

**CREDIT RISK MANAGEMENT AND THE FINANCIAL PERFORMANCE OF  
PRIDE MICROFINANCE NORTHERN REGION**

**WINIFRED JACKLINE ADUNI**

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**DECLARATION**

I **Aduni Jackline Winifred** a Student of Uganda Christian University, pursuing a Master's of Business Administration declare that this is the original piece of my research work and has never been submitted to any University for any award whatsoever. All the work is original and other peoples' work has been accordingly acknowledged.

Signature: *Jackline* .....

Date: .....12/04/2024.....

## APPROVAL

This is to certify that this research work entitled 'Credit risk management and the financial performance of pride micro finance northern region' has been under my supervision as University Supervisor and being submitted with my approval.

Name: Maena Daniel

Sign: 

Date:

## DEDICATION

This research report is dedicated to all my family members.

## **ACKNOWLEDGEMENT**

I wish to glorify and thank the almighty God for the gift of life and wisdom that has enabled me to handle this research work.

Special thanks go to my University supervisor Mr. Maena Daniel and Mr. Henry the Dean of Business Department for the enduring support without which this work would not have reached this level. Equally special thanks go to all my lecturers for the knowledge and skills imparted that have created great change in my academic career.

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## LIST OF ABBREVIATIONS AND ACRONYMS

CRM	Credit Risk Mitigation
CRT	Credit Risk Transfer
IMF	International Monetary Fund
NPM	Non- Performing Assets
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Science

## ABSTRACT

The study was about the effect of credit risk management on the financial performance of Pride Micro Finance Northern Region. The objectives of the study were to; find out the effect of risk avoidance, risk transference, risk mitigation and risk acceptance on the financial performance of Pride Microfinance Northern region. The researcher used a descriptive design that had qualitative and quantitative approaches. The target population for this study was 120 and it comprised of; Branch Managers, Credit Supervisors, Credit Officers and Loan clients from the five branches of Pride Microfinance-Northern Region. Out of a study population of 120 the researcher drew a sample of 92 respondents.

The findings of the study were that; Pride Micro Finance has strong credit management policies, has efficient risk identifiers, encourages collective decision making while giving out loans, effective loan screening, asks for a higher value collateral than the loan amount; but rarely adjusts loans according to level of credit risk. Pride Micro Finance has been applying risk transfer methods; third party takes on the responsibilities for the financial risks; all loans are insured, and uses fixed transfer terms that are not subject to any changes in market conditions. The bank has been carrying out business and financial risk assessments before giving loans to their clients and it does not charge differently on loans regardless of the credit risks. However, credit officers have not been strictly adhering to the 5Cs of loan assessment before giving out loans and have not been effectively carrying out post disbursement monitoring of clients. Pride Micro Finance management is aware and has put in place systems that enhance its sustainability even in the event of loan defaulting and it has other sources of funding other than credits that can make it continue with its operations. The study recommends that; Management should strengthen the application of risk control measures to reduce the vulnerability to loss of funds in credit department; Credit supervisors to enforce post-disbursement monitoring of loan clients; Credit officers to ensure strict adherence to credit assessment guidelines before issuing out loans to clients and management should identify more paying sources of funding to enhance its stability in case of loss of money in credit.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

This study examined the effect of credit risk management on the performance of micro finance institutions in Uganda with a case study of Pride Micro Finance Limited Mbale branch. This chapter presents the background to the study, statement of the problem, purpose of the study, specific objectives, research questions, scope of the study, significance of the study, conceptual framework and operational definition of terms and concepts.

#### **1.1 Back ground to the study**

This study investigated the effect of four risk credit risk management strategies (risk avoidance, risk transference, risk mitigation and risk acceptance) on the financial performance of Pride Micro-Finance. This section will present the background to the study, which is presented using the four-dimensional approach that is to say the historical, theoretical, conceptual, and contextual background.

##### **1.1.1 Historical Background**

Financial risk is not a new field and its origin can be traced after World War II during the period from 1955 to 1964 (Crockford, 1982). By that time, no reading materials were published on risk management and no universities offered courses in the subject (Snider, 1956). With time, reading materials were developed and the first two academic books were published by Mehr & Hedges (1963) and Williams & Heins (1964). Brindley (2004) asserts that credit risk management emerged in the 1960s and this was mainly due to the global competition, technological change and the continuous search for competitive advantage.

John (2004) asserts that back in 1980s, there was no risk management department in the banking institution and only the bank head trader had the experience and authority to rule on poor trades and have them unwound. According to Field (2003), financial risks management on liquidity and operations as well as international regulation on risks started in the late 1990s. In the 1990s, the banking institutions began to realize the impact of credit risk management by setting up risk management departments which were charged with measuring risk, and not managing it. With all the authority of decision-making left to the head of trader, this made credit risk management powerless (Economic intelligence report, 2009). Credit risk management however became a booming industry in earlier nineties as a result of increasing volatile financial markets and derivatives leading to important financial losses suffered by companies without credit risk management system (Bofondi and Gobbi, 2003).

Risk management has become so prominent in recent years especially after the traumatic events like the September, 11 attack on the USA (Williams, Smith and Young, 1998) and business scandals including Enron and WorldCom (Baranoff, 2004). Today, credit risk in the banking sector maybe increasing due to technological innovation, increasing dependency on third parties to provide necessary information technology, services, competition from other players in banking institutions, wide customers expectation and demands (Hassan Al-Tamimi and Al-Mazrooei, 2007).

Financial and insurance institutions designed internal risk management tools to shield their business operations from unanticipated risks and reduce regulatory capital. At the same

time, governance of risk management became essential, integrated risk management was introduced, and the first risk manager positions were created (Dionne, 2013). Currently, financial risk management in the banking sector has grown tremendously as a result of technological advancement, accumulative dependence on third parties, necessary information technology provision, competition from other financial institutions, widened client expectation and demands (Al-Tamimi, Hussein, Miniaoui, & Elkelish, 2015)

Micro credit and micro finance are relatively new terms in the field of development, first coming to prominence in the 1970s, according to (Robinson, 2001) and (Otero, 1999). Prior to then, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programs. These often resulted in high loan defaults, high losses and an inability to reach poor rural households (Robinson, 2001).

Microfinance institutions are relatively new phenomenon in Uganda. They emerged as a result of liberalization of economic policies since 1987; these institutions are nongovernmental organizations (NGOS or limited companies providing appropriate financial services for micro business (Uganda banker march 1998 by Michael Mc lord). In Uganda, microfinance institutions have association which was formally established in 1996 and legally registered in 1999 as the Association of Microfinance Institutions of Uganda (AMFIU) with the mission of stimulating and enhancing sector development to facilitate members' capacity building, participating in global finance industry and be a key player in Uganda's capacity rural-urban transformation.

Pride microfinance is one of the largest microfinance institutions in Uganda and is 100% owned by the government of Uganda. It was founded in 1995 and in 2005 it attained the status of an MDI according to the Banking Act of 2003. It is licensed and under the supervision of Bank and is also a member of the Association of Microfinance Institutions in Uganda (AMFIU). The headquarters of PML are located in Bukoto, in the central business district of Kampala. It is spread across Uganda with 37 branches country wide. Some of the credit products offered include group and individual loans, group guaranteed loans, mortgage and development loans, salary loans, group accident insurance. Pride also offers savings products like Akiba, smart, save for a target, save as you earn and rising star. According to pride microfinance's 5-year business plan March 2008, the management has embarked on a strategy of strengthening the credit risk management by employing qualified credit staff, use of better systems like the Payment solutions Uganda (PSU) and building a strong recovery team so as to improve on the loan portfolio quality.

### **1.1.2 Theoretical background**

This study was underpinned by three theories; Enterprise Risk Management, modern Portfolio theory. The Enterprise Risk Management states that the overall risks of the organization are managed in aggregate, rather than independently. Risk is also viewed as a potential profit opportunity, rather than as something simply to be minimized or eliminated (D'Arcy, 2011).

### **1.1.3 Conceptual Background**

In their daily operations, banks are faced with various financial risks which are hard to anticipate (Hussain & Al-Ajmi, 2012). Financial risks arise when returns fluctuate unexpectedly (Kioko, Olweny, & Ochieng, 2019). Financial risk takes many forms, for

instance equity risk, liquidity risk, market risk, currency risk, asset risk, foreign exchange risk and credit risk, among others. One or a combination of these risks, impacts in one way or another on the performance of a commercial bank and negatively impact on the financial performance of the financial institution (Muriithi, 2016; Mansyur, 2017). They can lead to underperformance and collapse of commercial banks and other financial institutions if they are not well managed (Kioko, Olweny, & Ochieng, 2019). This study is exclusively on credit risk management.

Credit risk arises when the borrowers fail to make required payments leading to a debt. When the borrower fails to pay the credit, the lender may lose interest in collecting the loan (Cechetti & Schoenholtz, 2011). In this instance, credit risk arises because of loss of principal and interest and amplified costs of collection (Al-Qudah & Jaradat, 2013).

Credit risk management can be described as a function that must be performed by a financial institution in order to ensure that the loans it advances to its clients are orderly repaid back. The basis of a sound credit risk management is the identification of the existing and potential risks inherent in the lending activities. It refers to the probability of loss due to a borrower's failure to make payments on any type of debt.

Credit risk management is the practice of mitigating losses by understanding the adequacy of a bank's capital and loan loss reserves at any given time. It can also be defined as the process of identifying and analyzing risk factors, measuring the level of risk, thereby selecting measures to manage credit activities to limit and eliminate risks in the credit process (Vietnam Credit, 2019). Credit risk management is vital in the banking system and exists in virtually all income-generating organizations.

How a financial institution selects and manages its credit risk is critically important to its performance over time. Indeed, capital depletion through loan losses has been the proximate cause of most institution failures. Comptroller (2010) observed that identifying and rating credit risk is the essential first step in managing it effectively. However, it should be noted that risk management is simply a practice of systematically selecting cost effective approaches for minimizing the effect of risk as a threat realization to the institution performance. All Risks can never be fully avoided or mitigated simply because of financial and practical limitations (Dallas Business Journal, 2000). As depicted from the theoretical background, credit risk management will be considered for this study and focus will be on the effect of four risk management strategies; risk avoidance, risk transference, risk mitigation and risk acceptance on the financial performance of Pride Micro-Finance.

According to Agustina and Baroroh (2016), performance has been defined historically as a gauge over a time on the health of a company or organization. This gauge when standardized is then used for comparison across companies in similar trades (Erasmus 2008). Performance gauges how well a business uses its assets to maximize returns on investments by its stakeholders (Mwangi et al. 2014).

On the other hand, financial performance refers to a firm's capacity to manage plans and important choices so as to realize its objectives, goals and attain high returns (Sathyamoorthi, Mapharing, Mphoeng, & Dzimiri, 2020). The financial performance of commercial banks is measured by their profitability which is generally measured in ratios.

The ratios used to measure the performance include Return on Assets (ROA), the Return on Equity (ROE), net profits relative to total assets of the firm or, net profits relative to the shareholders' funds and Return on Assets (ROA) ratio (Mallisa, 2013). Return on Assets shows how well the resource of the bank may be used to enhance profitability and a higher ROA indicates efficient utilization of the bank's resources, thus maximizing the shareholders wealth (Muwonge, 2012). Return on Equity and Return on assets are the most commonly used ratios to measure financial performance of commercial banks. A good financial performance of the bank is indicated by return on equity of between 15% and 30%, while return on assets is at least 1% (Ongore & Kusa, 2013). This study uses; Gross and Net Profit Margin, Quick Ratio, Debt-to-Equity Ratio, Current Ratio, Inventory Turnover and Return on Assets as financial performance indicators for determining the influence of credit risk management on the financial performance of Pride Micro-Finance.

According to Kungwani (2014), financial risk means the probability that the returns expected by the financial institution would be different and lower than what was expected. This indicates that there is a chance in all probability that some part of the investment or major part or totally could be lost in the process (Kungwani, 2014).

#### **1.1.4 Contextual back ground**

Uganda's financial system is characterized by co-existence of formal and informal financial markets which mainly compromise of commercial; banks, development banks and credit institutions, these may exist in urban areas and offer a narrow range of financial services, and they concentrate on providing working capital mainly to medium and large enterprises.

Furthermore, the formal financial institutions are inflexible in their operations, with respect to needs of small scale enterprises and poor people in rural areas who may not have collateral or well Written feasibility studies to solicit for loans, however a wide range of microfinance institutions have however, existed in Uganda in many forms and many years to respond to resources gap in the markets and are working to become more responsive to the real needs of their clients who constitutes a low income households ,there by contributing to economic growth.

Financial institutions have faced difficulties over the years for a multitude of reasons; the major cause of serious banking problems continues to be directly related to relaxed credit risk standards for borrowers, poor portfolio credit risk management. This has led to the coming up with various ways of credit risk management that has resulted to affecting the financial performance of financial institutions. In Uganda, risk management in financial institutions has been implemented through the guidance of essential guidelines. For example, the latest revised guidelines were issued in February 2010. Risk management in financial institutions of Uganda has also been implemented through the guidance of essential guidelines from Bank of Uganda such as the guidelines issued in 2010 (Bank of Uganda, 2013). More to that, the Bank of Uganda introduced the Credit Reference Bureau (CRB) in its struggle to alleviate risks in the banking sector (Bank of Uganda, 2021) and the financial institutions and their borrowers are required to register.

At the center of these guidelines is the important of good corporate governance which stresses the role of the board of directors in setting the tone at the top. Corporate

governance requires directors to play a significant rather than peripheral role in risk management in banks. The above background shows that both the banks and the regulatory authorities have been working together to mitigate the financial risks that affect the commercial banks and other financial institutions. Understanding the kinds of risks that a bank is mostly exposed to and how they possibly affect its financial performance is the first step to design clear mitigation measures. Although all this have been done it still remains a challenge to financial institutions to balance between customer's needs of credit and the policies that have been laid down by institutions which results to both positive and negative financial performance (Richardson, 2002).

Nkumba Business Journal (2015) explains the high default risk for repayment of interest and in some cases the principle amount itself that affected the performance of Pride Micro Finance in 2015. Pride Micro Finance realized little profits for the year which was attributed to the mode of issuing loans to customers and collecting borrowed money from the clients this can only be reduced through designing and implementing effective credit risk management policies. It is in this vein that the researcher is interested in investigating credit risk management strategies within Pride Micro Finance, Northern region as it is also a victim.

## **1.2 Statement of the Problem**

The objective of any financial institution is to maximize profits and shareholder value added by providing different financial services mainly by managing risks. However, as much as the performance of financial institutions of Uganda has been increasing in the past 2 years, it has been at a slow rate due to a number of losses (BOU Report,2020).

The profitability of financial institutions increased at a marginal level of 6.4%, while the value of non-performing loans was increased throughout the course of the year ending December 2020 (Bank of Uganda, 2021). The increases in non-performing loans (NPL) and bad debts have had an adverse effect of reducing on the sales revenue and profitability of a number of Micro-finance Institutions in Uganda.

Pride Microfinance Ltd has put in place different measures of risk management but there has been a decrease in the; gross and net profits, inventory turnover, return on equity, return on assets, and poor performance as regards debt equity ratio, current ratio and quick ratio. The profits have reduced over the years from 15 billion recorded in 2018 to 13 billion recorded in 2020. Pride Micro Finance, northern region has continued to face accumulation of non-performing loans with several loans being written off just like other MFIs in the country as indicated by (Mutebile, 2018) with all the 6 branches in the northern region being loss making.

If this situation is not addressed appropriately, it might lead to further deterioration of the performance of MFIs like Pride Microfinance and possibly failure in the banking sector which would consequently have a negative effect on the economy as a whole (BOU, 2020). It is on basis that the researcher sought to find out whether there was any influence that credit risk management strategies have on the financial performance of Pride Micro Finance-Northern Region.

### **1.3.0 General Objective of the Study**

The main objective of the study was to find out the effect of credit risk management on the financial performance of pride Micro finance, Northern region.

#### **1.4 Specific Objectives of the Study**

1. To examine the effect of risk avoidance on the financial performance of Pride Microfinance Northern region.
2. To examine the effect of risk transference on the financial performance of Pride Microfinance Northern Region.
3. To examine the effect of risk mitigation on the financial performance of Pride Microfinance Northern Region.
4. To examine the effect of risk acceptance on the financial performance of Pride Microfinance Northern region.

#### **1.4 Research Questions**

1. What is the effect of risk avoidance on the financial performance of Pride Microfinance Northern region?
2. What effect does of risk transference have on the financial performance of Pride Microfinance Northern Region?
3. What is the effect of risk mitigation on the financial performance of Pride Microfinance Northern Region?
4. What is the effect of risk acceptance on the financial performance of Pride Microfinance Northern region?

#### **1.5.0 Scope of the study**

##### **1.5.1 Geographical scope**

This study was carried out in only five branches of Northern region and that is to say Mbale, Soroti, Lira, Gulu, Pader and Bweyale branches. The Northern Uganda region was selected

for the study because as much as it had great potential to make profits, its performance needed to be enhanced (Pride Micro Finance Uganda Report, 2021).

### **1.5.2 Content scope**

The study covered the effects of credit risk management on the performance of Pride Microfinance, Northern Region. The content of the study was limited to the effect of; risk avoidance, risk transference, risk mitigation, and acceptance on the financial performance of Pride Micro Finance (independent variable), while financial performance were measured in terms of; gross and net profit margin, quick ratio, debt-to-equity ratio, current ratio, inventory turnover and return on assets (Dependent Variable).

### **1.5.3 Time scope.**

The study considered the period between 2018 and 2021 as it had been a time when financial institutions had increased financial challenges, whereby some of them had even been pushed out of business (BOU, 2021).

## **1.6 Significance of the Study**

- i. The study may set a basis for pride micro finance Ltd to control and reduce credit risks. Pride Microfinance will be able to set appropriate policies as well as reviewing the existing ones so as to reduce on the losses.
- ii. The result of the study may be used by future researchers conducting similar studies. The research will act as a basis for advancement of further research.
- iii. The information may enable help pride microfinance Ltd and other financial institutions in drafting policies, rules and regulations that may help in credit risk management.

- iv. The information can also be used by various stakeholders to avoid reoccurrence of past mistakes hence improving their profitability.
- v. Results from the study may add to the existing knowledge about the relationship between credit risk management and loan portfolio quality thereby providing a platform for further research and use of the findings by finance scholars.
- vi. It may also assist the credit officers of Microfinance institutions in advising their potential borrowers on how and where to invest in order to benefit from the loans and reduce on the failure rate of new businesses.
- vii. The research may help the other researchers to acquire academic knowledge and qualifications.

### **1.7 Justification of the study**

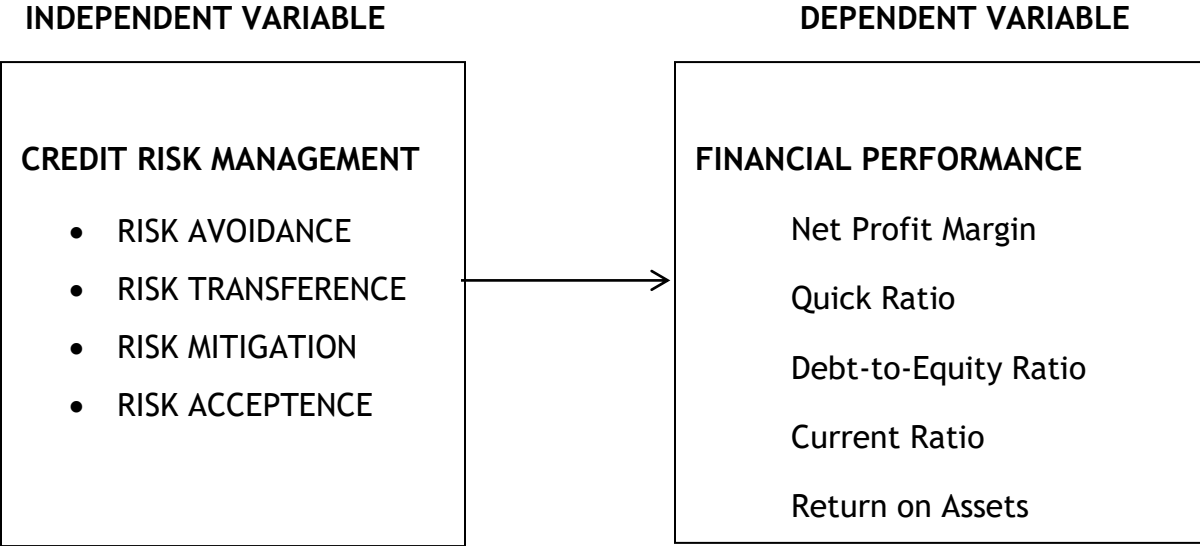
The inspiration of this study is the high PAR of the branches in the northern region. In the last 3 years, the branches have been closing the month with a PAR above 10% yet the required standard set by the bank is below 3% hence making all of them loss making.

Many studies have been carried out in the area of credit risk management and financial performance but few studies have been carried out on the effect of credit risk management strategies, more so in Pride Micro Finance, Northern Uganda.

The studies which have been carried out also have their focus on commercial banks ignoring the Micro Finances which seem to have higher risks than the commercial banks. Hence the findings may be of value to the Micro Finance Institutions whose mechanisms are a bit different from the commercial banks.

**1.8 Conceptual framework**

This shows the relationship between the Independent Variable and the dependent variable of the study.



Source: RESEARCH 2020

**Figure 1: Conceptual Framework**

The illustration above shows the conceptual relationship that exists between the independent and dependent variables. The independent variables include Risk avoidance, Risk Transference, Risk Mitigation and Risk acceptance, while the dependent variable is the financial performance that has been measured in terms of; gross and net profit margin, quick ratio, debt-to-equity ratio, current ratio, inventory turnover and return on assets (Dependent Variable).

## **1.9 Operational definitions**

### **Credit risk:**

According to Vietnam Credit (2019), Credit risk is the risk arising due to the borrower's failure to strictly comply with the terms of the credit contract. This is the potential of loss resulting from the failure of borrowers to repay their loans (Muriithi, 2016). This might happen when the customer is late in debt repayment, not fully pays the debt amount or fails to pay debt when principal and interest amounts are due, causing financial losses and difficulties in the business activities of micro finance institutions.

### **Financial performance:**

This refers to the subjective measure of how well a bank can use assets from its primary mode of business and generate revenues (Akong'a, 2014). It is the measure of a financial institutions' achievement of its financial goals guided by its financial objectives and benchmarks.

### **Profitability:**

According to Chirwa (2003), profitability is the most used financial performance indicator for companies. It generally shows the ability of a company to generate returns for the shareholders in light of the investment committed.

### **Risk transfer:**

Risk transfer can be defined as a mechanism of risk management that involves the transfer of future risks from one person to another, and one of the most common examples of risk management is purchasing insurance where the risk of an individual or a company is transferred to a third party (insurance company). Risk transfer, in its true essence, is the

transfer of the implications of risks from one party (individual or an organization) to another (third party or an insurance company). Such risks may or may not necessarily take place in the future (Al Karim, R., & Alam, T., 2013).

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter provides an analysis of the existing literature on credit risk management. This has been presented according to the study objectives.

##### 2.1.1 Modern Portfolio Theory

The Modern Portfolio Theory (MPT) refers to an investment theory that allows investors to assemble an asset portfolio that maximizes expected return for a given level of risk. The theory assumes that investors are risk-averse; for a given level of expected return, investors will always prefer the less risky portfolio. Modern portfolio theory argues that an investment's risk and return characteristics should not be viewed alone, but should be evaluated by how the investment affects the overall portfolio's risk and return. MPT shows that an investor can construct a portfolio of multiple assets that will maximize returns for a given level of risk. Likewise, given a desired level of expected return, an investor can construct a portfolio with the lowest possible risk. Based on statistical measures such as variance and correlation, an individual investment's performance is less important than how it impacts the entire portfolio. MPT assumes that investors are risk-averse, meaning they prefer a less risky portfolio to a riskier one for a given level of return. As a practical matter, risk aversion implies that most people should invest in multiple asset classes. MPT breaks risk into two parts: systematic risk and unsystematic risk. Systematic risk is the risk inherent in the market. Unsystematic risk is the idiosyncratic risk that exists with the investment of a particular security. An important conclusion of MPT is that one can minimize the

unsystematic risk through diversification. Studies have shown that you only need a minimum of 20 securities to substantially diversify a portfolio. According to MPT, whether credit risk is diversifiable or not, it's all depends with its determinants. This implies that governance structure of commercial banks cannot eliminate credit risk determined by macroeconomic variable by diversifying the portfolio within the country. Consequently, risk attributable by the unsystematic factors which in this study are also referred to Microeconomic factors can be well be diversified through sector lending (James, 2020).

### **2.1.2 Enterprise Risk Management Theory**

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

Internal environment bases on how risk is viewed and addressed. That is to say, risk philosophy, risk appetite, ethical values and environment in which they operate. The other component is objective setting which entails objectives that must exist before management

can identify potential events affecting the achievement. Event identification highlights the internal and external events affecting the achievement of objectives and distinguishing between risks and opportunities. With risk assessment, risks are analyzed considering likelihood and impact as a basis on determining how they will be managed. Management selects risk responses like avoiding, accepting, reducing, sharing risk. With the component of control activities, policies and procedures are established and implemented to help ensure the risk responses are effectively carried. Information and communication: Relevant information is identified captured and communicated tenable people carry out their responsibilities.

Lastly, monitoring through the ongoing management activities and separating evaluations is another component of the ERM theory. ERM is not a serial process where one component affects only the next. It's a multi directional process in which almost any component can influence another. According to Pagach and Warr (2007), ERM emphasizes the use of a firm's risk appetite to determine which risks should be accepted and which should be mitigated or avoided. In further related studies, Sharpe (2004) highlights the aspect of proper management of risks as vital and cautions the mismanagement of risks which carry an enormous cost. Therefore, enterprise risk management looks at risk identification, risk assessment and risk monitoring as the best mechanisms to reduce financial risks in an enterprise hence improving the financial performance. This idea intimates that in financial institutions, risk assessment, risk identification and risk monitoring can be among the most effective ways of reducing risk and improve financial performance of an enterprise. Therefore, this was the basis of selecting ERM theory to guide this study.

Thorough research contributes to the body of knowledge on risk management by highlighting issues related to the implications of Enterprise Risk Management (ERM) which was identified as a factor that has a significant impact on the success of an organization (Micheal, 2013). A contribution to practitioners is the empirical data that helps guide risk management approaches within housing developers towards achieving the strategic objectives which will contribute to the success of projects and the organization. From most of the findings, this study has found that the RM is significant to be applied in an organization to enhance the organization performance either in financial aspect or non- financial aspect. However, the financial aspect gives most influences in RM implementation which can affect the organization profitability and stabilization. Overall, it can be concluded that the implementation of RM strategies gives good impact to the institutional performance in term of financial and non-financial aspect and at the same time it helps the financial institution to maintain their good performance by identifying and mitigating the potential risk earlier so as to develop a successful financial institution (Kamese, 2017).

## **2.5 Conclusion**

Credit risk control makes use of the data collected in the previous step to address potential risks with the right countermeasures. This includes classic mitigation strategies (before the risk event), risk monitoring and contingency plans (after the risk event). For each relevant risk, an appropriate Credit risk control strategy needs to be developed and executed. Credit risk control includes the development as well as the evaluation of diverse mitigation strategies towards their potential value and required investments (Kleindorfer and Saad, 2005).

As stated by Leo Omolo (2018) although banks have a great role to play, credit risk has been identified as a serious threat to their performance. Banks find difficulties in lending out to customers due to failure or nonpayment. For an improved financial performance, the bank needs to incorporate credit risk management into its operational and long-range planning activities. This study has specifically focused on the effect of four risk management strategies; risk avoidance, risk transference, risk mitigation and risk acceptance on the financial performance.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This chapter describes how the data was collected from the field and also gives the layout that the researcher used to collect and analyze data. The section covered the following: research design, study population, sample size and sampling techniques, data collection methods and instruments, quality control methods, data analysis techniques and Ethical considerations.

#### 3.1 Research design

Research design provides a logical structure for research data gathering and analysis (Amin, 2005). According to Mbeiza (2010) a design is a plan or means or approach of obtaining data for a specific study and it explains how the study is to be organized and implemented in detail. A descriptive design was used by the researcher with both qualitative and quantitative approaches. This design was used because it would aid the researcher to get issues as they appear. The researcher used qualitative techniques to enable her gather data involving respondents' perceptions, attitudes, opinions, views and feelings on different aspects of the study. This approach gets people in an environment of their natural conditions which helps to get comprehensive information on the topic. The study was largely quantitative and supplemented with a qualitative aspect.

### 3.2 Study population

A study population generally refers to the totality of items under investigation.

The population size is small and manageable, the study therefore will not sample out the respondents.

The target population for this study was 120 and it comprised of; Branch Managers, Credit Supervisors, Credit Officers and Loan clients from the five branches of Pride microfinance - Northern Region (Pride Microfinance Ltd HR, 2021).

### 3.3 Sample size

The researcher used both purposive and simple random sampling techniques in the selection of the study participants. From a study population of 120 the researcher drew 92 respondents as the sample size in accordance with Krejcie and Morgan (1970) table for determining a sample size for a given study population (as cited in Amin, 2005) the sample will comprise of 5 branch managers, 5 credit supervisors, 24 credit officers and 58 loan clients as shown in table 3.1 below;

**Table 3.1: Sample Size and Sampling Procedure**

Category	Population	Sample size	Sampling procedure
Branch Manager	5	5	Purposive
Credit supervisors	5	5	Purposive
Credit officers	35	24	Simple random
Loan clients	75	58	Simple random
<b>Total</b>	<b>120</b>	<b>92</b>	

*Source: Pride Micro Finance Ltd HR Report 2021*

### **3.4.0 Sampling techniques**

Kothari (2007) defines sampling technique as a definite plan for obtaining a sample from the sampling frame. The researcher used two types of sampling in the selection of the respondents, thus; purposive and random sampling.

#### **3.4.1 Purposive sampling**

The researcher used purposive sampling technique so that the researcher selected respondents according to the study interests. However, the study ensured equal representation of all the branches of Pride Micro finance. Purposive sampling was used in order to ensure that the right respondents with the relevant knowledge, authority and experience on the different themes are adequately selected (Sekaran, 2000). Purposive sampling was used in the selection of branch managers and credit supervisors.

#### **3.4.2 Simple Random sampling**

Simple Random sampling is where the researcher selects respondents without the influence of his or her interests. The respondents to be interviewed were got by calculated probability. Simple random sampling technique was used for the selection of credit officers and loan clients. This sampling method has been preferred for its reliability, generalizability and representativeness of the population (Sarantakos, 1997). Gay (2002) also identifies random sampling as the best form of sampling as it allows all members of population to have an equal and unbiased chance of appearing in the sample.

### **3.5 Data Collection Methods**

This study used both primary and secondary data. Primary data was captured using the questionnaire, and interviews. Document reviews constituted secondary data and was used including their double application to ensure triangulation.

### **3.6 Sources of Data**

The major source of data was primary data. The information required was obtained by self-administered questionnaires, observation and interview guide.

Other data required was obtained from secondary sources such as published journals, books, reports and internet.

### **3.7 Data Collection Instruments**

The key data collection instruments for the study were as follows:

#### **3.7.1 Questionnaire**

A questionnaire is a data collection instrument which involves the researcher predetermining and formulating a questionnaire schedule with questions relating to the problem under investigation. The instrument has been chosen because it collects large amount of data within a short time and is also easier to administer and analyze (Amin, 2005). Questionnaires will be circulated with the help of research assistants. The questionnaires were administered to the survey population for primary data collection. The questionnaire will be open and close ended with a Likert scale. The researcher has chosen the questionnaire as an instrument because the study is virtually descriptive and the tool is an easy method of data collection. Respondents respond honestly because of anonymity. The researcher used on spot filling by research assistants to minimize on the non-response rates and address the education level challenges. The questionnaires assisted the researcher to handle many

respondents in a short time and give detailed answers to complex problems (Mugenda & Mugenda, 1999). The questionnaire had three sections. The questionnaire was given to Pride Micro finance staff and loan clients because they are many and have individual experiences about the topic under investigation.

### **3.6.2 Interview Guide**

Pamela (2011) defines interview as a method of data collection, information or opinion gathering that specifically involves asking a series of questions. An interview guide with open-ended questions were used since it generally yields highest cooperation and lowest refusal rates, offers high response quality and takes advantage of interviewer presence (Owens, 2002). Individual Interview schedules were used to collect primary qualitative data from Branch managers and credit supervisors of Pride Micro Finance. The interviews had follow-up questions to probe the respondents further. Interviews were conducted from places that were deemed to be convenient by the respondents. The interview sessions were recorded with the permission of the respondents.

### **3.6.3 Document Review Checklist**

Review of documents with relevant secondary data were also be made. Document review involves the use of texts and documents as source materials: government publications, newspapers, certificates, diaries and innumerable other written, visual and pictorial sources in paper, electronic, or other 'hard copy' form. This method provides the researcher with well researched information which helped the researcher to focus on the study (Odiya, 2009). Relevant secondary data will be obtained from relevant respondents like the Branch managers and credit officers in whose custody it had been kept. The document review

checklist focused on the up-to-datedness of documents, approvals, dissemination, involvement of stakeholders and other key issues relating to documents.

### 3.7 Quality Control Methods

The two principal aspects of validity and reliability were observed in the study as follows:

#### 3.7.1 Validity

Mugenda and Mugenda (1999) describe validity as the accuracy and meaningfulness of inferences, which are based on the research results. It is the degree to which results obtained from the analysis of data actually represent the phenomenon under study. Data should be a true reflection of the variables. The researcher used the content and construct validity to develop the instruments in line with the objectives of the study. To ensure the validity of the instrument the researcher computed the 'Content Validity Index'. Content Validity Index (CVI) measures the validity of an instrument to determine whether a test has been constructed adequately (Kaplan, 2001). It is used to show the degree to which each item- is rated as appropriately, in order to judge it fit for data collection. This was done via independent expert judgment where 3 experts were used. The Content Validity Index of the instrument was computed using the formula:

$$CVI = \frac{VR+R}{T}$$

Where: CVI = Content Validity Index

VR= Very Relevant, plus R which is Relevant, divide by the T which is the Total, is equal to CVI (Content Validity Index). Once the computation was found to be above 0.7, using George and Mallery (2003), then the instrument was considered valid and deemed fit for data collection.

### **3.7.2 Reliability**

Reliability refers to a measure of degree to which a research instrument yields consistent results or data after repeated trials (Mugenda & Mugenda, 1999). The reliability of the instrument was computed after piloting would have been done on respondent of the similar characteristics with those of the study area but who would not participate in the research. This was done to ensure their suitability in giving consistent results. It was tested and scored. The Cronbach's alpha correlation formula was used to compute the coefficient, which is an indicator of the level of reliability (Dornyei, 2003). The interpretation was done by using George and Mallery Statistical Package for Social Sciences (SPSS). Items with a minimum coefficient of 0.70 according to Oso and Onen (2009) was accepted which shall imply reliability. The researcher proceeded to the field for data collection after the instruments was found suitable for the study.

## **3.8 Data Management and Processing**

The process of data management and processing was managed as follows:

### **3.8.1 Data Management**

In management of data, the researcher made sure that the collected data is stored in a secure and safe place and treated as confidential. Soft and hard copies of the documents were restricted from access by unauthorized persons by password and locks.

### **3.8.2 Data Processing**

Data editing, sorting, coding and presentation were done by the researcher and some research assistants before analysis. Discussions were done to cater for any errors and omissions.

### **3.9 Data Analysis and Presentation**

Both quantitative and qualitative approaches were used for data analysis.

#### **3.9.1 Quantitative Data**

Data from questionnaires was compiled, sorted, edited, classified and coded into a coding sheet and analyzed using a computerized data analysis package known as Statistical Package for Social Science (SPSS 21.0.) The descriptive statistics involved calculations of the mean, frequencies and percentages and weighted averages. In addition, standard deviation and coefficient of variation was used in the research specifically to measure the degree of disparity and consistency of responses to statements on credit risk management and financial performance in the study area. Regression statistics was used to assess how credit risk affects the financial performance of Pride Micro finance.

#### **3.9.2 Qualitative Data**

All the data corrected using interview guide and unstructured questions within the questionnaire was descriptively analyzed where necessary, the responses were categorized in frequency and score table with varying percentage calculation. Interpretation and conclusion were made according to the number of occurrences of each item. The qualitative data was used to reinforce the quantitative data so as to make interpretation of data easy to understand and give quick insight of results.

### **3.10. Research Procedure**

The researcher got an introductory letter from the university which introduced him to the Pride Micro Finance management and the respondents respectively. The research tools were verified and approved by the research supervisor before data collection. The respondents

received the questionnaire while those to be interviewed were interviewed respectively. The received instruments were checked for completeness and correctness. Meanwhile, interviews were conducted with respondents in places convenient to them. Data collected was sorted, coded, tallied, analyzed and presented according to the research objectives.

### **3.11 Ethical Considerations**

Conducting research in financial institutions requires a lot of ethical considerations that are highly admired in the mind of the researcher. To distribute a questionnaire that involves different questions and opinions, the researcher has to be aware that it is a huge responsibility. The following are the ethical issues that the researcher observed.

#### **Informed Consent**

The researcher sought permission from the relevant authorities in the micro finance branches. The researcher also asked the respondents for their consent and assuring them that there would be high confidentiality between the respondents and the researcher.

#### **Confidentiality**

The participants that were involved in this study were assured of confidentiality of all their views and opinions and that none of their names would be published in the final compilation of the researcher report.

#### **Voluntary Participation**

Participants were explained to the aim of research before the start of data collection, its significance and the way the respondents would be involved in the study. The respondents were asked voluntarily to decide whether to participate or not in the provision of information.

## **Duplication**

The researcher avoided any form of duplication in case there is any researcher that was earlier conducted on a similar topic because this can undermine the changes that have since occurred over years since that old research was done.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

#### 4.0 Introduction

This chapter presents the major findings of the study that have been presented according to the study objectives. The major themes have been developed from the study objective where findings have been presented and interpreted accordingly. Frequency tables with computed frequencies, percentages and graphical illustrations especially for the quantifiable findings have been developed. In order to guide interpretation of the findings, the mean average of the studied items is measured in relation to the five-point Likert Scale that has been coded from 1-5 respectively as follows; SD=Strongly D=Disagree, NS=Not Sure, A=Agree and SA=Strongly Agree. The first part of the presentation constitutes the demographic characteristics of the respondents.

#### 4.1 Response Rate

The researcher aimed at finding out the response rate of the respondents and the results are indicated in the table below.

**Table 4.1: Response rate**

	Frequency	Percent (%)
Expected response	92	100
Actual response	86	94
Non-response	6	6

Source: Field Data 2022

According to table 4.1 above, generally, the study had a high response rate of 94% (n=86) while only 6% (n=6) never participated in the study. Therefore, the results of this study are representative of the sample size and consequently the study population.

#### 4.2 Demographic Characteristics of Respondents

The background variables of interest to the study included: respondents' age, gender, highest academic qualification, occupation and duration of membership with the bank. Data on each of these background variables are summarized and discussed below;

##### 4.2.1 Respondents Gender

The study sought to establish the gender distribution of the respondents.

**Table 4.2 Gender of the Respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	45	52
Female	41	48
<b>Total</b>	<b>86</b>	<b>100</b>

**Source: Field Data 2022**

Data presented in the above table show that there were slightly more male (52%) than female (48%) respondents. This may imply that men were more involved in banking activities as compared to women and that the findings of the study may depict more of masculine perspectives.

#### 4.2.2 Age Composition of the Respondents

The researcher sought to establish the age distribution of the respondents and results were as follows;

**Table 4.3 Age Composition of the Respondents**

<b>Age Range</b>	<b>Frequency</b>	<b>Percent</b>
18-30 years	28	33
31-40 years	39	45
41-50 years	15	17
51 years and above	4	5
<b>Total</b>	<b>86</b>	<b>100</b>

**Source: Field Data 2022**

The findings show that the largest number of the respondents, (45%) were aged between 31-40 years, followed by 33% that fell in the age range of 18-30 years, then (17%) were aged between 41-50 years, with the least, (5%) that were aged 51 years and above. The above age distribution suggests that majority of the Pride Microfinance staff and clients were youthful, hence energetic enough to carry out productive activities that can enable them ably manage credit activities.

### 4.2.3 Respondents' Highest academic qualification

The study sought for responses to establish the highest academic qualification attained by respondents.

**Table 4.4 Respondents' Highest academic qualification**

<b>Education level</b>	<b>Frequency</b>	<b>Percent</b>
Certificate	8	9
Diploma	33	38
Degree	45	53
<b>Total</b>	<b>86</b>	<b>100</b>

**Source: Field Data 2022**

Findings in table 4.4 above indicate that majority of the respondents, (53%) were degree holders, followed by (38%) who had diploma, and that had acquired certificates. The findings suggest that majority of the respondents had enough education and could therefore understand the questions and give the appropriate responses.

### 4.3 Financial Performance of Pride Micro Finance Ltd

The study sought to establish the status of financial performance of Pride Micro Finance as a way of determining its financial performance in relation to the discussed variables on credit risk and the findings were as follows.

**Table 4.9 Financial Performance of Pride Micro Finance Ltd**

Statement	SD (%)	D (%)	NS (%)	A (%)	SA (%)	Mean	SD	Comment
Pride Micro Finance ltd has a satisfactory Gross and Net Profit Margin	11.6	68.6	2.3	17.4	-	2.26	.88	Moderate
Pride Micro Finance ltd is able to pay its current obligations using liquid assets	15.1	57.0	2.3	20.9	4.7	2.43	1.12	Moderate
Pride Micro Finance ltd has a high debt-to-equity Ratio	17.4	52.3	3.5	23.3	3.5	2.43	1.13	Moderate
Pride Micro Finance ltd has an increasing current Ratio	5.8	73.3	1.2	18.6	1.2	2.36	.89	Moderate
Pride Micro Finance ltd has an increasing Inventory Turnover	12.8	57.0	2.3	24.4	3.5	2.49	1.10	Moderate
Pride Micro Finance ltd has been experiencing high Returns on Assets	17.4	59.3	1.2	20.9	1.2	2.29	1.02	Moderate
<b>Overall mean/standard deviation</b>						2.38	1.02	Moderate

**Source: Field Data 2022**

When asked whether Pride Micro Finance ltd had a satisfactory Gross and Net Profit Margin, majority (80.2%) of the respondents disagreed, while 17.8% of the respondents that agreed. Only 2.3% were not sure. With the opinion that Pride Micro Finance ltd was able to pay its current obligations using liquid assets, majority (72.1%) of the respondents disagreed, while 25.6% agreed with the statement.

Whether Pride Micro Finance Ltd had a high debt-to-equity Ratio, majority of the respondents (69.7%) of the respondents disagreed, with only 26.8% that agreement with the statement. Regarding Pride Micro Finance Ltd having an increasing current Ratio, majority of the respondents (79.1%) disagreed, with 19.8% of the respondents agreeing with the idea. Responses on the idea that bank was having an increasing Inventory turnover show that majority of the respondents (69.8%) disagreed, while 27.9% of the respondents agreed. Findings on whether Pride Micro Finance Ltd has been experiencing high Returns on assets show that majority of the respondents (76.7%) disagreed, while a significant percentage (22.1%) agreed with the statement.

Most credit officers and branch managers mentioned that the bank Gross and Net Profit Margin was not satisfactory and associated it with the economic down turn caused by COVID-19. They added that many loan clients failed to pay their loans in time and customer savings reduced. This indicates that Pride Micro Finance has not been enjoying a satisfactory gross and net profit margin which is an indicator of unhealthy financial performance.

Findings got from most credit supervisors and branch managers indicated that the bank had not been able to pay its current expenditure using liquid assets. These finding suggest that the bank has a high degree of financial instability such that even in the event of bad loans the bank may not survive.

Views from most branch managers and credit supervisors show that the bank has a low debt-equity ratio. Most branch managers and credit supervisors were also with the view that the bank was experiencing decreasing current ratio, implying that the bank had challenges that were hampering the steady increase in its current ratio. Most of the interview tool respondents also had views that suggested that the bank had decreasing inventory turnover,

indicating poor financial performance. Equally findings from most branch managers and credit supervisors indicated that the bank had low returns on assets, as much as a few reported otherwise. These findings suggest that the bank generally had low returns on assets.

#### 4.4 Effect of Risk Avoidance on Financial Performance of Pride Micro Finance

The study sought for responses on the effect of risk avoidance on the financial performance of Pride Micro Finance and the following were the results.

**Table 4.5 Risk Avoidance**

Statement	SD (%)	D (%)	NS (%)	A (%)	SA (%)	Mean	SD	Comment
Pride Micro Finance has set up strong credit management policies	2	18	2	41	37	4.33	.87	High
Pride Micro Finance has effective credit risk identifier guidelines	2	16	5	49	28	3.83	1.08	High
There is joint decision making while handling loan process	-	8	2	42	48	4.29	1.01	High
Pride Micro Finance has an effective loan screening process	-	17	1	51	30	3.94	1.01	High
The loans offered to clients are adjusted according to the credit risk assessment	3	16	2	45	33	3.87	1.14	Moderate
The value of collateral is usually higher than the loan amount taken	-	7	3	36	53	4.3	.85	Low
Risk control activities are well executed in Pride Micro Finance	5	30	2	42	21	3.4	1.25	High
Pride Micro Finance has been getting back most of the loaned money with interest	4	16	2	48	30	3.84	1.13	Moderate
<b>Overall mean/standard deviation</b>						3.98	1.04	Moderate

**Source: Field Data 2022**

Respondents were asked whether ‘Pride Micro Finance had set up strong credit management policies and majority (78%) agreed with the idea, however, 20% of the respondents

disagreed. Findings on the idea that Pride Micro Finance has effective credit risk identifier guidelines showed that majority of the respondents (77%) agreed with the statement, with only 18% of the respondents that disagreed. About the statement that there was joint decision making while handling loan process, majority of the respondents (89%) agreed, with only 8% of the respondents that disagreed with the statement. Relatedly, majority of the respondents (81%) agreed with the idea that Pride Micro Finance had an effective loan screening process, with only 17% that responded otherwise. Opinions on the idea that the loans offered to clients were adjusted according to the credit risk assessment reveal that 78% of the respondents agreed, while 19% disagreed with the idea.

Responses on the view that the value of collateral was usually higher than the loan amount taken show that 89% of the respondents agreed, with only 7% of the respondents that that disagreed, while 3% were not sure. About the view that risk control activities were well executed in Pride Micro Finance, there were mixed opinions as 51% of the respondents agreed with the statement, with another reasonable percentage (35%) disagreeing with the opinion. Findings on whether Pride Micro Finance had been getting back most of the loaned money with interest show that majority of the respondents (78%) agreed, however, 20% of the respondents disagreed.

Similar responses were got from the interview schedules, whereby they indicated that Pride Micro Finance had set up strong credit management policies. Views expressed by managers and most credit managers also showed that Pride Micro Finance had set up strong credit management policies and also revealed that the bank had reliable credit management policies. As one stated,

*“The bank has well formulated policies, whereby it is hard for us to make big blunders while issuing out loans. Well, some credit staff that can relax on some terms because they want to raise their clientele but in the long run, we get to know about it”*

These findings suggest that Pride Micro Finance has set up strong credit policies that can help it to avoid bad debts. This finding affirms what was concluded by Paul and Boden (2008) that firms need robust and reliable processes to assess risk and decide whether to extend credit. The optimal balance between losing a sale and selling to a customer who may delay payment or default is not easy to strike.

According to the views given by all credit managers, the bank had all the necessary instruments to guide staffs identify credit risks and have been followed by most credit officers. One credit officer said,

*“Each staff has been given a checklist that has many credit risk identifiers which they refer to while assessing and giving out loans to clients”*

This indicates that the bank has credit risk identifiers which can help it to easily identify risks and effectively address them. This is in harmony with Kleindorfer and Saad, (2005) who suggested that the critical first step of a risk management process is risk identification and added that it is important to note that only risks that are identified in the first step can be assessed and managed in the subsequent process.

Majority of the credit officers also asserted that they usually worked as a team and kept on consulting other staff for proof and agreement while handling loans. This affirms what was stated by Berg *et al.*, (2008) who posited that credit risk control also needs to be supported from various functions within the firm and that it requires support from senior executives enabling holistic thinking, joint decision making and fast implementation activities. The

findings indicate that the bank has been encouraging collective decision making during the loaning process, which aspect may help it avert mistakes while giving out loans.

Equally, most credit officers and credit managers reported that the bank had a strict loan screening process as much as a few said that the policies and processes were in place but would at times be floated, as one Branch manager stated,

*“Yes we have the well laid screening process but remember we also need to raise the clientele as well as give out as many loans as possible, so staff are at times compromised and end up omitting some aspects in the screening process”*

This implies that the bank has an effective loan screening process as much as it may be compromised due to factors like need to increase on the clientele and meeting targets.

According to the managers and credit officers interviewed it was noted that to a greater extent loans were offered to clients according to the credit risk assessment as much as this was not the case in some instances as stated by one credit manager that, *“There are some unscrupulous clients who can present all that is required but with a big lie behind and the credit officer finds himself in trouble while recovering the money”*.

This implies that the bank tries to be sensitive while giving out credit but at certain times the clients become too smart for them. By and large, according to the above finding Pride Micro finance has been adjusting loans according to the credit risk which may greatly reduce on the level of credit risk.

Equally all the Branch managers and Credit supervisors admitted that they have been raising the value of collateral to be higher than the requested loan amount in order to limit the risk of the bank losing any moneys, as the collateral would be sold off and the loan recovered. These findings are also in harmony with what De Laurentis and Mattei, (2009) assumed that

collateral serves to secure the loan that on default, the collateral is converted for the outstanding loan balance thereby countering loan losses arising from default. These findings suggest that Pride Micro Finance has been having a higher collateral value than the loan amount as one of the strategies of avoiding losses in case of loan default.

Views expressed by most credit supervisors and Bank managers on the statement that, “Risk control activities are well executed in Pride Micro Finance”, show that they were effectively applying the risk control activities, though another significant number said otherwise. This indicates that as much as the bank was trying to execute risk control activities, they were having gaps in some instances, which situation may make the bank vulnerable to loss of money in loans.

Most of the Branch managers and credit supervisors acknowledged that most of the loaned money was recovered as much as a few stated that there were some losses that had been made, or the money could be recovered but with difficulty. These findings indicate that the bank was able to get back most of the loaned money, implying that the banks’ risk avoidance measures are effective to a greater extent.

#### **4.4.2 Correlation Analysis for risk avoidance and financial performance**

A two-tailed Pearson’s product-moment correlation coefficient was used to measure the degree and direction of relationship between risk avoidance and financial performance of Pride Micro-Finance. The results are presented below.

**Table 4.6: Correlation Analysis for risk avoidance and financial performance**  
**Correlations**

		Risk Avoidance	Financial Performance
Risk Avoidance	Pearson Correlation	1	.806**
	Sig. (2-tailed)		.000
	N	86	86
Financial Performance	Pearson Correlation	.806**	1
	Sig. (2-tailed)	.000	
	N	86	86

\*\* . Correlation is significant at the 0.01 level (2-tailed).

A correlation of 0.806 for the relationship between risk avoidance and financial performance of Pride Micro-Finance, thus there is a strong positive correlation between the two variables. However, at 99% confidence level, significance level of .000 is less than 0.01, hence there is statistically significant relationship. This implies that risk avoidance has a strong positive and significant relationship with the financial performance of Pride Micro-Finance.

#### 4.4.3 Regression Statistics for risk avoidance on the financial performance

To show much of the variance in financial performance would be caused by use credit risk avoidance, a regression analysis was run as shown below:

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.806 <sup>a</sup>	.649	.645	.58589

a. Predictors: (Constant), Risk Avoidance

The model summary table 4 using predictors Risk Avoidance shows R square value of 0.649. This implies that 64.9% (0.649\*100) variations in Financial performance of Pride microfinance is explained by Risk Avoidance while the remaining 35.1% is explained by other factors not covered in this study.

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.797	.262		-3.040	.003
Risk Avoidance	.803	.064	.806	12.466	.000

a. Dependent Variable: Financial Performance

Results in the table above reveal that Risk Avoidance affects financial performance of Pride microfinance with beta value = 0.806 at 0.000 level of significance. This means that Risk Avoidance has a positive and significant effect on Financial performance of Pride microfinance. It can further be deduced that there is a strong positive and significant relationship between Risk Avoidance and financial performance of Pride microfinance at  $r = 0.806^{**}$ ,  $p$  value = .000 given by Pearson Correlation coefficient at the 0.01 (2-tailed) level of significance. This answers the first research question that states that “*What is the effect of Risk Avoidance on Financial performance of Pride Microfinance?*” Therefore, it can be concluded that credit risk avoidance causes a significant improvement in the financial performance Pride Micro finance.

**4.5.1 Effect of Credit Risk Transfer on the Financial Performance of Pride Micro Finance**

The study sought to establish whether credit risk transfer approach used by pride Micro Finance was having any influence on its financial performance and the following constructs were used to gauge respondents’ views.

**Table 4.7 Credit Risk Transfer**

Statement	SD (%)	D (%)	NS (%)	A (%)	SA (%)	Mean	SD	Comment
Pride Micro Finance uses risk transfer systems	-	10	2	51	37	4.13	.89	High
The responsibilities for financial risks are put on the third party	-	12	1	52	35	4.10	.90	High

Client loans are insured	-	8	1	49	42	4.24	.83	High
Insurance has been used for insuring property, health, and life of the loan clients	-	10	-	51	39	4.17	.88	High
Transferring credit risk has reduced earnings uncertainty of Pride Micro Finance	-	6	2	56	36	4.22	.75	High
Credit risk transfers has helped in covering the financial losses of Pride Micro Finance	2	20	-	45	33	3.86	1.14	Moderate
The credit transfer terms are fixed and are not subject to any changes in market conditions	-	2		56	42	4.37	.61	High
Credit risk transferring is time consuming and not helpful in recovering the lost monies in loans	7	42	2	35	14	3.06	1.27	Moderate
<b>Overall mean/standard deviation</b>						4.02	0.65	<b>High</b>

**Source: Field Data 2022**

Results on whether Pride Micro Finance uses risk transfer systems showed that 88% of the respondents agreed, while 10% of the respondents disagreed. While findings on the view that the responsibilities for financial risks are put on the third party show that 87% of the respondents agreed, while 12% of the respondents disagreed.

The findings are in harmony with what IMF, (2002); OECD, (2002) stated that in the occurrence of an unfortunate event, the policyholder or indemnitee can be assured that the losses arising from the consequences of such an event will be duly taken care of by the insurance company or the Indemnitor. Therefore, the bank has effectively managed the credit risk transfer in such a way that the third part takes on the responsibilities for the financial risks, hence higher chances of getting all its loaned-out money.

On the idea that client loans are insured, majority of the respondents (91%) agreed, with only 8% of the respondents that disagreed. Similarly, most managers and credit supervisors reported that all client loans were ensured. This implies that the chances of losing money in

cases where a client has got a problem that is under the insurance cover the insurance company takes on the responsibility of paying of the loan balance.

Views on the statement, “Insurance has been used for insuring property, health, and life of the loan clients”, show that majority (90%) agreed with the statement, with only 10% that disagreed. Similar responses were also got from the bank managers and credit supervisors. These findings indicate that pride micro finance has effectively used the insurance policy that covers loan clients’ life, property and health, thus reducing the risk of losing bank money in case the client got any challenges that are under the insurance cover. The findings on this bank strategy are in harmony with the statement by OECD (2012) that the individual or company is safeguarded against any unforeseen future risks; it helps in covering the financial losses at least to the extent of policy coverage; it saves the person from unexpected and huge financial burdens

Majority of the respondents (92%) agreed with the idea that transferring credit risk had reduced earnings uncertainty of Pride Micro Finance. Only few (6%) of the respondents disagreed.

About the view that Credit risk transfers had helped in covering the financial losses of Pride Micro Finance, majority of the respondents (78%) agreed, with only 22% of the respondents disagreeing with the statement.

Results on respondents’ views on the statement, “The credit transfer terms are fixed and are not subject to any changes in market conditions” show that majority (98%) agreed with the statement, with on 2% that stated otherwise. This suggests that Pride Micro finance credit transfer terms are fixed and are not subject to any changes in market conditions.

Responses on the statement, “Credit risk transferring is time consuming and not helpful in recovering the lost monies in loans” show that 49% disagreed, with 48% disagreeing with the statement.

Qualitative results on whether Pride Micro Finance used risk transfer systems showed that all the branch managers and credit officers asserted that the bank used credit risk transfer systems. The findings suggest that Pride Micro Finance had been applying risk transfer methods in reducing the level of its credit risk. All views given by the branch managers and credit supervisors pointed to the fact that credit transfers had reduced earnings uncertainty of the bank. Responses from most credit supervisors and bank managers implied that the credit risk transfer approach had helped the bank in covering the financial losses. However, according to Wagner., Marsh, I., (2004) one of the most common drawbacks on such credit risk transfer could be the expenses that the bank should bear for purchasing and maintaining insurance, derivatives, or an indemnity clause.

The idea that credit risk transferring was time consuming and not helpful attracted mixed feelings from managers and credit officers, implying that there were some instances where credit risk transfer saved time and where it was time consuming and unhelpful. This therefore suggests that the bank management needs to further examine its credit risk transfer approaches so as to realize the best out the credit risk transfer system.

Generally, the results on construct ‘effect of credit risk transfer on financial performance of pride micro finance’ shows an overall mean of 4.02 with a mean standard deviation of 0.65 which was rated as high, suggests that credit risk transfer approaches used by Pride Micro Finance have had a significant influence on the Financial Performance of the bank.

#### 4.5.2 Correlation Analysis for risk transference has on the financial performance

A two-tailed Pearson's product-moment correlation coefficient was used to measure the degree and direction of relationship between risk transference and financial performance of Pride Micro-Finance.

**Table Correlation Analysis for risk transference has on the financial performance**  
**Correlations**

		Risk Transfer	Financial Performance
Risk Transfer	Pearson Correlation	1	.822**
	Sig. (2-tailed)		.000
	N	86	86
Financial Performance	Pearson Correlation	.822**	1
	Sig. (2-tailed)	.000	
	N	86	86

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The table shows a strong correlation between risk transference and financial performance of Pride Micro-finance ( $r=0.822$ ,  $p=0.000$ ,  $N=86$ ). The correlation was significant since  $p=0.000 < 0.01$  level of significance. This implies that risk avoidance added about 0.822 units to the financial performance of Pride Micro-Finance.

#### Regression Analysis for Credit risk transfer and financial performance

To show much of the variance in performance would be caused by use of credit risk transfer and financial performance, a regression analysis was run as shown below:

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.822 <sup>a</sup>	.675	.671	.56378

a. Predictors: (Constant), Risk Transfer

The coefficient of determination .675 implies that credit risk transfer determines the financial performance of Pride Micro finance by 67.5% while the remaining 32.5% is explained by other factors not covered in this study. Hence it can be concluded that credit risk transfer causes a significant improvement in the financial performance of Pride Micro finance.

### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.465	.297		-4.933	.000
	Risk Transfer	.955	.072	.822	13.211	.000

a. Dependent Variable: Financial Performance

According to the above table of regression analysis of two (credit risk transfer and financial performance) is shown by Beta value (Beta = 0.822,  $p=0.000 < 0.01$ ) which means that one unit increases in credit risk transference leads to 0.822 unit increase the financial performance. It also means that Risk Avoidance has a positive and significant effect on Financial performance of Pride microfinance. It can further be deduced that there is a strong positive and significant relationship between Risk Avoidance and financial performance of Pride microfinance at  $r = 0.822^{**}$ ,  $p$  value = .000 given by Pearson Correlation coefficient at the 0.01 (2-tailed) level of significance. This answers the second research question that states that “*What is the effect of Risk transfer on Financial performance of Pride Microfinance?*” Therefore, it can be concluded that credit risk transfer causes an improvement in the financial performance of PMF.

#### 4.6.1 Effect of Credit Risk Mitigation on Financial Performance of Pride Micro-Finance

The study sought for responses on various aspects related to credit risk mitigation and the performance of Pride Micro finance and the following were the findings.

**Table 4.7 Credit Risk Mitigation**

Statement	SD (%)	D (%)	NS (%)	A (%)	SA (%)	Mean	SD	Comment
Pride Micro finance applies various safeguards to minimize the risk of losing its original investment	-	8	-	54	38	4.22	.82	High
Pride Micro-finance uses risk-based pricing	-	12	-	48	40	4.13	.95	High
Pride Micro-finance has been making agreements with loan clients	-	-	-	67	33	4.32	.47	High
Pride Micro-finance has been carrying out post-disbursement monitoring	30	44	2	24	-	2.19	1.11	Low
Pride Micro fiancé has been using the 5Cs of credit approach while issuing out loans	-	16	1	61	22	3.87	.93	Moderate
Pride Micro fiancé has been assessing business and financial risk before giving out loans	-	5	2	53	40	4.27	.73	High
Credit officers usually have all clients details such debt capacity of borrower, risks involved, and mitigating factors while issuing loans	13	44	2	36	5	2.75	1.20	Low
Pride Micro finance usually charges higher interest for higher risk loans	37	46	5	12	-	1.9	.94	Low
<b>Overall mean/standard deviation</b>						3.45	0.89	<b>Moderate</b>

**Source: Field Data 2022**

Findings on the statement that Pride Micro finance applied various safeguards to minimize the risk of losing its original investment show that majority (92%) agreed, with only 6.0% that disagreed. Related views were given by most credit supervisors and all branch managers who asserted that the bank was applying a number of safeguards against losing original investment.

Findings on the statement that pride Micro Finance Uses risk-based pricing show that majority (88%) of the respondents agreed, with only 12% that disagreed with the statement.

Results from the view that Pride Micro-finance had been making agreements with loan clients show 100% agreement of respondents. This implies that all loan clients are made to sign loan agreements before accessing loans.

Findings on the statement that Pride Micro-finance had been carrying out post-disbursement monitoring show that majority (74%) disagreed with the statement, while 24% agreed with the statement.

Majority of the respondents (83%) agreed, while 16% disagreed with the statement that Pride Micro finance has been using the 5Cs of credit approach while issuing out loans.

Concerning the view that Pride Micro fiancé had been assessing business and financial risk before giving out loans, majority (93%) agreed, with only 5% that disagreed and 2% were not sure about the statement.

Study findings on the statement that credit officers usually have all clients details such debt capacity of borrower, risks involved, and mitigating factors while issuing loans show that majority (57%) disagreed, while 41% of the respondents agreed with the statement.

Responses on the idea that Pride Micro finance usually charges higher interest for higher risk loans show that majority (83%) disagreed with the statement, while 12% agreed.

Views given by most credit supervisors and all branch managers suggest that the bank was applying a number of safeguards against losing original investment. Responses from managers indicate that they have varying interest rates for salary earners and business owners and salaried earners were given a longer recovery period and were charged less interest as compared to business owners. These findings suggest that the bank practices risk-

based pricing in order to reduce the level of risk and eventual loss of its investment. These findings agree with what Venkiteshwaran, V., (2014) posited that lending institutions attempt to gauge the risk appetite of different borrowers and their respective ability to fully service the loan and accordingly charge them a higher or a lower rate of interest. According to the credit managers, the bank has been attempting to analyze how robust or weak is the financial condition of the borrower and/or their past record of servicing debt.

Views of majority of the interview respondents showed that as much as the managers emphasized that credit officers visit the clients for post-disbursement monitoring, very few do so as one branch manager stated,

*“Our officers are ever occupied with loan assessment and only follow up on loan defaulters, but monitoring the business performance of a good performing loan client is quite rare...”*

These findings indicate that as much as the bank sees it vital for credit officers to carryout post-disbursement monitoring, it is not well implemented in the study area.

Responses given by majority of credit managers and all branch managers show that the bank had guiding documents to help credit staffs assess loan clients using the 5Cs approach. These findings are also in harmony with what Venkiteshwaran, V., (2014) stated that the ‘5 Cs’ of credit provide lenders a framework for credit risk mitigation and help in identifying the inherent risk in a loan. The 5 Cs of credit are; character, capacity, capital, collateral, and conditions (purpose of the loan, cost, and tenure). Therefore, according to the findings, Pride micro finance management and staff have been using the 5Cs approach while assessing loan clients, which approach may greatly reduce the negative effect of credit risk on the financial performance of the bank.

Most credit managers acknowledged that credit officers were usually helped to assess clients' business and financial risks before giving out loans. This indicates that the bank has been carrying out business and financial risk assessments before giving loans to their clients. Varied views were also expressed by branch managers and credit supervisors, but majority of them expressed that credit officers had the required information for assessing borrower risks and mitigating factors while giving out loans.

Views got from the interview tool respondents show that the bank had a flat rate for business loans and salary loans respectively. These findings suggest that the bank does not charge differently on loans regardless of the credit risks.

Overall the construct 'Effect of Credit Risk Mitigation on Financial Performance of Pride Micro-Finance' had an average mean of 3.45 and standard deviation of 0.89 which was rated as moderate. This suggests that pride micro finance credit risk mitigation approaches have had had a moderate effect on the financial performance of pride micro-finance.

#### **4.6.2 Correlation Analysis for Credit Risk Mitigation and Financial Performance**

A one-tailed Pearson's product-moment correlation coefficient was used to measure the degree and direction of relationship between risk mitigation and financial performance of Pride Micro-Finance. The results are presented below.

**Table Correlation Analysis for Credit Risk Mitigation and Financial Performance**

		Correlations	
		Risk Mitigation	Financial Performance
Risk Mitigation	Pearson Correlation	1	.916**
	Sig. (2-tailed)		.000
	N	86	86
Financial Performance	Pearson Correlation	.916**	1
	Sig. (2-tailed)	.000	
	N	86	86

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The above analysis depicts a significant relationship between risk mitigation and financial performance of Pride Micro-finance ( $r=0.916$ ,  $p=0.000<0.01$ ,  $N=86$ ). The correlation was significant since  $p=0.000$  was less than 0.01. This implies that risk mitigation added about 0.916 units to financial performance.

#### 4.6.3 Regression Analysis for Credit risk mitigation and financial performance

To show much of the variance in performance would be caused by use of credit risk mitigation on financial performance, a regression analysis was run as below:

#### Credit Risk Mitigation on Financial Performance

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.916 <sup>a</sup>	.839	.837	.39646

a. Predictors: (Constant), Risk Mitigation

The coefficient of determination 0.839 implies that credit risk transfer determines the financial performance of Pride Micro finance by 83.9% while the remaining 16.1% is

explained by other factors not covered in this study. Hence it can be concluded that credit risk mitigation causes a significant improvement in the financial performance of Pride Micro finance.

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-1.551	.192		-8.067	.000
Risk Mitigation	1.132	.054	.916	20.948	.000

a. Dependent Variable: Financial Performance

The above regression analysis of credit risk mitigation and financial performance, shows a Beta value of (Beta = 0.916,  $p=000 < 0.01$ ). This means that when there is a one unit increases in credit risk mitigation then there will be a 0.916 unit increase the financial performance. Therefore, it can be concluded that credit risk mitigation causes a significant improvement in the financial performance of PMF. This answers the third research question that states that *“What is the effect of Risk mitigation on Financial performance of Pride Microfinance?”* Therefore, it can be concluded that credit risk transfer causes an improvement in the financial performance of PMF.

#### 4.7 Effect of Risk Acceptance on the Financial Performance of Pride Micro Finance

The study sought for responses to determine the effect of Risk Acceptance on the Financial Performance of Pride Micro Finance and the following were the findings.

**Table 4.8 Risk Acceptance**

Statement	SD (%)	D (%)	NS (%)	A (%)	SA (%)	Mean	SD	Comment
Pride Micro Finance has mechanisms that can enhance continued existence in case of bad debts	-	23	5	43	29	3.77	1.11	Moderate
Pride Micro Finance ltd management has put enough effort to ensure that credit risk does not affect the operations of the institution	5	13	2	44	36	3.94	1.15	Moderate

Pride Micro Finance ltd has strong internal controls to ensure that it does not make financial loses.	19	8	2	35	36	2.74	1.30	Low
Pride Micro Finance ltd raises new funds for its operations to reduce its exposures to financial risks.	-	15	-	48	37	4.06	.99	High
Pride Micro Finance ltd usually ensures that it has enough capital to keep it operating even when it makes loses in bad debts	-	5	-	57	38	4.2	.70	Moderate
Pride Micro Finance ltd has alternative ways of funding its operations apart from credit giving	6	12	2	60	20	3.76	1.08	Moderate
<b>Overall mean/standard deviation</b>						3.73	1.06	High

**Source: Field Data 2022**

The results on the statement, “Pride Micro Finance has mechanisms that can enhance continued existence in case of bad debts” show that majority (72%) agreed with the statement, while 23% disagreed with the statement.

Regarding the statement that Pride Micro Finance ltd management had put enough effort to ensure that credit risk does not affect the operations of the institution, majority (80%) agreed with the statement, with only 19% that responded otherwise.

Responses on the statement, “Pride Micro Finance ltd has strong internal controls to ensure that it does not make financial loses” show that majority (71%) agreed, while 27% disagreed with the statement. similar responses were got from most interview tool respondents whose responses showed that the bank has strong internal controls that make it hard for it to make big loses.

Findings on the statement, “Pride Micro Finance ltd raises new funds for its operations to reduce its exposures to financial risks” show that 85% of the respondents agreed with the statement, with only 15% that disagreed with the statement.

The bank has made innovations of raising money for its survival in the event of bad debts. Responses on the statement, ‘Pride Micro Finance ltd usually ensures that it has enough capital to keep it operating even when it makes loses in bad debts’ reveal that nearly all the respondents, (95%) agreed with the statement, with only 5% that disagreed with the statement. All the branch managers and majority of the credit supervisors stated that the bank always has enough capital to enable it sustain its activities.

Results on the construct, “Pride Micro Finance ltd has alternative ways of funding its operations apart from credit giving” show that 80% of the respondents who constitute the biggest number agreed with the statement, while 18% had an opposite view and 2% was not sure.

Most credit supervisors stated that the bank had established systems that could promote its sustainability. This means that the bank was aware and has put in place systems that enhance its sustainability even in the event of loan defaulting. Relatedly most credit supervisors stated that the bank had established systems that could aid it to continue with its operations in the event of poor credit performance. One branch manager also stated, *“We have other sources of funding that can enable the bank continue functioning even if we make a few loses in the credit section, for instance there is mobile money services, pay way. Money transfers. Agency banking, Forex among others that can help us acquire funds for survival,”*

This suggests that the bank has other sources of funding other than credits that can make it continue with its operations.

Most credit supervisors also said that the bank had been identifying other sources of revenue to address the challenges of credit defaults. One manager even commented,

*“In this competitive world it is prudent for business owners to have other sources of income because, one product may save the others in case of changes in the performance of one product like loans”*

These findings suggest that pride micro finance has prepared itself to counter the effects of bad credit and this is one of the indicators of financial success.

Branch managers and credit supervisors also stated that the bank had got other ways of funding its activities apart from giving credit. This implies that pride micro finance is abreast with the current financial sector trends and aware of the challenges experienced in credit hence standing higher chances of achieving financial success.

#### **4.7.1 Correlation Analysis for Credit Risk Acceptance and Financial Performance**

A one-tailed Pearson’s product-moment correlation coefficient was used to measure the relationship between risk acceptance and financial performance of Pride Micro-Finance.

**Table Correlation Analysis for Credit Risk Acceptance and Financial Performance**

		Risk Acceptance	Financial Performance
Risk Acceptance	Pearson Correlation	1	.804**
	Sig. (2-tailed)		.000
	N	86	86
Financial Performance	Pearson Correlation	.804**	1
	Sig. (2-tailed)	.000	
	N	86	86

\*\* . Correlation is significant at the 0.01 level (2-tailed).

According to the analysis in the above table there is a very significant relationship between risk acceptance and financial performance, ( $r=-0.804$ ,  $p=0.000$ ,  $N=86$ ). This implies that risk acceptance added about 0.804 units to financial performance.

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.804 <sup>a</sup>	.646	.642	.58838

a. Predictors: (Constant), Risk Acceptance

The coefficient of determination R square= 0.646 implies that credit risk acceptance determines the financial performance of Pride Micro finance by 64.6% while the remaining 35.4% is explained by other factors not covered in this study. Hence it can be concluded that credit risk acceptance causes a significant improvement in the financial performance of Pride Micro finance.

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.634	.251		-2.523	.014
Risk Acceptance	.770	.062	.804	12.384	.000

a. Dependent Variable: Financial Performance

In the regression analysis of credit risk acceptance and financial performance, there was a Beta value of (Beta = 0.804,  $p=0.00 < 0.001$ ). This means that in case of one unit increases in credit risk acceptance then there will be a 0.804 unit increase the financial performance. Therefore, it can be concluded that credit risk acceptance causes a significant improvement in the financial performance of PMF. This answers the third research question that states that “*What is the effect of Risk acceptance on Financial performance of Pride Microfinance?*” Therefore, it can be concluded that credit risk acceptance causes a significant improvement in the financial performance of PMF.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.0 Introduction

This chapter presents the summary of findings, conclusions according to the findings that have been arranged according to the study objectives and recommendations as well as suggestions for further research.

#### 5.1 Summary of the findings

##### 5.1.1 Effect of Risk Avoidance on Financial Performance of Pride Micro Finance

Majority strongly agreed, and a few disagreed with the statement that Pride Micro Finance had set up strong credit management policies. While majority agreed with the statement that Pride Micro Finance had effective credit risk identifier guidelines. About the statement that there was joint decision making while handling loan process, majority disagreed, however, a significant number agreed with the statement. Majority of the respondents agreed and a few disagreed with the statement that Pride Micro Finance had an effective loan screening process. Responses on the statement, “The value of collateral is usually higher than the loan amount taken” showed that majority disagreed with only a few that agreed. About the statement that risk control activities were well executed in Pride Micro Finance, there were mixed opinions as a majority agreed and a significant number stated otherwise.

### **5.1.2 Effect of Credit Risk Transfer on the Financial Performance of Pride Micro Finance**

Results on whether Pride Micro Finance used risk transfer systems showed that majority agreed with only a few that disagreed. On the statement that client loans are insured, majority agreed, with only a few that disagreed with the statement. Views on the statement that insurance had been used for insuring property, health, and life of the loan clients, showed that majority agreed with the statement. Majority of the respondents agreed with the statement that transferring credit risk had reduced earnings uncertainty of Pride Micro Finance. About the statement that Credit risk transfers had helped in covering the financial losses of Pride Micro Finance, majority agreed, with only a few that disagreed with the statement. Results on respondents' views on the statement, "The credit transfer terms are fixed and are not subject to any changes in market conditions" show that majority agreed with the statement, with the fewest that stated otherwise. Responses on the statement, "Credit risk transferring is time consuming and not helpful in recovering the lost monies in loans" show that majority agreed and a few disagreed with the statement.

### **5.1.3 Effect of Credit Risk Mitigation on Financial Performance of Pride Micro-Finance**

Findings on the statement that Pride Micro finance applied various safeguards to minimize the risk of losing its original investment show that majority of the respondents agreed, with only few that disagreed with the statement.

Findings on the statement that pride Micro Finance uses risk-based pricing show that majority of the respondents agreed, with only few that disagreed with the statement.

Results from the view that Pride Micro-finance had been making agreements with loan

clients showed that all the respondents agreed with the statement. Findings on the statement that Pride Micro-finance had been carrying out post-disbursement monitoring show that majority disagreed with the statement, while a few agreed with the statement. Majority of the respondents agreed, while few disagreed with the statement that Pride Micro fiancé has been using the 5Cs of credit approach while issuing out loans. Concerning the view that Pride Micro fiancé had been assessing business and financial risk before giving out loans, majority agreed, with only few that disagreed with the statement. Study findings on the statement that credit officers usually have all clients' details such debt capacity of borrower, risks involved, and mitigating factors while issuing loans show that majority of the respondents disagreed, while a significant number of the respondents agreed with the statement. Responses on the idea that Pride Micro finance usually charges higher interest for higher risk loans show that majority disagreed with the statement, while a few agreed with the statement.

#### **5.1.4 Effect of Risk Acceptance on the Financial Performance of Pride Micro Finance**

The results on the statement, "Pride Micro Finance has mechanisms that can enhance continued existence in case of bad debts" show that majority agreed with the statement, while a few disagreed with the statement. Regarding the statement that Pride Micro Finance ltd management had put enough effort to ensure that credit risk does not affect the operations of the institution, majority agreed with the statement, with only few that responded otherwise. Responses on the statement, "Pride Micro Finance ltd has strong internal controls to ensure that it does not make financial loses" show that majority agreed, while a few disagreed with the statement. Most of the respondents agreed, with only few

that disagreed with the statement that Pride Micro Finance Ltd raises new funds for its operations to reduce its exposures to financial risks. Responses on the statement, ‘Pride Micro Finance Ltd usually ensures that it has enough capital to keep it operating even when it makes loses in bad debts’ reveal that nearly all the respondents, agreed with the statement, with only few that disagreed with the statement. Results on the construct, “Pride Micro Finance Ltd has alternative ways of funding its operations apart from credit giving” showed that the biggest number agreed with the statement, while a few had an opposite view.

#### **5.1.5 Financial Performance of Pride Micro Finance Ltd**

Majority agreed, while a few disagreed the idea that Pride Micro Finance Ltd has a satisfactory Gross and Net Profit Margin. Findings on the statement, “Pride Micro Finance Ltd is able to pay its current obligations using liquid assets’ show that majority of the respondents disagreed with the statement, while a minority agreed with the statement. Results on the statement that Pride Micro Finance Ltd had a high debt-to-equity ratio show that majority of the respondents disagreed, with only a few that agreed with the statement. Regarding the statement, “Pride Micro Finance Ltd has an increasing current Ratio”, majority disagreed with the statement, while a significant number where in agreement with the statement. Responses on the statement that the bank was having an increasing Inventory Turnover show that majority disagreed, while a few agreed with the statement. Results on the statement that Pride Micro Finance Ltd has been experiencing high Returns on assets show that majority disagreed, while a few agreed with the statement.

## **5.2 Conclusions**

### **5.2.1 Effect of Risk Avoidance on Financial Performance of Pride Micro Finance**

Pride Micro Finance has set up strong credit policies that can help it to avoid bad debts. Pride Micro Finance has credit risk identifiers which can help it to easily identify risks and effectively address them. The bank has been encouraging collective decision making during the loaning process, which aspect may help it avert mistakes while giving out loans. Pride Micro Finance has an effective loan screening process as much as it may be compromised due to factors like need to increase on the clientele and meeting targets. Pride Micro finance has been adjusting loans according to the credit risk. It has been having a higher collateral value than the loan amount as one of the strategies of avoiding loses in case of loan default. As much as the bank was trying to execute risk control activities, they were having gaps in some instances, which situation may make the bank vulnerable to loss of money in loans. The bank has to improve on the risk avoidance strategies in order to reduce the level of credit risk.

### **5.2.2 Effect of Credit Risk Transfer on the Financial Performance of Pride Micro Finance**

Pride Micro Finance has been applying risk transfer methods in reducing the level of its credit risk. Pride Micro Finance has effectively managed the credit risk transfer in such a way that the third part takes on the responsibilities for the financial risks. Pride micro finance has effectively used the insurance policy that covers loan clients' life, property and health, thus reducing the risk of losing bank money in case the client got any challenges that are under the insurance cover. Pride Micro finance credit transfer terms are fixed and are not subject to any changes in market conditions and the credit risk transfer approach has helped the bank in covering the financial losses. It was also noted that the bank

management needs to further examine its credit risk transfer approaches so as to realise the best out the credit risk transfer system.

### **5.2.3 Effect of Credit Risk Mitigation on Financial Performance of Pride Micro-Finance**

Pride Micro-Finance has been applying a number of safeguards against losing original investment. The bank practices risk-based pricing in order to reduce the level of risk and eventual loss of its investment. All loan clients are made to sign loan agreements before accessing loans. As much as the bank sees it vital for credit officers to carryout post-disbursement monitoring, it is not well implemented in the study area. Pride micro finance management and staff have been using the 5Cs approach while assessing loan clients. The bank has been carrying out business and financial risk assessments before giving loans to their clients and it does not charge differently on loans regardless of the credit risks.

### **5.2.4 Effect of Risk Acceptance on the Financial Performance of Pride Micro Finance**

Pride Micro Finance management is aware and has put in place systems that enhance its sustainability even in the event of loan defaulting and it has other sources of funding other than credits that can make it continue with its operations. Pride micro finance has prepared itself to counter the effects of bad credit and this is one of the indicators of financial success. The institution has generally enjoyed a satisfactory gross and net profit margin which is an indicator of financial stability. The bank has a high degree of financial stability such that even in the event of bad loans it can still survive and it also has a high debt-equity ratio. The bank also has an increasing turnover, and fairly high returns on assets, which are indicators of good financial performance. However, the bank has challenges that are hampering the steady increase in its current ratio.

### **5.3 Recommendations**

1. Management to strengthen the application of risk control measures to reduce the vulnerability to loss of funds in credit department
2. Credit supervisors to enforce post-disbursement monitoring of loan clients
3. Credit officers to ensure strict adherence to credit assessment guidelines before issuing out loans to clients
4. Management to identify more paying sources of funding to enhance its stability in case of loss of money in credit giving

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

I am ADUNI JACKLINE WINFRED, a student of Uganda Christian University carrying out a study as a requirement for the award of Masters of Business Administration. I am conducting a research on *Credit Risk Management and performance of micro finance institutions in Uganda using Pride Micro Finance in branches in Northern Uganda as a case study.*

I kindly request you to answer this questionnaire; any information provided shall be treated confidential and will be used only for the purpose of this study.

#### SECTION A: Background Information

*Please tick the appropriate box for the questions that follow below:*

1. Gender: Male  Female

2. Age group: (years) 18 - 20 years  21-30 years  31-40 years

41-50years  51-60 Years

3. Level of Education attained:

No Formal education  Certificate  Diploma  Degree  Master  PhD

5. How long have you been working in this Institution? (Only where applicable)

Below 1 year  2-4 years  5-7 years  8-10 years

Above 10 years

**Department you work in (Tick appropriate)**

Finance  Audit  Risk management  Loans  IT  Human resource

Other.....

**Section B: Effect of risk avoidance on financial performance**

*Please use the above scale to the Tick your appropriate view /opinion on the following statement below;*

**Key: SD = strongly disagree, D = Disagree, NS =Not Sure A= Agree, SA = strongly agree**

No		SD	D	NS	A	SA
1	Pride Micro Finance ltd sets and follows credit policies and terms					
2	Pride micro finance ltd has effective credit risk identifier guidelines					
3	There is joint decision making while handling loaning process					
4	Pride Micro Finance ltd has an effective loan client screening process					
5	The loans offered to clients are adjusted according to the credit risk assessment					
6	The value of collateral is usually higher than the loan amount taken					
7	Risk control activities are well executed in Pride micro finance ltd					

### Section C: Effect of Credit risk transfer on the financial performance

Please use the above scale to the Tick your appropriate view /opinion on the following statement below;

**Key:** SD = strongly disagree, D = Disagree, NS =Not Sure A= Agree, SA = strongly agree

No		SD	D	NS	A	SA
1	Pride Micro Finance ltd has and uses risk transfer systems					
2	The responsibilities for financial risks are put on the third party (e.g. insurance company)					
3	Client loans are insured					
4	Insurance has been used for insuring against asset, property, health, and life of the loan clients					
5	Transferring credit risks has reduced earnings uncertainty of Pride Micro Finance ltd					
6	Credit risk transfers have helped in covering the financial losses of Pride Micro Finance ltd					
7	The credit transfer terms are fixed and are not subject to any changes in market conditions					
8	Credit risk transferring is time-consuming and not helpful in recovering the lost monies in loans					

**Section D: Effect of Credit Risk Mitigation and financial performance Pride Micro Finance ltd**

*Please use the above scale to the Tick your appropriate view /opinion on the following statement below;*

**Key: SD = strongly disagree, D = Disagree, NS =Not Sure A= Agree, SA = strongly agree**

No		SD	D	NS	A	SA
1	Pride Micro Finance ltd applies various safeguards and or processes, to minimize the risk of losing all its original investment					
2	Pride Micro Finance ltd risk-based pricing to reduce the chances of losing its money in case of loan default					
3	Pride Micro Finance ltd has been making covenants with loan clients to avoid loses from loan defaults					
4	Pride Micro Finance ltd has been carrying out post-disbursement monitoring to mitigate credit risk					
5	Pride Micro Finance ltd has been using the 5 Cs of credit approach while issuing out loans (character, capacity, capital, collateral, and conditions)					
6	Pride Micro Finance ltd has been assessing business risk and financial risk before giving out loans					
7	Credit officers of Pride Micro Finance ltd usually have details such as debt capacity of the borrower, clarity on risks involved, and mitigating factors to those risks while issuing loans					
8	Pride Micro Finance ltd usually charges higher interest for loans that have higher risk of recovery and vice versa to loans that have low risk of recovery					

**Section E: Effect of risk acceptance on the financial performance of Pride Micro Finance ltd**

*Please use the above scale to the Tick your appropriate view /opinion on the following statement below;*

**Key: SD = strongly disagree, D = Disagree, NS =Not Sure A= Agree, SA = strongly agree**

No		SD	D	NS	A	SA
1	Pride Micro Finance ltd has mechanisms that can enhance its continued existence in case of bad debts					
2	Pride Micro Finance ltd management has put enough effort to ensure that credit risk does not affect the operations of the institution					
3	Pride Micro Finance ltd has strong internal controls to ensure that it does not make financial loses.					
4	Pride Micro Finance ltd raises new funds for its operations to reduce its exposures to financial risks.					
5	Pride Micro Finance ltd usually ensures that it has enough capital to keep it operating even when it makes loses in bad debts					
6	Pride Micro Finance ltd has alternative ways of funding its operations apart from credit giving					

## Section E: Financial performance of Pride Micro Finance ltd

Please use the above scale to tick your appropriate view /opinion on the following statement below;

**Key:** SD = strongly disagree, D = Disagree, NS =Not Sure A= Agree, SA = strongly agree

No		SD	D	NS	A	SA
1	Pride Micro Finance ltd has a satisfactory Gross and Net Profit Margin					
2	Pride Micro Finance ltd is able to pay its current obligations using liquid assets					
3	Pride Micro Finance ltd has a high debt-to-equity Ratio					
4	Pride Micro Finance ltd has an increasing current Ratio					
5	Pride Micro Finance ltd has an increasing Inventory Turnover					
6	Pride Micro Finance ltd has been experiencing high Returns on Assets					

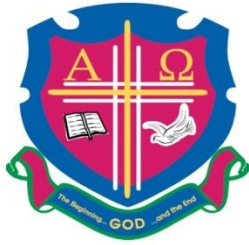
## **Appendix 11: Interview Guide for Managers and Supervisors of Pride Micro Finance**

1. How has risk avoidance mechanisms used by Pride Micro Finance Ltd affected its financial performance of Pride Microfinance Northern region?
2. How has risk transference mechanisms used by Pride Micro Finance Ltd affected its financial performance of Pride Microfinance Northern region?
3. How has risk mitigation mechanisms used by Pride Micro Finance Ltd affected its financial performance of Pride Microfinance Northern region?
4. How has risk acceptance mechanisms used by Pride Micro Finance Ltd affected its financial performance of Pride Microfinance Northern region?

**Appendix IV: Daryle W. Morgans' Table for Determining Sample Size from a Given Population**

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

Source: Amin, (2005)



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**DISSERTATION CORRECTION COMPLIANCE REPORT BY THE CANDIDATE (POST VIVA FORM)**

Date: .....01/09/2024.....

Name of Candidate: .....ADUNI JACKLINE WINIFRED.....

Reg.No:

S19/MUC/MBA/362.....

Title of Dissertation .....CREDIT RISK MANAGEMENT AND THE PERFORMANCE OF PRIDE MICROFINANCE NORTHERN REGION.....

.....  
.....

SN	COMMENTS BY EXTERNAL EXAMINER	ACTION TAKEN	INDICATOR
1	The historical background is not logically written	The historical background has been arranged chronologically starting with the past situation and then the current situation.	Page 2 and 3 corrected
2	The information in the first two sentences of the problem statement is not supported by any credible evidence	The information in the first two sentences of the problem statement has now been cited	Page 13 corrected
3	content scope is not clear	The content scope has been edited with both the dependent and independent variables clearly highlighted	Page 15 corrected
4	the literature review is too descriptive. Indeed, all the three variables are not necessary	The literature review has been edited to capture only the key theories that have been used in the study i.e modern portfolio theory and enterprise risk theory	Page 19 to 35 corrected
5	A number of citations don't appear in the final reference list.	The reference list has been edited to capture all the citations used in the study	Page 81 to 84 corrected

<b>SN</b>	<b>COMMENTS BY INTERNAL EXAMINER</b>	<b>ACTION TAKEN</b>	<b>INDICATOR</b>
1	The research contains some grammatical errors	The whole research has been proof read and all the grammatical errors corrected	All pages have been corrected
2	The candidate can improve on the problem statement by providing credible statistics clearly showing the trend of financial performance.	Statistics clearly showing the performance trend of pride microfinance has been captured in the study	Page 13 corrected
3	The candidate needs to improve on the significance of the study and provide more explanation to the various categories of stakeholders and how they will benefit from this study	The different stakeholders in the study have clearly been identified and the how they will benefit from the study has also been captured	Page 15 to 16 correctd
4	The candidate should avoid use of old sources of information unless where inevitable	The research has been edited with the most recent sources of information cited	All pages have been corrected
5	section for the response rate was lacking while discussing the findings	The response rate has been captured in the study	Page 46 corrected

<b>SN</b>	<b>COMMENTS BY VIVA VOCE PANNEL</b>	<b>ACTION TAKEN</b>	<b>INDICATOR</b>
1	The title page is not in line with the university format	The Title page has been corrected in line with UCU format	Title page corrected
2	Under the conceptual frame work, inventory Turnover is not a good measure to explain financial performance.	Inventory turnover has been removed from the dependent variable	Page 17 corrected

3	Background to the study is too lengthy and needs to be summarized	Background to the study has been summarized to capture only the key aspects of the study	Page 1 to 11 corrected
4	The literature review is so lengthy and needs to be summarized to capture only the theories that have been used in the study	The literature review has been summarized to capture only the key aspects of the study i.e the theories used in the study	Page 19 to 35 corrected

**ADUNI JACKLINE**

Candidate's Name

Signature

**MAENA DANIEL**

Supervisor's Name

Signature



**UGANDA CHRISTIAN  
UNIVERSITY, MBALE UNIVERSITY COLLEGE.**

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**BUSINESS DEPARTMENT**

To PRIDE MICROFINANCE  
LTD

Dear Sir/Madam,

Re: Academic Research

Christian greetings!

We are honored to introduce to you Mr. Mrs. /Miss. ADUNI JACKLINE WINIFRED  
Of Registration Number; S19/MUC/MBA1362 pursuing a Masters'  
Degree/Postgraduate Diploma / Bachelor's Degree  
BUSINESS ADMINISTRATION AND MANAGEMENT.

He/ she is required to carry out an academic research on the topic  
CREDIT RISK MANAGEMENT AND THE  
FINANCIAL PERFORMANCE OF PRIDE MICROFINANCE NORTHERN REGION.  
and thereafter produce a well bound hard cover research report (MAROON) in color for  
undergraduate and three (BLACK) copies for Postgraduate students as a University requirement for  
the award of a degree/diploma in the academic discipline that he / she is pursuing.

We shall be grateful for the help you may offer to him or her accordingly.  
Thank you.  
Yours faithfully,