

**THE MANAGEMENT OF CREDIT RISK AND PERFORMANCE OF
MICRO DEPOSIT TAKING INSTITUTIONS:
A CASE STUDY OF FINCA UGANDA LTD.**

BY

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ABSTRACT

This study set out to investigate the impact of credit risk management on the performance of Micro Deposit Taking Institutions. The study took a case study of FINCA Uganda. The objectives of the study were to appraise credit risk management policy and procedures, to examine the level of performance and to establish the relationship between credit risk management policy and performance of FINCA Uganda Limited.

FINCA Uganda is one of the financial institutions characterized by poor performance in the area of credit risk management as disclosed in the annual financial reports 2008-2012. This raises concern to examine the credit risk management policies and procedures of the institution to devise means of eliminating accumulating nonperforming assets and bad debts to improve the general performance of the institution.

The study employed a cross sectional survey to assess the effect of the independent variable on the dependent variable, while both qualitative and quantitative methods were employed in collection and data analysis to come up with the necessary and relevant research findings. Questionnaires and interview methods were used. A sample of 28 lower cadre staff of credit section and 4 members from senior management was studied.

Study findings revealed low significant relationship between Credit management policy and performance of FINCA Uganda; credit appraisal standards and limit setting have a positive impact on bank performance while it was concluded that the problem of credit risk management in FINCA Uganda is a result of poor credit administration.

It was recommended that credit administration should be revised to have a positive impact on the performance of the MDI. Some of the recommendations include; Effective credit documentation, on time credit monitoring and effective implementation of the escalation process which is understood by all clients, enhancement of collateral registration and perfection process, effectively utilize the internal risk rating systems among others.