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The Effect of Credit Risk Management on the Performance of Micro Finance Institutions in Uganda: A Case Study of Hofokam Ltd

The study investigated the effect of credit risk management on performance of financial institutions and was conducted at HOFOKAM Ltd. The main purpose of the study was to examine the effect of credit risk management on the performance of financial institutions in Uganda. The concept of credit risk management was limited to policies, risk identification, measurement, monitoring and reporting; whereas the concept of performance was limited to customer service, business processes, financial performance and innovation and learning.

The study used a cross sectional research design, which combined both quantitative and qualitative approaches applied through deductive and inductive techniques. The sample size of 269 respondents that was used in the study comprised of 232 borrowers and 35 staff who were issued with self-administered questionnaires. Two board members were also interviewed and the data collected were analysed separately before it was combined for a discussion of the findings. The study found that in Uganda, borrowers acknowledge that credit risk management is done in the areas of establishing the policies, risk identification, measurement, monitoring and reporting but that it is of weak significance on the performance of an institution. In support of the borrowers, the staff agreed that credit risk management is a routine exercise in the company and that performance measurement is done in the areas of customer service, business processes, finance, innovation and learning. But they highlighted a need to re-emphasise its implementation in the areas of customer service, business processes and innovation. Regarding the strategies to enhance credit risk management, they said that HOFOKAM Ltd should embark on availing customers with their loan information on request and disburse loan funds on time so that they reduce processing time. On the side of performance they proposed that HOFOKAM Ltd should increase funding in especially research and development so that they achieve a competitive edge in the microfinance market. The study, therefore, concluded that credit risk management is being done but that it has no significant relationship with performance hence the need for further research as to what influences the performance of a microfinance institution.

Kew Words: Effect, Credit, Management, performance, Micro Finance Institutions.