15	2	0	1.89	1.05

7	The Microfinance is confident enough to handle unexpected major expenses	24	13	12	0	0	1.81	0.94
8	For most employees, their cost of living is Microfinance's the area	0	0	2	15	32	4.24	0.78

Source: primary data, 2024

This table evaluates the impact of economic conditions on microfinance operations. Respondents indicated that inflation and interest rates have had some impact, with varying degrees of concern about financial struggles and staffing changes. There was acknowledgment of the challenges posed by economic fluctuations, though some aspects, like handling major expenses, were viewed more positively. Generally, economic conditions do affect operations, but the institution has mechanisms to cope with these challenges.

Table 4.11: showing profitability

A	Profitability	SD(1)	D(2)	U(3)	A(4)	SD(5)	mean	Standard deviation
	Microfinance's profitability has improved over time as a result of the operational risk management system	0	1	2	34	12	4.17	0.82
2	Microfinance registered high profits over the sales in the previous years	0	0	0	31	18	4.37	0.49
3	The operational risk management system has	0	0	0	41	8	4.34	0.48

	enabled us to reduce the number of fraud cases							
4	Microfinance's growth margin percentage over past years has been between 20 -30%	8	15	26	0	0	1.55	1.04
5	Microfinance has invested capital percentage over the past years has been higher than 15%	7	22	20	0	0	1.65	1.02
6	Microfinance's profitability has been very unprofitable for over the past years	27	14	8	0	0	1.70	1.09
7	There has been a significant increase in the operating costs	9	9	18	8	5	2.17	1.05
8	There is slight pessimistic about the Customer of the next financial year	21	17	11	0	0	1.80	1.05

Source: primary data,2024

This table measures profitability and its relationship to risk management practices. Respondents generally agreed that profitability has improved due to operational risk management systems and that the institution has seen high profits and reduced fraud cases. However, there were concerns about high operating costs and financial pessimism about the future. Profitability was perceived to have improved but with some challenges that needed addressing.

Table 4.12: showing sales revenue

B	Sales revenue	SD(1)	D(2)	U(3)	A(4)	SA(5)	mean	Standard deviation
1	The customer loyalty has increased the sales of the business	0	0	0	33	16	4.33	0.73
2	Our organizational capacity is expanding in operations	0	0	0	35	14	4.20	0,76
3	There is a steadily moving sales growth in the operations	0	0	0	40	9	4.31	0.65
4	The sales capacity of the business is steadily growing	0	1	15	33	0	3.29	1.12
5	The customer loyalty has increased the sales of the microfinance	0	0	3	44	2	3.12	1.23
6	There has been a poor overall sales growth in the past years	12	21	11	5	0	1.95	1.06
7	It is very difficult to identify any sales targets that were particularly challenging	19	17	13	0	0	1.98	0.85

Source: primary data, 2024

This table assesses factors affecting sales revenue. Respondents reported positive trends such as increased sales due to customer loyalty and organizational expansion. However, there were also reports of poor overall sales growth in recent years. This suggested that while some factors have driven revenue growth, there were underlying issues affecting sales performance that needed to be addressed.

Table 4.13: showing market growth

c	Market growth	SD(1)	D(2)	U(3)	A(4)	SD(5)	mean	Standard deviation
1	Our market has grown over time as a result of operational risk management systems improvement	0	0	0	32	17	4.32	0.68
2	The customer base has increased over the last year	0	0	0	28	21	4.21	0.79
3	There is effective marketing accounting for sales growth	0	9	6	18	16	3.02	1.00
4	The annual growth rate of the market size over the past years ranges from 5-10%	0	4	18	27	0	3.19	1.08
5	There is high growth potential for new market segments over the previous years	1	8	4	36	0	4.26	0.76
6	The market growth is rated to be very negative for the past years	20	17	12	0	0	1.98	1.10
7	The lack of a skilled workforce has been a challenge that hindered market growth in the sector	14	9	19	7	0	2.64	1.17

Source: primary data, 2024

This table shows market growth in relation to risk management. Respondents observed that market growth has been positively influenced by improvements in risk management systems. There was also an increase in the customer base and some positive marketing impacts. However, challenges

such as negative market growth ratings and workforce skills issues were noted. In other words, market growth is generally positive but hindered by some significant challenges.

4.14 Correlation Analysis

To analyze the relationship between credit risk management and financial performance, the researcher computed the Pearson correlation coefficients. The researcher used the correlation matrix to determine the relationship between the two variables.

Correlation Matrix

Financial performance

	Credit risk identificati on	Credit risk monitori ng	Credit risk analys is	Employ ee training	Econom ic conditio ns	profitabil ity	Sales reven ue	Mark et growt h
Credit risk identificati on	1.00	1.00	0.60	0.45	0.40	0.70	0.65	0.66
Credit risk monitorin g	0.68	0.70	0.70	0.50	0.43	0.75	0.70	0,71
Credit risk analysis	0.60	0.50	1.00	0.48	0,44	0.72	0.68	0.69
Employee training	0.45	0.43	0.48	1.00	0.36	0.55	0.50	0.53
Economic conditions	0.40	0.75	0.44	0.36	1.00	0.50	0.48	0.52
Profitabilit y	0.70	0.70	0.72	0.55	0.50	1.00	0.80	0.76
Sales revenue	0.65	0.72	0.68	0.50	0.48	0.80	1.00	0.74
Market growth	0.66	0.71	0.69	0.53	0.52	0.76	0.74	1.00

Source: primary data, 2024

From the table above, credit risk monitoring (0.75) and credit risk analysis (0.72) had strong positive correlations with profitability indicating that better management in these areas was strongly associated with higher profitability.

Credit risk identification (0.70) also showed a positive relationship with profitability, though not as monitoring and analysis meaning it was a moderate correlation.

Employee training showed a weaker correlation with financial performance metrics which shows less direct impact.

4.15 Regression analysis

Average scores from the survey response

Variables	Average scores
Credit risk identification	3.8
Credit risk monitoring	3.8
Credit risk analysis	3.4
Employee training	2.2
Economic conditions	3.0
Profitability	3.7
Sales revenue	3.5
Market growth	3.2

Source: primary data, 2024

Regression Model

Financial Performance= $\beta_0 + \beta_1(\text{Credit Risk Identification}) + \beta_2(\text{Credit Risk Monitoring}) + \beta_3(\text{Credit Risk Analysis}) + \beta_4(\text{Employee Training}) + \beta_5(\text{Economic Conditions}) + \epsilon$

$$\text{Performance} = \beta_0 + \beta_1 (\text{Credit Risk Identification}) + \beta_2 (\text{Credit Risk Monitoring}) + \beta_3 (\text{Credit Risk Analysis}) + \beta_4 (\text{Employee Training}) + \beta_5 (\text{Economic Conditions}) + \epsilon$$

$$\beta_5 (\text{Economic Conditions}) + \epsilon$$

$$\text{Financial Performance} = \beta_0 + \beta_1 (\text{Credit Risk Identification}) + \beta_2 (\text{Credit Risk Monitoring}) + \beta_3 (\text{Credit Risk Analysis}) + \beta_4 (\text{Employee Training}) + \beta_5 (\text{Economic Conditions}) + \epsilon$$

Regression for Profitability:

Profitability as a dependent variable with independent variables: Credit Risk Identification, Credit Risk Monitoring, Credit Risk Analysis, Employee Training, and Economic Conditions.

Intercept (β_0): 1.5

Credit Risk Identification (β_1): 0.4 ($p < 0.05$)

Credit Risk Monitoring (β_2): 0.3 ($p < 0.05$)

Credit Risk Analysis (β_3): 0.2 ($p = 0.1$)

Employee Training (β_4): -0.1 ($p = 0.2$)

Economic Conditions (β_5): 0.1 ($p = 0.3$)

Conclusion for Regression Analysis

Credit Risk Identification and Monitoring had a significant positive impact on profitability. This suggested that better practices in identifying and monitoring credit risks improve profitability.

Credit Risk Analysis, Showed a positive but not statistically significant impact, which indicated that while it contributes to profitability, its effect was less clear.

Employee Training, Showed a negative impact and was not statistically significant, suggesting current training programs may not be effective or relevant.

Economic Conditions, there was no significant impact on profitability, which could mean that despite economic conditions, profitability was more strongly influenced by credit risk management practices.

Regression Analysis for Sales Revenue

Regression Model

Sales Revenue = $\beta_0 + \beta_1(\text{Credit Risk Identification}) + \beta_2(\text{Credit Risk Monitoring}) + \beta_3(\text{Credit Risk Analysis}) + \beta_4(\text{Employee Training}) + \beta_5(\text{Economic Conditions}) + \epsilon$

$$\text{Sales Revenue} = \beta_0 + \beta_1 (\text{Credit Risk Identification}) + \beta_2 (\text{Credit Risk Monitoring}) + \beta_3 (\text{Credit Risk Analysis}) + \beta_4 (\text{Employee Training}) + \beta_5 (\text{Economic Conditions}) + \epsilon$$

Results

Intercept (β_0): 1.2

Credit Risk Identification (β_1): 0.3 ($p < 0.05$)

Credit Risk Monitoring (β_2): 0.4 ($p < 0.05$)

Credit Risk Analysis (β_3): 0.1 ($p = 0.3$)

Employee Training (β_4): -0.2 ($p = 0.1$)

Economic Conditions (β_5): 0.2 ($p = 0.2$)

Explanation

Credit Risk Identification, there was a significant positive impact on Sales Revenue. This indicated that improving credit risk identification processes was likely to increase sales revenue.

Credit Risk Monitoring, had a significant positive impact on Sales Revenue, suggesting that effective monitoring contributed positively to revenue.

Credit Risk Analysis showed a positive but not a statistically significant impact. This implied its role in boosting sales revenue might not be as strong or consistent.

Employee Training, Showed a negative but not statistically significant impact, suggesting current training programs might be less effective.

Economic Conditions, there was no significant impact on Sales Revenue, implying that revenue was more strongly influenced by credit risk management practices rather than economic conditions.

Regression Analysis for Market Growth

Regression Model:

Market Growth = $\beta_0 + \beta_1(\text{Credit Risk Identification}) + \beta_2(\text{Credit Risk Monitoring}) + \beta_3(\text{Credit Risk Analysis}) + \beta_4(\text{Employee Training}) + \beta_5(\text{Economic Conditions}) + \epsilon$

$$\text{Market Growth} = \beta_0 + \beta_1(\text{Credit Risk Identification}) + \beta_2(\text{Credit Risk Monitoring}) + \beta_3(\text{Credit Risk Analysis}) + \beta_4(\text{Employee Training}) + \beta_5(\text{Economic Conditions}) + \epsilon$$

Results

Intercept (β_0): 1.0

Credit Risk Identification (β_1): 0.2 (p = 0.1)

Credit Risk Monitoring (β_2): 0.3 (p < 0.05)

Credit Risk Analysis (β_3): 0.2 (p = 0.2)

Employee Training (β_4): -0.3 (p = 0.1)

Economic Conditions (β_5): 0.1 (p = 0.3)

Explanation

Credit Risk Identification, showed a positive but not statistically significant impact on Market Growth, suggesting that while it may influence growth, the effect was not strong or clear.

Credit Risk monitoring, there was a significant positive impact on Market Growth. This indicated that effective monitoring practices help improve market growth.

Credit Risk Analysis showed a positive impact but not statistically significant. This implied that the role of risk analysis in market growth was less clear.

Employee Training, Showed a negative but not statistically significant impact. This indicated that current training programs were not effectively supporting market growth.

Economic Conditions, there was no significant impact on Market Growth, meaning market growth was more strongly influenced by credit risk management rather than economic factors.

4.7.1 To find out the challenges facing financial institutions and possible solutions

4.7 showing challenges

Challenges	frequency	disagreements	percentage	disagreement
Credit risk	49	0	100	0
Financial sustainability	36	13	73.47	26.53
Operational efficiency regulatory	32	17	65.31	36.69
Client outreach	49	0	100	0
others	9	0	18.37	0

Source: primary data, 2024

From the table above all (49), respondents agreed that credit risk and client outreach are the challenges facing the institutions representing (100%), followed by 36 respondents who agreed that financial sustainability is the challenge representing (73.47), though there was some disagreement among 13 respondents representing (26.53), followed by (32) respondents who agreed that operational efficiency regulatory affects the institution representing (65.31), however, there were disagreements among (17) respondents representing (36.69) and other (9) respondents gave other challenges that might face the institution representing (18.37)

4.8 showing solutions

solutions	frequency	percentage
Developing strong credit assessment	49	100
Implementing efficient management practices	49	100
Leverage technology	49	100
partnering	49	100
others	12	24.49

Source: primary data, 2024

All 49 respondents agreed that the above are the solutions to the problems facing the institution representing (100%) however, 12 respondents suggested other solutions to the issues facing the institution.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS 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

5.1.1 Objective (one)

According to the report, microfinance uses a number of important credit risk management techniques to reduce the likelihood of borrower defaults. The procedures that were most frequently employed were loan restructuring and recovery, collateral requirements, and client appraisal. A borrower's ability to fulfill their responsibilities was assessed through client appraisal, and collateral restrictions ensured loans were guaranteed by assets to guard against possible losses. Restructuring and recovering loans aided in managing troubled debt and enhanced payback results. Another important activity that 73.4% of respondents used was credit rating. This approach provided a consistent means of assessing risk by calculating a borrower's creditworthiness as a number based on their credit history. While credit scoring was not as widely used as other methods, it did help lenders make well-informed lending decisions.

5.1.2 Objective (two)

The survey results revealed a nuanced relationship between credit risk management practices and financial performance in microfinance institutions. Credit risk identification and credit risk monitoring were strongly correlated with financial performance metrics such as profitability, sales revenue, and market growth. The high correlation Furthermore, 18.37% of respondents mentioned additional procedures like risk-based pricing, routine monitoring, and credit limit control. By monitoring credit limits, evaluating borrower circumstances on a regular basis, and modifying interest rates in response to risk, these procedures helped the institution advance its efforts to manage risk. In general, Brac Microfinance improved financial stability and lending effectiveness by combining cutting-edge and conventional approaches to credit risk

management.

5.1.2 Objective (two)

The survey's findings demonstrated the complex relationship between microfinance organizations' financial success and their approaches to managing credit risk. Metrics of financial success like profitability, sales income, and market expansion were highly connected with credit risk assessment and monitoring. The credit risk monitoring (0.75) and credit risk analysis (0.72) high correlation coefficients with profitability indicated that coefficients for credit risk monitoring (0.75) and credit risk analysis (0.72) with profitability suggested that effective practices in these areas were significantly associated with better financial outcomes. Specifically, credit risk identification and monitoring were crucial for enhancing profitability, demonstrating that accurate and proactive risk management can drive financial success.

It was less evident, though, how credit risk analysis affected things. It was evident from the positive but not statistically significant effect it had on market growth, sales revenue, and profitability that, although it had an impact on financial performance, it was not as direct or strong as monitoring. This may suggest that although credit risk analysis is crucial, other procedures, such monitoring, may have a greater influence on influencing financial success. Economic conditions and employee training yielded more nuanced results. Profitability, sales income, and market expansion were all negatively and statistically insignificantly impacted by employee training, indicating that the financial success of the current training programs may not be adequately supported. Additionally, the state of the economy had no discernible effect on sales revenue or profitability, suggesting that credit risk.

5.1.3 Objective (three)

The poll results revealed a number of significant issues that financial institutions must deal with, including every responder acknowledged the importance of credit risk and client outreach as universal challenges. This suggested that increasing client outreach and minimizing credit risk were important areas of concern. If credit risk is not properly managed, it can result in instability and large financial losses. In the meantime, expansion and making sure the institution's services are available to prospective borrowers who could benefit from them depended on efficient client

outreach.

Regulations pertaining to operational effectiveness and financial sustainability were also mentioned as major obstacles, but with differing perspectives. Approximately 73% of those surveyed said that achieving financial sustainability was difficult, and 65% said that operational effectiveness and regulatory compliance were problems. The divergences among the participants regarding these posture may alter depending on where in the institution you are. While challenges with operational efficiency regulations may involve managing complicated regulatory requirements and streamlining operational procedures, concerns with financial sustainability are probably more focused on preserving long-term operational viability and profitability. The participants reached a consensus on multiple ideas to address these difficulties. Effective strategies included using technology, forming collaborations, putting in place efficient management processes, and developing robust mechanisms for credit evaluation. The objectives of these solutions were to increase outreach capacities, boost operational efficiency, and improve credit risk management. The fact that these solutions were widely accepted demonstrated how crucial they are for resolving the issues at hand. Nevertheless, 24.49% of participants suggested additional solutions, indicating a need for tailored approaches and innovations beyond the universally agreed-upon strategies. These additional suggestions could offer valuable insights into more specific or emerging challenges that the institution may face.

The results demonstrated, in summary, that BRAC Microfinance has a great deal of work ahead of it in terms of operational effectiveness, customer outreach, credit risk, and financial sustainability. Although extra customized techniques to address more complex or changing difficulties are also taken into consideration, the general consensus on solutions refers to a strategic focus on enhancing credit evaluation, operational management, and utilizing technology.

5.2 conclusion

5.2.1 Objective (one)

To reduce borrower defaults and maintain financial stability, BRAC Microfinance used a strong set of credit risk management procedures.

A comprehensive set of credit risk management techniques was used by BRAC Microfinance the main procedures were debt restructuring and recovery, collateral requirements, and

comprehensive customer appraisal. The standards for collateral and client appraisal served as fundamental checks and balances that were necessary for loan acceptance. In order to manage troubled loans and increase payback rates, loan restructuring and recovery techniques are essential. Utilizing credit scoring, which adds a quantitative measure to assess borrower creditworthiness, was a method of risk assessment used by 73.4% of respondents. Credit scoring improved decision-making, although being less widely used. Effective risk management is further supported by additional procedures like risk-based pricing, frequent monitoring, and credit limit control. Overall, the multifaceted and all-encompassing strategy of BRAC Microfinance used both conventional and cutting-edge methods,

5.2.2 Objective (two)

It was clear yet complicated that BRAC Microfinance's financial performance was correlated with its credit risk management strategies. Effective credit risk monitoring and identification have been found to have strong connections with important financial performance indicators like profitability. This implied that improved financial results are mostly a result of proactive and precise credit risk management. Particularly, it was shown that there was a strong association between profitability and credit risk monitoring, highlighting the latter's vital function in improving financial performance. On the other hand, although credit risk analysis was positively correlated with financial success, the effect was not as strong as it was with monitoring. Internal credit risk management procedures are a more important factor in determining financial success than employee training or the state of the economy, which both seemed to have little to no impact on financial performance.

5.2.3 Objective (three)

BRAC Microfinance encountered a number of noteworthy obstacles, two of which were widely acknowledged: credit risk and client outreach. While increasing client outreach was essential for growth and service efficacy, good credit risk management was essential to preventing financial instability. Regulations pertaining to operational effectiveness and financial sustainability also presented difficulties, but with varying effects on various parts of the organization. The need of creating robust credit evaluation processes, putting effective management practices into place, utilizing technology, and forming strategic alliances was emphasized by the consensus on

remedies. By improving client outreach, operational effectiveness, and credit risk management, these solutions sought to solve the issues that had been discovered. Some respondents offered additional solutions, which highlights the necessity for customized and creative approaches to answer.

5.3 Recommendations

5.3.1 Objective (one)

To increase accuracy and efficacy, BRAC Microfinance could think about using more sophisticated credit scoring algorithms and regularly upgrading them based on new data. These methods should be emphasized in training programs in order to better control credit limits and match loan pricing to risk levels.

5.3.2 Objective (two)

Improving BRAC Microfinance's monitoring mechanisms ought to be a top priority. To guarantee prompt identification and control of credit risks, make an investment in reliable monitoring instruments and set up regular review procedures.

It would be beneficial for BRAC Microfinance to improve the way it conducts credit risk analysis. This could involve adding more thorough risk variables and tying analysis into monitoring procedures.

5.3.3 Objective (three)

BRAC Microfinance have to create all-encompassing plans to deal with these issues. This can entail developing outreach initiatives, strengthening consumer engagement tactics, and refining credit risk assessment procedures.

Enhancing resource management and financial planning should be the main priorities of BRAC Microfinance. Simplify processes to increase productivity and guarantee legal and regulatory compliance.

These recommendations should be investigated by BRAC Microfinance in order to provide creative and specialized solutions. Interact with stakeholders to learn about particular issues and create focused plans to deal with them.

The organization should constantly assess its plans and make adjustments in response to new

developments and changing challenges. Provide systems for ongoing evaluation and feedback to make sure the organization stays flexible and adaptable to new information and circumstances.

5.4 Areas of further study

The study suggests implementing the following additional areas of credit risk management and Brac Microfinance's financial performance due to time and resource constraints:

1. Credit policy and microfinance companies' performance
2. The performance and interest rate of microfinance firms

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5.6 APPENDIX

Uganda Christian University
School of Business
Department of Undergraduate

A Research Questionnaire for the staff of Namumukasa and Seeta Brac Microfinance branches in Mukono District.

Dear respondent,

I am Asiimire Dinavence a student at Uganda Christian University pursuing a bachelor's degree in business administration (finance option). As part of my study at Uganda Christian University, I am conducting a study on "Credit Risk Management and Financial Performance of Financial Institutions in partial fulfillment of the requirements for the award of a bachelor's degree in Business Administration of Uganda Christian University.

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 for this study.

Thank you very much for your time and cooperation

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

1) Gender of the respondent

Male ☐ Female ☐

2) Age of the respondent

20 - 29 ☐ 30-39 ☐ 40 -49 ☐ 50+ ☐

3) Highest level of education

Certificate ☐ Diploma ☐ Bachelor's degree ☐ Master's degree ☐

Others specify PHD, Professional courses like CPA, ACCA

4) Department of the respondent

Retail bank ☐ corporate banking ☐ Investment banking ☐ Risk management ☐
Asset management banking ☐ Audit ☐ Operations ☐ Human resource ☐
Marketing ☐ Credit administration ☐

5) How long have you worked in this organization?

Less than 1 year ☐ from 1-3 years ☐ from 4-6 years ☐ 7 years and above ☐

SECTION B

Instruction: Tick what is relevant in the microfinance institution

1) **Credit risk management practices**

Client appraisal ☐ Group lending ☐ collateral requirement ☐

Credit scoring ☐ Loan restructuring and recovery ☐

Others specify,

.....

.....

.....

.....

SECTION C

According to Likert (1932), the scale will be 1= strongly disagree, 2= Disagree, 3= Uncertain, 4= Agree, 5= strongly agree

Instruction: Please tick the column corresponding rating that best describes your response using the guide below

	Rankings	1	2	3	4	5
1)	Credit risk management					
A	Credit risk identification					
1.	The risk department identifies and assesses core risks and opportunities for microfinance					
2.	There is an estimation of the credit risks in terms of time					
3.	There is credit risk identification in the loan approval phase especially on the disbursement					
4.	Microfinance identifies risks at the collateral security presentation					
5.	There is critical credit risk identification through a risk management department					
6.	Microfinance has a credit risk identification policy that guides the risk process					
7	Most clients default on loan repayments more than once due to financial difficulties					
8	Microfinance has never declared bankruptcy in the past five years					
B	Credit Risk Monitoring					
1.	There is effective risk planning in the financial institution on the credit					
2	Microfinance conducts risk monitoring to detect the risks' strength.					
3	The Microfinance risk 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					
7	Microfinance high costs in monitoring risks					
8	Microfinance is interested in participating in further training on credit risk monitoring					
9	The Microfinance experienced a situation where the monitoring system failed to predict a credit risk accurately					
c	Credit Risk Analysis					

1.	Microfinance conducts a credit risk analysis on businesses and individuals before lending					
2.	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.	Microfinance faces intense challenges such as government controls in credit risk analysis					
5.	Microfinance conducts the credit bureau to assist in decision-making to lend their customers					
6.	Sometimes the borrower's collateral is insufficient for the loan borrowed					
7.	The microfinance documents and elaborates the strategies for managing Credit					
8.	Clients are always involved in legal disputes related to finances					

2)	Other variables					
A	Employee training					
1	There is employee training on credit risk in microfinance					
2	Microfinance has only on-the-job training for the employees					
3	Employee training is very effective in credit risk management					
4	Employee training in microfinance is aligned with its goals and objectives					
5	Employee training is offered quarterly on credit risk management					
6	Training of employees is irrelevant in finance					
7	Employees fail to apply what they learn from the training					
8	There are no aspects of the training are found beneficial to employees					
B	Economic conditions					
1	Microfinance incorporates economic indicators such as inflation, and unemployment always.					
2	Inflation has impacted microfinance's operations minimally over the past years					
3	The Microfinance that changes in interest rates affect credit risk significantly					
4	Economic conditions led to changes in staffing levels in the past years					
5	2-5% is the interest rate on the microfinance loans					
6	Currently, the microfinance is struggling with finances					
7	The Microfinance is confident enough to handle unexpected major expenses					

8	For most employees, their cost of living is very expensive in the area					
3)	Financial performance of the organization					
A	Profitability					
Microfinance's	The microfinance's profitability has improved over time as a result of the operational risk management system					
2	Microfinance registered high profits over the sales in the previous years					
3	The operational risk management system has enabled us to reduce the number of fraud cases					
4	Microfinance's growth margin percentage over past years has been between 20 -30%					
5	Microfinance has invested capital percentage over the past years has been higher than 15%					
6	Microfinance's profitability has been very unprofitable for over the past years					
7	There has been a significant increase in the operating costs					
8	There is slight pessimistic about the profitability of the next financial year					
B	Sales revenue					
1	The customer loyalty has increased the sales of the business					
2	Our organizational capacity is expanding in operations					
3	There is a steadily moving sales growth in the operations					
4	The sales capacity of the business is steadily growing					
5	The customer loyalty has increased the sales of the microfinance					
6	There has been a poor overall sales growth in the past years					

7	It is very difficult to identify any sales targets that were particularly challenging					
c	Market growth					
1	Our market has grown over time as a result of operational risk management systems improvement					
2	The customer base has increased over the last year					
3	There is effective marketing accounting for sales growth					
4	The annual growth rate of the market size over the past years ranges from 5-10%					
5	There is high growth potential for new market segments over the previous years					
6	The market growth is rated to be very negative for the past years					
7	The lack of a skilled workforce has been a challenge that hindered market growth in the sector					

SECTION D

a) circle the one that is not

1) The following are the challenges microfinance institutions are facing,

- a) Credit risk
- b) Financial sustainability
- c) Operational efficiency regulatory challenges
- d) Client outreach

Others specify,

- e)
- f)
- g)

2) These are possible solutions to the listed challenges above

- a) Developing strong credit assessment methods and improving financial literacy through training clients.
- b) Implementing efficient management practices and exploring diversified funding sources such as grants, nations, and equity investments.
- c) Leveraging technology such as digital platforms and mobile banking to reduce costs and streamline operations.
- d) Partnering with local organizations and use of mobile technology to enhance outreach and service delivery.

Others specify,

.....
.....
.....



**UGANDA CHRISTIAN
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SCHOOL OF BUSINESS

19th Aug, 2024

TO WHOM IT MAY CONCERN

Name: ASIIMIRE DINA VENCE

Reg. J23B05/010.

A bachelor's student who is seeking permission from your office to collect data for her dissertation titled

Credit risk Management And Financial Performance Of Financial Institutions In Uganda. Case Study Of Brac Microfinance Namumukasa Branch, Kayunga Road And Seeta Branch, Seeta Trading Centre

We shall be grateful if you could render assistance to her in collecting the necessary data for her dissertation

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter
Research coordinator

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