

Risk Management and Loan Performance in Microfinance Deposit-Taking Institutions in Northern Uganda: A Case Study of Foundation for International Community Assistance (FINCA)

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Background: This study sought to examine the relationship between credit risk management and loan performance in microfinance deposit-taking institutions in Northern Uganda, a case of FINCA Uganda. It was guided by the objectives of examining the effect of credit risk identification, monitoring and control on loan performance in microfinance deposit-taking institutions in the northern region.

Methods: The study adopted the cross sectional and the data was collected using a structured questionnaire and interview guide that measured the responses of 90 respondents. Three research questions were posited to explore the effect credit risk management on loan performance of microfinance deposit-taking institutions in northern Uganda. The study used the Pearson correlation and robust regression model, statistics and data (STRATA15) for statistical data analysis

Findings: The results from the Pearson correlation show that loan performance is moderately and significantly correlated to: risk control ($r=0.519$, $p<0.05$), risk monitoring ($r=0.556$, $p<0.05$), and risk identification ($r=0.554$, $p<0.05$) while regression results indicated that risk monitoring was a significant predictor of loan performance ($\beta=0.584$, $p<0.001$).

Conclusion: The study concluded that credit risk management affects the level of loan performance of microfinance deposit-taking institutions in Northern Uganda and loan monitoring was a significant predictor. However, much as credit risk monitoring stood out as a major influential predictor of changes in the level of loan performance, monitoring is not being wholly performed by MID's in Northern Uganda (17%).

Recommendations: The study recommended that microfinance should put more attention and perform research on credit monitoring to reduce the level of non-performing loans.