THE ROLE OF LOAN MANAGEMENT ON PERFORMANCE OF FINANCIAL INSTITUTIONS

ACASE STUDY OF PRIDE MICROFINANCE LIMITED

BY

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DEDICATION

I dedicate this piece of work to my dear Mother Mrs. Nabasirye Robinah, brothers especially Asiimwe Daniel, sisters and friends for their moral and financial support they have rendered to me while compiling this research work all the time.

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LIST OF ABBRVIATIONS

Ltd   Limited

MFI   Microfinance Institution

PMFL   Pride Microfinance Limited

ABSTRACT

The research was carried out to find out the role of loan management on performance of financial institutions. Under loan management the researcher looked at loan monotoring and recovery, loan appraisal and approval, then performance of financial institution performance (improved revenue, loan realization, profitability), intervening factors (organisational policies, government policies). A case study of Pride Microfinance Limited was used because it issues out a lot of loans to clients within Kampala in Uganda and the surrounding regions.

This research was carried out at the Headquarters of Pride Microfinance Ltd in Bukoto (Nakawa Division). The aim of the study was to examine the role of loan management on Pride Microfinance Limited. Redesign options in the financial institution to give better services levels to the clients.

The research was more of qualitative though the researcher stated that quantitative was used to. The researcher used simple random sampling in administering questionnaires and interviews. Throughout the total work force at Pride Microfinance Ltd, the researcher took a sample size of 39 individuals sampled according to the financial institution's departments. The researcher used self-administered questionnaires which were given out to respondents with help of research assistants after being pilot run to ensure data quality control. Results from raw data which was collected, presented in form of tables and pie charts was eventually qualitatively interpreted.

It is therefore recommended that Pride Microfinance Ltd should motivate its staff and employees other than salary thus should be trained and equipped with more skills and capacities on how to handle loan monitoring and recovery (credit risks), loan approval and appraisal processes so as to be able to gain the best out of it.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter specifically covers the background to the study,statement of the problem, purpose of the study, research objectives, research questions, scope of the study , significance of the study, justification, definition of key terms and the conceptual frame work.

1.1 Background of the Study

According to Haron et.al 2012, the concept of credit can be traced back in history and it was not appreciated until and after the Second World War when it was largely appreciated in Europe and later to Africa (Kiiru, 2004). Financial institutions (FI) in USA gave credit to customers with high interest rates which sometimes discouraged borrowers hence the concept of credit didn't become popular until the economic boom in USA in 1885 when the banks had excess liquidity and wanted to lend the excess cash (Ditcher, 2003). In Africa the concept of credit was largely appreciated in the 50's when most financial institutions started opening the credit sections and departments to give loans to white settlers.

In Kenya credit was initially given to the rich people and big companies and was not popular to the poor. In 1990s loans given to customers did not perform which called for an intervention. Most suggestions were for the evaluation of customer's ability to repay the loan, but this didn't work as loan defaults continued (Modurch, 1999). The concept of loan management became widely appreciated by Finance Institutions in the late 90s, but again this did not stop loan defaults to this date. According to Kurui and Dr Aquilars, 2014.

Financial institutions need to accurately manage credit quality and minimize loan losses, yet many risk managers are hampered by inflexible credit risk models, tools and manual processes that limit efficiency and increase operational risk. These challenges include delivery of Accurate Results. In this case banks need to know how the probability of default, loss given default and prepayments will impact the portfolio. They also need to know what credit attributes are relevant in modeling assets for anticipated future performance. Understanding these relationships will enhance the accuracy of the results

According to Omara (2007), financial institutions (FI) lending is normally guided by credit policies which are guidelines and procedures put in place to ensure smooth lending operations. Financial institutions lending if not properly assessed, involves the risk that the borrower will not be able or willing to honour their obligations (Feder& Just, 1990). In order to lend, these institutions accept deposits from the public against which they provide loans and other form of advances. Since they bear a cost for carrying these deposits, banks undertake lending activities in order to generate revenue. The major sources of revenue comprise margins, interests, fees and commissions (Odongo, 2004).

Therefore, banks/ financial institutions also need to consider the entire risk for their total portfolio management including the funding side and hedges used to manage the risk. Different types of risks need to be managed including interest rate risk, duration risk, and liquidity risk. It is therefore important to have all the positions in one system, the issued loans as well as the positions from the funding and hedging activities.

According to the Modurch, (1999), financial institutions are following a set of principles and values. Banks offer a range of services, both financial and non-financial to their members and

services include but are not limited to loans and savings.Loan management is used by many financial institutions because its main advantage of extending credit is that it will attract additional customers and increase sales volume.

Loan management is needed to control the risks associated with credit sales. Gathering, analyzing and making decisions based on that knowledge is loan and credit management (Edwards 2004). In this study, loan monitoring and recovery, loan appraisal and loan approval are used as parameters for Loan management. In order to avoid unnecessary bad debts and costs related to late payments, it is important to carry out loan monitoring and recovery of a customer. Loan approval is the process a business or an individual undergoes to become eligible for a loan or pay for goods and services over an extended period. Loan appraisal, is the practice of mitigating those losses by understanding the adequacy of both a bank's capital and loan loss reserves at any given time – a process that has long been a challenge for financial institution.

Pride microfinance limited is a microfinance deposit- taking institution (MDI) in uganda . It is licensed by Bank of Uganda, theAccording to the International Cooperative Alliance (1995), Savings and Credit Cooperatives (SACCOS) are enterprises that follow a set of principles and values. It defines cooperatives as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs as well as aspirations through a jointly owned and democratically controlled enterprise. Savings and credit cooperatives offer a range of services, both financial and non-financial to their members and services include but are not limited to loans and savings.

Central bank and national banking regulator (Pride Microfinance was founded in 1995, as a Non-Governmental Organisation (NGO), with the support of the Norwegian Agency for Development

Cooperation (NORAD). Its major objective was to offer credit to the poor, targeting those in the agricultural sector. In 1999, it was incorporated as a limited company and changed names to Pride Africa Uganda Limited. In 2003, the Uganda government acquired 100% shareholding in the enterprise, changing the name to Pride Microfinance Limited. In 2005, it attained the status of an MDI according to the Banking Act of 2003.

It is licensed and supervised by the Bank of Uganda, Uganda's central bank. It is a member of the Association of Microfinance Institutions in Uganda (AMFIU). It provides financial services to that segment of the Ugandan population who are not served or are unable to access financial services through the Ugandan commercial banks. PMFL's focus are the micro, small and medium size entrepreneurs. Pride microfinance has been chosen in particular because it is widely established with different loan services like group guaranteed loans, individual loans, salary loans, asset financing loans and others. It is also widely established with branches all over the country which enables it to meet the needs for every Ugandan and for easy accessibility to their services. They have branches in Arua, Bugiri, Bukoto, Bushenyi, Kampala, Kawempe, Ibanda, Jinja, Kabale, Kagadi and many others.

1.2 Statement of the Problem

Many financial institutions (FI) in uganda were set up to provide loans to the poor micro entrepreneurs to finance and run their businesses. However, the services provided by these institutions/ organisations haven't sufficiently enabled business expansion as expected. Various problems are being faced by the business in recovering and payment of these loans, hence the reason for this study and the study is about assessing the role of loan management on performance of financial institutions.

Most of the financial institutions have been successful as there are many successs stories of micro entrepreneurs who have benefited from the loans given out to them by the different institutions. (Pride Microfinance Limited Annual report, 2008).

Loan management should be at the center of financial institutions operations in order to maintain financial sustainability and reaching more clients.

Despite these facts, over the years there has been increased number of significant financial institutions problems in both, matured as well as emerging economies (Brownbridge and Harvey, 1998; Basel, 2004). These problems, mostly failures and financial distress have afflicted numerous banks and microfinance institutions, many of which have been closed down by the regulatory authorities. Among other factors, weakness in loan appraisal (loan risk management) has all along been cited as the main cause for poor financial performance in the commercial banks (Richard et al., 2008). As the banking sector continues to embrace innovations, the intensity and variety of risks that the players are exposed also continue to increase in tandem. To ensure that the growth in the banking sector does not jeopardize its stability, loan management is crucial. Consequently, problems such as high interest rate, short repayment periods, natural disasters, inflation, economic recession and competition have been outlined as reasons why micro entrepreneurs aren't benefiting from financial institutions as expected (Pride Microfinance Annual report 2008). Therefore the researcher investigated the impact of the role of loan management on performance of financial institutions using a case of Pride Microfinance limited. According to Kemei et.al, 2014.

1.3 Objectives of the Study

1.3.1 General Objective

To examine the role of loan management on Pride Microfinance Limited.

1.3.2 Specific Objectives

i. To examine the role of loan monitoring and recovery on the performance of financial institutions.

ii. To assess the role of loan approval on performance of financial institutions.

iii. To find out the role loan appraisal on performance of financial institutions

1.4 Research Questions

i. What is the role of loan monitoring and recovery on performance of financial institutions?

ii. What is the role of loan approval on performance of financial institutions?

iii. What is the role loan appraisal on performance of financial institutions?

1.5 Scope of the Study

1.5.1 Content Scope

The researcher studied the role of loan management on the performance of financial institutions. The study was confined to loan monitoring and recovery, loan approval and loan appraisal on performance of financial institutions.

1.5.2 Time Scope

The research considered a period of 4 years from 2010 - 2013 mainly. This period was considered because it had enough relevant information and data relevant to the topic under investigation.

1.5.3 Geographical Scope

The study was carried out in Pride Microfinance limited in Kampala district and it focused mainly on finance department, sales and marketing department and top management.

1.6 Significance of the Study

The study is intended to help the researcher get to discover answers to the question through the application of scientific procedures, and to gain familiarity about loan management and performance of financial institutions.

The study will be helpful to the organisation to know the proper way to manage loans to facilitate in preparation of accurate, constant, reliable and timely financial statements that would be used by stake holders like investors, government, suppliers in making economic decisions for instance financial reports to help government to assess taxes.

The research will be of great importance to the researcher because she will acquire research skills which can be applied to conduct research in other subjects.

The study will also help other scholars in further research into all aspects of management including loan management.

The research will be of great importance to various groups of people like to the government, institutions and organizations and the researcher.

The research will also act as a requirement for the attainment of a bachelor's degree for the researcher.

1.7 Justification of the Study

The study aimed at and understanding how the principles embedded in loan management are pertinent and beneficial to performance of financial institutions. In addition, the study will give an opportunity for future references to other researchers to generate further research and add to the existing information. The study is intended to teach or help the case study, pride microfinance limited to know the role of loan management on performance of financial institutions. If the research is not carried out immediately, the employees especially the top management may never know how influential loan management can be on their performance and hence may never develop new ways or strategies of dealing with loan related issues.

1.8 Definition of Key Terms

Loan management: The process or processes put in place by a person or organization to assist in the management, coordination, control, delivery, or support of one or more Loan Items.

Loan monitoring and recovery: An assessment of the likelihood that a borrower will default on the debt obligations. It is based upon factors, such as their history of repayment and their credit score. Lending institutions also consider the availability of assets and extent of liabilities to determine the probability of default.

Loan approval process: Is the process a business or an individual must go through to become eligible for a loan or credit services over an extended period. It also refers to the process lenders undertake when evaluating a request for credit.

Loan appraisal: Is the practice of mitigating losses due to the borrower's failure by understanding the adequacy of both a bank's capital and loan loss reserves at any given time.

Financial institutions performance: The accomplishment of a given task measured against present known standards of accuracy, completeness, cost and speed. It is also deemed to be the fulfilment of an obligation, in a manner that releases the performer from all liabilities under the contract.

1.9 Conceptual Frame work

Sekeran, (2003) states that, a conceptual framework helps to postulate or hypothesize and test certain relationships which improve the understanding of a situation.

Figure 1: showing conceptual frame work on the role of loan management on performance of financial institutions

Independent Variable (IV)   **Dependent Variable (DV)**

```
┌─────────────────────────────┐              ┌─────────────────────────────┐
│     Loan management         │              │     Performance of FI       │
│                             │              │                             │
│  • Loan monitoring and      │─────────────▶│   • Improved revenue        │
│    recovery                 │              │                             │
│  • Loan approval process    │              │   • Loan Realization        │
│  • Loan appraisal           │              │   • Profitability           │
│                             │              │                             │
└─────────────────────────────┘              └─────────────────────────────┘
                                     ▲
                                     │
                         ┌───────────────────────────┐
                         │   Intervening Variables   │
                         │                           │
                         │  • Organizational policies│
                         │    and regulations        │
                         │  • Government  policies and│
                         │    regulations            │
                         └───────────────────────────┘
```
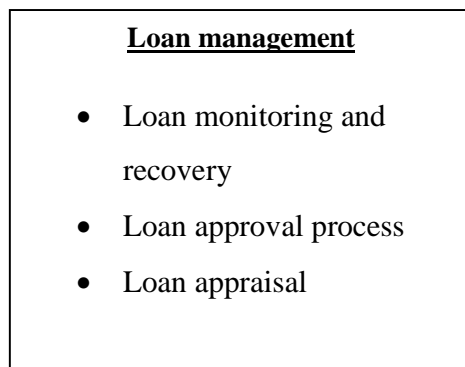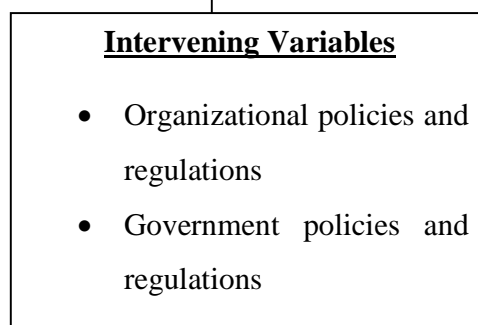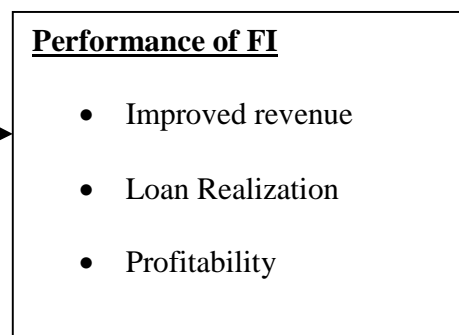
Source: Adopted and modified by researcher from Feder& Just, (1990).

The conceptual framework describes the relationship between the independent variable and the dependent variable. In this conceptual framework, Loan management is the independent variable

while performance of financial institutions is the dependent variable. In this study, it is assumed that Loan management has a significant contribution on performance of financial institutions as argued by Feder& Just, (1990). In the conceptual frame work, Loan management is operationalised into loan monitoring and recovery, loan approval process and loan appraisal. On the other hand performance of financial institutions is considered as the dependent variable. However, performance of financial institutions can also be affected by a number of intervening variables, such as organizational policies and regulations, and government policies and regulations. Despite this, the study will only focus on the independent variable of Loan management and the impact it has on the performance on financial institutions.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter deals with the review of the related literature on the study variables of loan management on performance of pride microfinance limited. The review then focuses on the major themes of the study: examining the role of loan monitoring and recovery on the performance of financial institutions; assessing the role of loan approval on performance of financial institutions and finding out the role loan appraisal on performance of financial institutions.

2.1 Performance

Performance can be defined as the process of identifying the loan strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. Organizational performance helps in short-term and long term forecasting and growth can be identified with the help of financial performance (Abedi, 2011)

According to Siwale, (2012) performance is a process of evaluating the relationship between the component parts of income statement to obtain a better understanding of the firm's position and performance. This performance process can be undertaken by management of the firm or by parties outside the namely, owners, creditors, investors illustrated by the researcher.

The effective organizational performance which included Economy, Efficiency and Effectiveness; More elaborately, economy is essentially a resource acquisition concept with a least reasonable cost.

It means buying resources at a favorable price, at the right time, from the right source, in the right quantity and quality (Bottom, 2013). Hence effectiveness must be judged on the balance of positive and negative consequences.

Performance encompasses three specific areas of firm outcomes: that is; financial performance (profits, return on assets, return on investment.), market performance (sales, market share), and shareholder return (total shareholder return, economic value added) (Abedi, 2011)

The performance process in a financial institutions enables informed decisions to be made and actions to be taken because it quantifies the efficiency and effectiveness of past actions through the acquisition, collation, sorting, analysis, interpretation, and dissemination of appropriate data. Many banks measure their performance in order to check their position (as a means to establish position, compare position or benchmarking, monitor progress), communicate their position (as a means to communicate performance internally and with the regulator), confirm priorities (as a means to manage performance, cost and control, focus investment and actions), and compel progress (as a means of motivation and rewards) (Fernando, 2010).

According to Siwale, (2012), the external factors that influence the performance of an institute like pride microfinance banks, range from the skill level of the labor force to the nature of today's business environment. These include; talent and Skills of Workforce, Influence of Ethics, Global Competition, Technology, Political and Regulatory changes, thus the performance of the organization depends on several factors as mentioned above, (under Severe, 2014).

Bottom, (2013) reported that a performance enables other financial institutions to plan, measure, and control their performance and helps ensure that sales and marketing initiatives, operating practices, information technology resources, business decision, and people's activities are

aligned with bank strategies to achieve desired results and create shareholder value. Performance process enables informed decisions to be made and actions to be taken because it quantifies the efficiency and effectiveness of past actions through the acquisition, collation, sorting, analysis, interpretation, and dissemination of appropriate data.

Organizations measure their performance in order to check their position (as a means to establish position, compare position or benchmarking, monitor progress), communicate their position (as a means to communicate performance internally and with the regulator), confirm priorities (as a means to manage performance, cost and control, focus investment and actions), and compel progress (as a means of motivation and reward) (Kariuki, 2010).

In other studies, (Abedi, (2011) argue that a performance of financial institutions is directly influenced by its customer's status. In the organization, the financial performance indicators based on accounting information are sufficient in order to determine the value for shareholders. Profitability can be decomposed into its main components: net turnover and net profit margin. Both net turnover and net profit margin can influence the profitability of a company one time. If high turnover, then better use of assets owned by the company and therefore better efficiency, a higher profit margin means that the entity has substantial market power.

Performance of financial institutions is a set of management and analytic processes that enables the management of a bank's performance to achieve one or more pre-selected goals. Fernando, (2010) said that several methods for measuring Business Process Performance exist, including the Balanced Scorecard, the self-assessment, the traditional controlling approach, process performance measurement systems, workflow based monitoring and statistical process control

2.2 Role of loan monitoring and recovery on Performance of financial institutions

The essential functions of loan monitoring and recovery are to identify measure and more importantly monitor the profile of the financial institution. While Non-Performing Assets are the legacy of the past in the present, loan monitoring and recovery system is the pro-active action in the present for the future. Managing loan monitoring and recovery and risks is nothing but managing the change before the risk manages. While new avenues for the bank has opened up they have brought with them new risks as well, which the financial institution will have to handle and overcome (Fredrick, 2012).

The banking industry recognizes that pride microfinance Limited need not to engage in business in a manner that unnecessarily imposes risk upon it; nor should it absorb risk that can be efficiently transferred to other .Rather, it should only manage loan monitoring and recovery at the firm level that are more efficiently managed there than by the market itself or by their owners in their own portfolios. In short, it should accept only those risks that are uniquely a part of the institutions array of services (Abedi, 2011)

Pride microfinance ltd are in the business of managing loan monitoring and recovery, not avoiding it. This is the fundamental element that drives financial behaviour. Without loan monitoring and recovery, the financial system would be vastly simplified. However, risk is omnipresent in the real world. Financial Institutions, therefore, should manage the loan monitoring and recovery efficiently to survive in this highly uncertain world and in so doing improve their performance. The future of banking will undoubtedly rest on loan monitoring and recovery dynamics (Fredrick, 2012).

Only those financial institutions that have efficient loan monitoring and recovery system will survive in the market in the long run. The effective management of loan monitoring and recovery is a critical component of comprehensive risk management essential for long-term success of a banking institution (Bottom, 2013). Therefore, a financial institutions success lies in its ability to assume and aggregate risk within tolerable and manageable limits

Credit risk is the oldest and biggest risk that pride microfinance ltd, by virtue of its very nature of business, inherits. This has however, acquired a greater significance in the recent past for various reasons. Foremost among them is the wind of economic liberalization that is blowing across the globe. Uganda is no exception to this swing towards market driven economy. Competition from within and outside the country has intensified. This has resulted in multiplicity of risks both in number and volume resulting in volatile markets. A precursor to successful loan monitoring and recovery systems is a clear understanding about risks involved in lending, quantifications of risks within each item of the portfolio and reaching a conclusion as to the likely composite credit risk profile of a financial institution (Fernando, 2010).

Lawrence and J. Gitman, (2010) noted that the corner stone of loan monitoring and recovery and improving performance of pride microfinance ltd is the establishment of a framework that defines corporate priorities, loan approval process, credit risk rating system, risk-adjusted pricing system, loan-review mechanism and comprehensive reporting system.

Better and effective strategic loan monitoring and recovery management process is a better way to manage portfolio credit risk. The process provides a framework to ensure consistency between strategy and implementation that reduces potential volatility in earnings and maximize shareholders wealth, Beyond and over riding the specifics of loan monitoring and recovery

modeling issues, the challenge is moving towards improved loan monitoring and recovery management lies in addressing the financial institutions readiness and openness to accept change to a more transparent system, to rapidly metamorphosing markets, to more effective and efficient ways of operating and to meet market requirements and increased answerability to stake holders (Abedi, 2011).

In a bid to improve performance of pride microfinance Ltd, the institutions' must apply efficient and effective risk management strategies (Fernando, 2010). One of the most crucial methods of risk control in banks and financial institutions around the world is regulatory capital requirement, which is vital in reducing the risk of bank insolvency and the potential cost of a bank' s failure for its customers (Lawrence, and Gitman, 2010).

Effective loan monitoring and recovery systems can surely improve the performance and competitiveness that can only occur if the banking industry since it is clearly evolving to a higher level of risk management techniques and approaches than had been in place in the past (Olomola, & Ade, 2012).

Credit risk and efficiency aspects have to be weighed against each other in designing the structure. For low-volume business, the low level of total risk allows a focus on efficiency. The significance of risk aspects increases in line with the level of the volumes to be handled. In practice, the loan processing segments are often found at the level of the heads of department, in some cases at the group leader level. The processing of loan monitoring and recovery in particularly large financial banks, one can often find a chief credit officer (CCO) between the division managers and the chief risk officer (CRO). From a risk perspective, if processes are comparable, a separation of processing along the lines of new or existing business is preferable

to a separation along sales channels. This is mainly due to the effects that can be achieved if there is a match between the processes and the organizational units executing these processes (Bottom, 2013).

Each credit transaction that the financial institution undertakes changes its risk profile. The extent of calculations that need to be performed to understand the impact of each such risk on the transactions of the institution makes it nearly impossible to continuously update the risk calculations. Hence, providing real time risk information is one of the key challenges of loan monitoring and recovery management exercise. (Fredrick, 2012)

In conclusion, borrowed loans from pride microfinance Ltd, to a large extent belongs to the depositors; non- payment of borrowed funds as not only a diver stating effects on the borrowers but also depositors, other financial institutions and the country (economy) at large. Financial institutions should therefore develop sound credit management policies so as to improve on loan recovery rate which in turn increase profitability levels and performance of the financial institution (Abedi, 2011)

2.3 The role of loan approval on performance of financial Institutions

Loan approval is the process a business or an individual undergoes to become eligible for a loan or pay for goods and services over an extended period (Fernando, 2010). Granting Loan approval depends on the willingness of the creditor to lend money in the current economy and that same lender's assessment of the ability and willingness of the borrower to return the money or pay for the goods obtained plus interest in a timely fashion. Typically, businesses seek approval to obtain loans and also grant approval for loans to their customers.

Loan approval refers to the formal authorization to get a loan, usually from a bank. Approval process is also important on the success of loan portfolio performance. This is because it helps to determine who is accountable for the accuracy of loan ratings. The Loan officer is a logical choice because he or she knows more about the credit than anyone else and should have access to timely financial information from the borrower, (Olomola, & Ade, 2012).

The individual steps in the process and their implementation have a considerable impact on the risks associated with loan approval. However, this cannot mean the presentation of a final model credit approval process, as the characteristics which have to be taken into consideration in planning loan approval processes and which usually stem from the heterogeneity of the products concerned are simply too diverse (Pandey, 2010). That said, it is possible to single out individual process components and show their basic design within a loan approval process optimized in terms of risk and efficiency.

Effective loan portfolio management considers how results are achieved to approve the loan, the likelihood those results will continue, and whether the institution is maximizing opportunities and providing the greatest benefit practicable to borrowers/members. A principal objective of the approval and examination process is to thoroughly understand and evaluate the loan portfolio management system that controls and the factors that influence, performance of the loan portfolio (Lawrence, and Gilman, 2010).

Loan approval process contributes a lot in the analysis of internal and external factors. This analysis considers factors that may impact the institution's loan portfolio. An analysis is completed to identify risks in the loan portfolio, threats to the loan portfolio, and opportunities that the institution may want to consider for enhanced profitability or growth.

Once identified, the analysis determines the impact of those factors on the loan portfolio so that appropriate goals, objectives, and strategies can be established (Abedi, 2011)

Bottom, (2013)argue that efficient loan approval process helps the officers in charge of the loan management system in rating responsibility which heightens his or her accountability for credit quality and has derivative benefits for loan approvals and account management. Some financial statements assign risk rating responsibility to a loan officer, loan review officer, or a more senior officer. While these officers may be more objective and experienced, they may be less sensitive to subtle changes in the borrower's condition, and their ratings changes may be less timely. Perhaps most important, making someone other than the account officer accountable may diminish his or her sense of responsibility for identifying and controlling credit risk.

Loan approval can also enable financial institutions in managing their portfolios. This is because before they approve, the bankers must understand not only the risk posed by each credit but also how the risks of individual loans and portfolios are interrelated. These interrelationships can multiply risk many times beyond what it would be if the risks were not related. Until recently, few financial institutions used modern portfolio management concepts to control credit risk. Now, many financial institutions view the loan portfolio in its segments and as a whole and consider the relationships among portfolio segments as well as among loans (Fernando, 2010). These practices provide management with a more complete picture of the financial institutions' credit risk profile and with more tools to analyze and control the risk (Olomola, & Ade, 2012).

Loan approval can also help the pride microfinance ltd in determining the character of a potential debtor which is an important consideration used by lenders in loan grant. A thorough check of the lifestyle of the potential debtor can be undertaken on the part of the lender during the

investigation. The character of a person applying for a loan is a big factor to the decision for loan approval (Migiri, 2011).

A person with a sound financial objective is likely to be granted a loan quickly and more possibly than an individual who is in bad shape, not just on the financial facet, but also on other aspects, To approve a loan for a customer, a firm often requests credit references. In a shortened form of credit approval ("instant credit" in the retail trade), a client provides credit references in the form of a financial institutions account number and another credit card. The fact that others consider the client creditworthy becomes the basis for the business in question to extend credit for purchases up to a certain amount. The customer's social security number is often used for identification purposes in this process (Kariuki, 2010).

An effective loan approval process establishes minimum requirements for the information and analysis upon which a credit decision is based. It provides guidance on the documents needed to approve new credit, renew credit, increase credit to existing borrowers, and change terms in previously approved credits. It will also designate who has the authority to approve credit or changes in credit terms. Loan authorities should be commensurate with the experience of the lender/credit officer and take into consideration the type of credit, the amount of credit, and the level of risk involved (Fernando, 2010).

2.4 The role of loan appraisal on performance of financial Institutions

Loan appraisal enables the pride institution set proper quality indicators for financial performance within institution. By using the methods of analysis and synthesis, are subjected to systematic evaluation (Abedi, 2011). The conducted study sought to determine the significance of quality indicators and their importance in assessing the loan appraisal under current harsh economic conditions.

An important point in conducting the loan appraisal is the thorough analysis of the business activity and the income received in this business activity is taken as a fulcrum (Heinola and Edwards 2010). It is necessary that a number of conditions be observed, namely: The credit extended as an absolute value should meet the real needs of the borrower; The credit period should correspond exactly to the circulation speed of the resources for the securing of which it has been extended; the profitability of the borrower's business activity should entirely cover the credit amount, the interest rate, the charges and the risks, calculated in the credit analysis,

The granting of loans depends on the confidence the lender has in the borrower's credit worthiness determined from the loan appraisal. Loan appraisal, which encompasses the borrower's ability and willingness to pay, is one of many factors defining a lender's credit policies. Creditors and lenders utilize a number of financial tools to evaluate the credit worthiness of a potential borrower (Migiri, 2011). When both lender and borrower are businesses, much of the evaluation relies on analyzing the borrower's balance sheet, cash flow statements, inventory turnover rates, debt structure, management performance, and market conditions. Creditors favor borrowers who generate net earnings in excess of debt obligations and any contingencies that may arise.

Loan appraisal encompasses the presumed ability to meet agreed deadlines related to repaying the credit and the interest accrued without affecting the vitality of the borrower, that is, the repayment process should be based on the income received in the process of the borrower's usual activity, without affecting adversely his financial situation, his financial results as well as other business entities (Fernando, 2010).

One of the most basic measures of a customer's loan appraisal is the debt service coverage ratio, which shows a firm's ongoing ability to keep in control both debt and interest. This ration means the as earnings before interest, taxes, depreciation, and amortization divided by a firm's current portion of long-term debt and interest expense, is an extremely important metric for predicting default. More than half of the banks and asset-based lenders in a recent Pepperdine Capital Markets survey said this statistic of credit worthiness determination was important or very important in their lending decisions. Given its role in lending decisions, an improvement to the ration can be beneficial, and it can be accomplished in a variety of ways. Cutting expenses may boost your client's debt and interest payments stay the same (Abedi, 2011)

Bottom, (2013)noted that when analyzing loan appraisal, along with the required prerequisites for loan appraisal, it is necessary to carry out a comprehensive study of the factors that determine it. It is believed that loan appraisal depends on several major factors: the borrower's efficiency, his reputation, his capacity for profit making, the value of his assets, the state of the economic situation, and his profitability. In order to conduct a thorough study of the above mentioned, it is necessary to use a number of indicators for the credit analysis (Migiri, 2011).

The information on the loan appraisal of business partners is an indispensable assumption for bringing high quality business decisions. In the scientific and business practice the term loan

appraisal expresses validity, dependability, business and credit capability of an entity (Olomola, & Ade, 2012).

Several firms have developed rating systems to determine an individual or company's credit worthiness through the loan appraisal systems (Pandey, 2010). It is important for each person to keep track of their credit score because this is the main metric used by institutions when determining if the individual is worthy of a favorable rate.

Loan appraisal enables the financial institution to check publicly available information. The company's social media streams, the news release section on its website and information available through simple search engine exploration can help the bank to determine whether the company is having problems that may affect its ability to pay (Pandey, 2010). Publicly traded companies also must regularly file fact-filled reports about the state of the business with the Securities and Exchange Commission.

Loan appraisal can help the organization to determine net income sales. The net income to sales ratio is a fundamental measure of how profitable your clients are. There are three possible fixes for low profitability. One option – cutting operating expenses – can be more of a short-term fix. Cost cuts (such as layoffs) can sometimes backfire or they may only serve to postpone "the day of reckoning" that exposes deeper strategic issues at the company (Bottom, 2013). Two of the fixes – increasing profitable sales and lowering production costs – take time to identify and implement. Lowering production costs often involves finding ways to get raw materials or key services more cheaply or to use less of them. Or it can mean identifying new, more efficient methods of producing a good or providing a service (Olomola, & Ade, 2012).

The reason for the assessment of loan appraisal is the assessment of business risks that might be taken in case of establishing a business relationship. Users of prudential information in general are the companies, they produced by specialized companies (Abedi, 2011). Financial institutions also develop their own systems for assessing the loan appraisal of companies. In evaluating the loan appraisal information about the company's liquidity, profitability and debt data obtained from financial statements, and components related to the assessment of management, ownership structure, market position and other information on the basis of subjective criteria are used

Loan appraisal enables the organization to carry out an assessment of the likelihood that a borrower will default on their debt obligations. It is based upon factors, such as their history of repayment and their credit score. Lending institutions also consider the availability of assets and extent of liabilities to determine the probability of default (Fernando, 2010)

Loan appraisal enables the financial institution to truck credit repayment history. To gauge in loan appraisal, financial institutions will examine the credit report, which includes information on all the clients' credit accounts, payment history, credit inquiries, and whether or not the client ever declared bankruptcy or had a lien placed against him/her. On the report, any late or missed payments will be noted and remain on it for up to seven years—negatively impacting whether or not the client get a loan or a credit-card (Kariuki, 2010).

It is worth noting that the financial can also use the `Five C's' to determine borrowers' creditworthiness determined in the loan appraisal process. These include character, Capacity, Capital, Conditions and Collateral and can be explained as follows.

Character; this refers to the borrower's integrity and willingness to repay the financial obligation. Does the borrower have a bad credit history? Has the borrower declared bankruptcy in the past?

Has the borrower had a failed enterprise in the past? Has the borrower failed to meet family obligations? A "yes" answer to any of these questions could place the borrower's character in doubt (Fernando, 2010)

Capacity; this addresses the borrower's cash flow and ability to repay the debt from ongoing business operations. Unforeseen business difficulties will always arise. Accordingly, the use of the borrowed funds must generate sufficient funds during the period of the loan to cover these contingencies, and still have a generous amount left over in order to service any remaining debts (Abedi, 2011)

Capital; this is the borrower's financial net worth. A significantly positive net worth has the potential to offset insufficient cash flows, because financiers perceive the borrower still has more than adequate means to repay the loan (Olomola, & Ade, 2012).

Collateral; this refers to any property owned by the borrower that can be pledged for security. If the property has been previously pledged against another loan, financiers would probably not consider it available to be pledged again until the previous loan has been paid off (Kariuki, 2010).

Conditions; these refer to economic, industrial and company-specific prospects and events that may occur during the period of the loan that could have a significant effect on your company (Bottom, 2013). These might include rising raw material prices, an employee strike, increasing interest rates.

Inventories. In addition, bankers will look at the company's inventories. Don't assume a large inventory represents collateral that can be readily pledged against a loan (Fernando, 2010). Bankers realize that if a company defaults on a loan, the financiers would be lucky to recoup five

cents on the dollar from the pledged inventory. Instead, bankers will look at how rapidly you rotate your inventory, and the faster the better (Migiri, 2011)

If you have enough inventory on hand for the next year, you are negatively impacting cash flow. Such a condition probably indicates people are not buying your product, another reason for worry (Olomola, & Ade, 2012). However, if you are "turning" your inventories every month, your financiers should be very happy.

2.5 Loan management

There should be a positive relationship between loan performance and profitability for pride microfinance institutions. This is because credit institutions/ organizations are expected to earn profits from interest charged on loans. The recovery of the principle and interest the level of profitability as it reduces on provision s for bad debts of the bank (Pandey, 2010)

The concept of loan portfolio refers to the total of all loans held by a bank or finance company on any given day (Kariuki, 2010). The total loan portfolio is a collection of all the bank's loans and advances. A non performing advance is a loan or advance where by interest, principal installments or any other charges are still pending at least six months after they are due.

The performance of the loan may be measured using credit risk and measures of the loan quality such as provision for loan losses net losses or charge offs. Non-performing assets, banks' examiners classified assets as substandard, doubtful and loss (Fernando, 2010). A high proportion of loans relative to total assets and rapid growth of the loans of portfolio are potential early warning signals of loan quality problems which indicate potential failure and low profitability.

If a financial institution experiences any losses, they are negated from the provision set aside instead of these losses going directly to the profit and loss statement and decreasing the year's profit and loss statement and decreasing the year's profit or if insufficient, the bank's capital or the bank may become insolvent (Bottom, 2013).. The bigger the loan loss provision the poorer the loan portfolio and thus performance of the loan portfolio

Siwale, (2012) advance the incentive argument to explain the low levels of loan performance. They articulated that borrowers are more likely to pay back when credit is friendly and their relationship with lenders is valuable to them.

Migiri, (2011)asserts that credit institutions/banks have suffered from inadequate planning and insufficient operations due to poor loan managements in pride microfinance banks. These deficiencies have entailed an imbalance between the institutions sizable loan portfolio and mobilization of saving. So they have become victims of credit evaluation, management and monitoring leading to low rates of loan performance.

Abedi, (2011) says that economic environment in the location of banks, causes poor collection and loan repayment. She indicates the relationship between per capita income and loan performance. High payments are mostly in countries with higher per capita incomes and low levels of loan recovery in countries with low per capita income. This therefore indicates that it is difficult to recover loans in poor countries.

Olomola, & Ade, (2012) assets that to manage a bank loan, a credit policy is needed because customers do not pay the bank's dues in time. Some customers are slower while others are non-payers. While financial institutions have faced difficulties over the years of a multitude of reasons, the major causes of serious banking problems continued to be directly related to tax

credit standards for borrowers, poor portfolio risk management or other circumstances that can lead to deterioration in the credit standing of the banker's borrower (Morduch, & Argion, 2014).

Bottom, (2013)asserted that credit risk is simply defined as the potential that a bank borrower will fail to meet his or her obligation in accordance with agreed terms. For most banks, loans are the largest and most obvious source of credit risk and therefore there is a need to establish the appropriate system for risk management process and controlling the default risk exposure within acceptable parameters. This may reduce on the risk of customers or clients not paying the loan (default risk) to them and therefore cutting back the profits of the bank losses, thus collection policy could decrease receivables and increase profitability.

In pride microfinance institutes, loans can be managed by confirming a loan. If the lender agrees to the loan, they should send the borrower an official form of agreement a contract or letter (Fernando, 2010). This will set out the responsibilities of the borrower and lender. It will indicate likely costs and who will pay them. It may also include specific security and environmental requirements.

Refusing a loan request is also a way of managing bank loans. Increasing access to your collections is in the interests of the sector overall, so make every effort to lend items wherever possible. Avoid turning down loan requests unless issues of availability, security, condition, or ethics mean that the item cannot be lent within available resources. Be transparent in handling loan requests. Explain any difficulties or delays in processing an application, and fully explain the reasons for a refusal to lend. If a loan is likely to be refused, suggest, if possible, an alternative item or lender (Olomola, & Ade, 2012).

Loan management is attained through the loan approval process. When individual credits are underwritten with credit principles, the credit quality of the portfolio is much more likely to be high, (Siwale, (2012). Although good loans sometimes go bad, a loan that starts out bad is likely to stay that way. The foremost means to control loan quality is a solid loan approval process. However, every loan approval process should introduce sufficient controls to ensure acceptable credit quality at origination. The process should be compatible with the financial institution's credit culture, its risk profile, and the capabilities of its lenders. Further, the system for loan approvals needs to establish accountability.

The committee method of loan approval is advantageous because knowledge can be shared, but it may diminish accountability and often slows a bank's responsiveness. The individual signature authority system is timelier and establishes clear accountability, but it can create undue credit risk if a lender's knowledge and experience are inadequate to his or her authority. Laddered or joint authorities, variations that some banks employ, combine elements of both systems (Morduch, & Argion, 2014).

The involvement of an independent loan approval authority whose Loan Portfolio Management primary goal is quality (such authority might be invested in a senior credit officer or credit administrator) is also a method to introduce more objectivity to the loan approval process (Fernando, 2010). Whatever approach or combination of approaches a bank uses, internal control mechanisms are necessary to ensure that the approval system produces sound credit decisions.

An effective loan approval process establishes minimum requirements for the information and analysis upon which a credit decision is based. It provides guidance on the documents needed to approve new credit, renew credit, increase credit to existing borrowers, and change terms in

previously approved credits. It will also designate who has the authority to approve credit or changes in credit terms. Loan authorities should be commensurate with the experience of the lender/credit officer and take into consideration the type of credit, the amount of credit, and the level of risk involved. (Abedi, 2011)

The analysis of individual loans has been used to determine whether risk ratings are accurate and to build conclusions about loan portfolio management in pride microfinance limited, a more dynamic and efficient approach is to simultaneously use the testing to verify risk ratings and test the lending function itself. For example, a review of newly underwritten credits should be structured to assess the risk in the new transactions as well as to test the effectiveness of loan approval and other policies and processes that govern credit quality (Bottom, 2013).. While this approach requires careful planning and design, the results provide more comprehensive information (Morduch, & Argion, 2014).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter dealt with the methods and tools the researcher used in data collection and analysis. It describes the research design that was used by the researcher, data sources and collection tools, processing, analyzing and the challenges that the researcher faced

3.2 Research design

The researcher used a case study design. The researcher used questionnaires to obtain data from respondents in Pride Microfinance Ltd. The study also used both quantitative and qualitative approaches. These approaches were used to ensure generation of statistics as well as to capture in-depth information regarding loan management and performance of pride microfinance bank. The study used a case study design approach considering both quantitative and qualitative approach using structured questionnaire, interviews, and document analysis. This is because a case study provided an in-depth study of the problem with limited time scale (Amin, 2005). A triangulation of quantitative and qualitative research techniques were adopted, in order to exploit the synergies offered by different methodologies. Both primary and secondary data were collected through interviews, and Questionnaires

3.3 Area of the study

The study was mainly be carried out at the offices of pride microfinance Limited (PMFL. The headquarters of PMFL are located in Victoria Business Park, in Bukoto, a northeastern neighborhood in Nakawa Division, an administrative area within Kampala, Uganda's capital and

largest city. This area was chosen because it's the main Branch and issues out a lot of loans in the clients and could have enough adequate information relevant to the topic under investigation.

3.4 Study Population

The population of the study included the management especially those involved in the credit and loans departments and employees themselves. The study was conducted at PMFL. The study considered a total population of 43 respondents as follows, senior loans and credit Officers (4), Deputy Loans and credit Officers, Finance staff (4), other bank employees (35)

3.5 Sample size and Sampling techniques

3.5.1 Sample size

The researcher used a sample size of 39 respondents from the relevant departments at PMFL. A total of 39 respondents were selected based on Krejcie and Morgan (1970) sampling guidelines using the probability simple random sampling method, and non-probability methods of purposive sampling criteria. Table 3.1 below shows the different population categories targeted, sample and sampling methods that were used in the study.

Table 3.1: Sample size and selection

S/N	Category	Population	Sample size	Sampling Technique
1	senior loans and credit Officers	4	3	Purposive
2	Deputy Loans and credit Officers	4	3	Purposive
4	other bank employees	35	33	Simple random sampling
	Total	**43**	**39**	

Source: PMFL Payroll, (2013)

3.5.2 Sampling Techniques

In this study, purposive sampling technique used to select key respondents because it is best suited for selecting information rich cases for in depth study (Barifaijo, Basheka and Oonyu, 2010). Simple random sampling technique was used to collect information from bank employees because this technique had high generalizability of findings; hence it was suitable for a large study population (Sekaran and Bougie, 2010). The researcher sampled from each proportion of respondents, allocated a number to every member of the accessible population, placed the numbers in a container then picked numbers at random. The subjects corresponding to the numbers picked were included in the sample (Mugenda & Mugenda, 2003).

3.6 Sources of Data

The researcher used both primary and secondary sources of data collection for the study. In using primary sources, the researcher used a number of methods namely interviews, questionnaires, and observation method. Secondary data collection was done by viewing the records of the organization, getting information from internet books, journals, magazines. This helped the research to access all the relevant information

3.7 Data Collection Methods and Instruments

3.7.1 Questionnaire

This is a formulated written set of questions that will be used to obtain information about the study objectives from the study population (Amin, 2005). The questionnaire was used because respondents could read and write the answers, the respondents possessed the information required to answer the questions and answered the questions honestly and it was less expensive

for data collection (Amin, 2005). The study used a close ended structured questionnaire divided into sections that represented loan management and performance of pride microfinance bank. The respondents recorded their answers within closely defined alternatives. In this study the questionnaires were hand delivered to the respondents.

3.7.2 Interview Guide

Interviews are open questions often administered to key informants to give them wide latitude to talk about the subject. The researcher conducted oral interviews with credit/loan officers. The interviews provided an opportunity for the researcher to interact directly with the respondents.

3.8 Data Collection Process

An introduction letter from UMU was issued to Pride Microfinance Limited introducing the researcher to the respondents. The sampled respondents who are physically located, were identified and the questionnaires administered to them, while appointments were fixed for meeting the key respondents for face to face interviews

3.9 Data Analysis

The researcher used both quantitative and qualitative techniques of data analysis as discussed below.

3.9.1 Quantitative Data Analysis

The data collected was edited, coded and later analyzed using Statistical Package for the Social Sciences (SPSS) computer program. Quantitative data was presented in form of descriptive statistics using frequencies and percentages and was presented using pie charts, graphs and tables.

3.9.2 Qualitative Data Analysis

Qualitative data analysis involved identification and transcribing the qualitative findings into different themes (Mugenda and Mugenda, 1999). The themes were then edited, coded and arranged in different categories to generate useful conclusions and interpretations on the research objectives which were deduced for reporting in a narrative form.

3.10 Validity and Reliability

To ensure methodological reliability and validity, the researcher designed questionnaires, and interview guides in line with the objectives of the study. The researcher personally pretested the tools and collected information from the selected respondents while following the research ethics.

3.11 Ethical Considerations

This research was conducted with utmost level of integrity basing on information or data collected from respondents. The information collected did not have negative/bad impact on the company settings and the community as a whole. Data was kept with confidentiality.

3.12 Limitations of the study

Cost; the researcher will experience a problem of limited finances with respect to this study. Costs regarding this limitation will include transport, printing and photocopying of relevant materials. However, the researcher will have to request for grants or borrow some money from relatives, friends and use it sparingly so as to overcome the cost constraint.

Time; the researcher experienced time constraint in data collection, analyzing of data and in the final presentation of the report. However, the researcher overcame this problem by ensuring that

the time element is put into consideration and that all appointments agreed upon with respondents were fully met.

Non responses; the researcher also experienced a problem of non-response from respondents who were given the questionnaires to fill. However, the researcher assured the respondents that any information given would treated with maximum confidentiality.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF THE FINDINGS

4.0. Introduction

This chapter presented the findings of this study. It highlighted the characteristics of the respondents and presented the findings that were generated from interactions. The study based on the study objectives and the following results were established;

4.1. Response Rate

Table 4.1: showing the research instruments and respondents in Number and percentages

Instruments	No of respondents (F)	Percentage (%)
Interviews	6	15%
Questionnaires	33	85%
Total	**39**	**100**

Source: Primary data

Table 4.1 has demonstrated the distribution of the respondents according to the instruments used by the researcher that, (85%) of the targeted respondents participated by answering the questionnaires and (15%) with interviews. The outcome from the table shows that the level of participation was absolutely excellent as shown by the number of the respondents per the research instrument employed

4.2 General information

In this section, efforts were made to document the background information of the respondents such as gender, age group, academic qualification, category and time spent in service

4.2.1 Gender of the Respondents

Figure 4.1: Showing the Gender of the Respondents
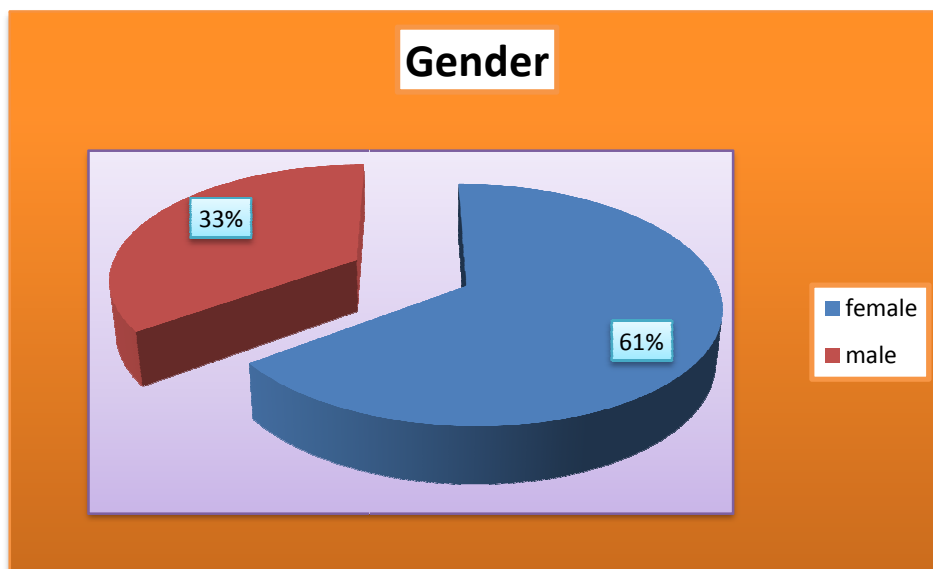
Source: Primary data

From figure 4.1 above, it is presented that the majority (61%) of the respondents were females while the minority (33%) of the respondents were males. This testified that there was gender imbalance in the study in that there were more females than women. This helped the study to obtain views from different sex thus producing information that is not biased.

4.2.2 Age group of the Respondents

Table 4.2: showing the Age group of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18 - 30 years	9	24	24	24
	31 – 40 years	19	4	48	72
	41 – 50years	6	15	15	87
	Above 50 years	5	13	13	100
	Total	**39**	**100.0**	**100.0**	

Source: Primary data

Results from table 4.2 above showed that, the largest percentage that is (48%) of the respondents had years arraying from 31 to 40, these were followed by (24%) who were between 18-30 years, (15%) were between 41- 50 years whereas the minority (13%) had above 50 years. This evidenced that most employees at pride microfinance were in their productive ages. This was found relevant because respondents from different age groups have varying knowledge and experiences with regards to the role of loan management on performance of pride microfinance limited.

4.1.3 Education Qualification of Respondents

Table 4.3: Showing the Education Qualification of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate	2	6	6	6
	Diploma	11	27	27	33
	Degree	17	45	45	78
	Masters	9	22	22	100
	Total	39	100.0	100.0	

Source: Primary data

According to table above, it was revealed that the majority (45%) of the respondents were degree holders, those were followed by (27%) who had a diploma, then (22.0%) of the respondents had masters degrees while the minority (6%) had obtained a certificate courses. This implied all of the respondents had received some education qualification though the most were degree holders. This helped the research minimize time wastage since the respondents easily understood how to tackle the questions in the questionnaires.

4.1.4 Marital Status

Table 4.4: Showing the Marital Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	13	33	33	6
	Married	24	61	61	33
	Engaged	2	6	6	78
	Divorced	0	0	0	100
	Total	39	100.0	100.0	

Source: Primary Data

The findings as shown in the table above reveled that majority of the respondents (61%) were married. (33%) were single, and (6%) were engaged. The findings also revealed that none of the respondents had divorced. These findings implied that most of the employees in the microfinance institution had family responsibilities, mature enough and properly understood business ethics.

4.1.5 Time of service in organization

Figure 4.2: Showing the Time Spent by Employees in Service
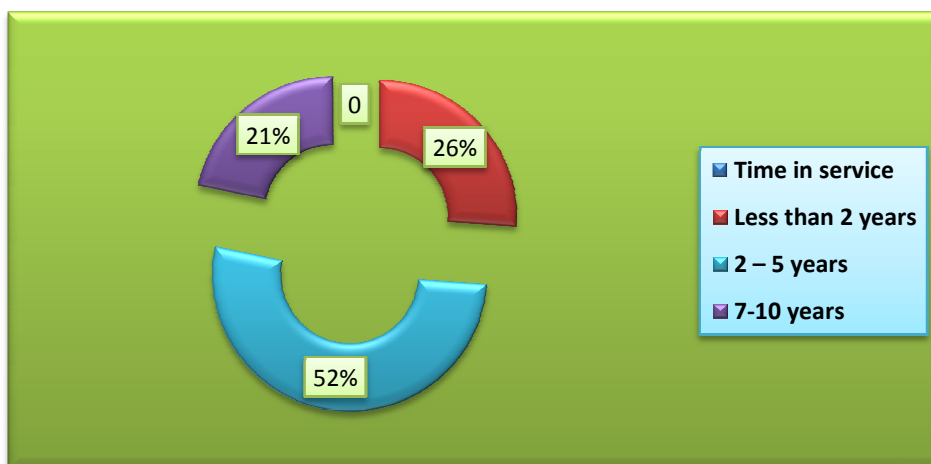
Source: Primary data

According to the figure above, it was revealed that the majority (52%) of the respondents had spent 2-3 years at pride microfinance, (26%) had worked with the institution for less than 2 years whereas the minority (21%) had spent 7-10 years working with the company. This depicted that most employees had experience with Pride Microfinance which assisted the study to obtain relevant information necessary to investigate the contribution of loan management on performance of pride microfinance Ltd.

4.3 Role of loan monitoring and recovery on performance of financial institutions

The first objective of the study was to examine the role of loan monitoring and recovery on financial institutions. To accomplish this, the researcher explored the level of agreement and disagreement with the following statements in table below. The following abbreviations were used; **SA** = (Strongly Agree)**, A=** (Agree)**, I =** (Indifferent)**, D=** (Disagree), **SDA=** (Strongly Disagree, **SD** = (Standard Deviation), **F** = (Frequency).The findings are shown in table below

Table 4.5: Role of loan monitoring and recovery on financial institutions

loan monitoring and recovery	SA		A		I		D		SDA		MEAN	SD
	F	%	F	%	F	%	F	%	F	%		
a Financial institutions success lies in its ability to assume and aggregate risk within tolerable and manageable limits	20	52%	15	39%	2	6%	0	0%	1	3%	4.01	0.583
It enhances the establishment of a framework that defines corporate priorities, credit risk rating system	19	48%	16	42%	4	9%	0	0%	0	0%	3.99	0.898
It ensures consistency between strategy and implementation that reduces potential volatility in earnings and maximize shareholders wealth	23	58%	13	33%	1	3%	1	3%	1	3%	4.21	0.978
It reduces the chance of financial institutions' insolvency and the potential cost of a its failure for its customers	15	36%	19	48%	2	6%	1	3%	2	6%	3.81	0.799
Enhances the development of sound credit management policies so as to improve on loan recovery	12	30%	25	64%	2	6%	0	0%	0	0%	3.23	0.533

Source: Primary data

The findings of the study indicated that the majority (52%) of the respondents agreed that Financial institutions success lies in its ability to assume and aggregate risk within tolerable and manageable limits these were followed by (39%) who strongly agreed, (6%) were not sure while (3%) and strongly disagreed. It had a mean of 4.01 and standard deviation of 0.583. This was in agreement with (Saunders, 1996) who said that the effective management of loan monitoring and recovery is a critical component of comprehensive risk management essential for long-term success of a banking institution. Therefore, a financial institutions success lies in its ability to assume and aggregate risk within tolerable and manageable limits.

The study findings also showed that the majority (48%) of the respondents strongly agreed that loan monitoring and recovery enhances the establishment of a framework that defines corporate priorities, credit risk rating system, these were followed by (42%) who agreed, (9%) disagreed that it enhances the establishment of a framework that defines corporate priorities, credit risk rating system. The overall mean score of the statement was 3.99 and a standard deviation of 0.898which showed that majority of the respondents agreed. This was in conformity with one of the interviewed respondents who said that;

> "*The main corner stone of loan monitoring and recovery and improving performance of pride microfinance ltd is the establishment of a framework which properly explains and states out the corporate priorities, loan approval process, credit risk rating system, risk-adjusted pricing system, loan-review mechanism and comprehensive reporting system*"

The findings of the study also revealed that the majority (58%) of the respondents strongly agreed that loan monitoring and recovery ensures consistency between strategy and implementation that reduces potential volatility in earnings and maximize shareholders wealth,

(33%) of the employees agreed, (3%) of them disagreed and disagreed strongly. This showed a mean of 4.21 and SD of 0.978.This was in line with Mersland, *et al,* (2009) who notably said that better and effective strategic loan monitoring and recovery management process is a better way to manage portfolio credit risk. Therefore, the process provides a framework to ensure consistency between strategy and implementation that reduces potential volatility in earnings and maximize shareholders wealth.

According to the findings of study, it was also revealed that the largest portion that is (36%) of the respondents strongly agreed that loan monitoring and recovery reduces the chance of financial institutions' insolvency and the potential cost of a its failure for its customers, (48%) of the employees agreed as evidenced by the mean of 3.81 and SD of 0.799 while the minority (6%) and (3%) were not sure and strongly disagreed as compared to the (3%) who just disagreed. As seen from the findings, (Kyereboah-Coleman, 2007) also emphasized that one of the most crucial methods of risk control in banks and financial institutions around the world is regulatory capital requirement, which is vital in reducing the risk of bank insolvency and the potential cost of a bank' s failure for its customers.

More to the above, the study findings presented that the majority (64%) of the respondents agreed that it enhances the development of sound credit management policies so as to improve on loan recovery, (30%) of them agreed, (6%) of the respondents were not sure. This was in conformity with the findings of the interview where one of the respondents pointed out that;

> "*Loan recovery rate can be enhanced by developing sound credit management policies so which in turn increases profitability levels and performance of the Pride Microfinance Limited.*"

4.4 Loan approval and performance of financial Institutions

The second objective of the study was to find out the role of loan approval on performance of financial Institutions. To accomplish this, the researcher explored the level of agreement and disagreement with the following statements in table below

Table 4.6: loan approval and performance of financial Institutions

Loan Approval	SA		A		I		D		SDA		MEAN	SD
	F	%	F	%	F	%	F	%	F	%		
Approval process helps the officers in charge of the credit management system in rating effective performance of responsible officers in the work.	23	58%	16	42%	0	0%	0	0%	0	0%	4.1	0.863
Approval can also enable financial institutions in understanding and managing the credit risk profile and with more tools to analyze and control the risk	13	33%	24	61%	1	3%	0	0%	1	3%	3.49	1.121
Determines reliability of approval results	24	61%	12	30%	2	6%	0	0%	1	3%	4.13	0.838
Loan approval process contributes a lot in the analysis of internal and external risk factors	19	48%	18	45%	2	6%	0	0%	0	0%	3.89	0.6
Approval determines the legibility and capability of the loan borrow	21	55%	15	39%	0	0%	0	0%	2	6%	4.01	0.776
Loan approval minimizes the rate of loan loss since all the loans are approved after credit worthiness has been determined	17	42%	19	48%	1	3%	2	6%	0	0%	3.77	0.699

Source: Primary Data

The findings of the study indicated that the majority (58%) of the respondents strongly agreed that approval process helps the officers in charge of the credit management system in rating effective performance of responsible officers in the work. This had a mean score of 4.1and standard deviation of 0.863.According to the study findings, it was revealed that the majority (33%) of the respondents strongly agreed that approval can also enable financial institutions in understanding and managing the credit risk profile and with more tools to analyze and control the risk, (61%) of the employees agreed, (3%) of the respondents were not sure and disagreed that approval can also enable financial institutions in understanding and managing the credit risk profile and with more tools to analyze and control the risk. In conformity to the study findings ,Mersland, *et al,*(2009) argued that loan approval practices provide management with a more complete picture of the financial institutions' credit risk profile and with more tools to analyze and control the risk,

More to the above, the study findings showed that the (61%) of the respondents strongly agreed that loan approval determines reliability of approval results, these were followed by (30%) of them agreed, (6%) of the respondents were not sure whereas (3%) strongly disagreed respectively. This had a mean of 4.13 and standard deviation of 0.838. One of the interviewed respondents said that;

> "*Loan approval had helped us to determine who is accountable for the accuracy and reliability of the loan ratings.*

The findings of the study also depicted that the majority (48%) of the respondents strongly agreed that loan approval process contributes a lot in the analysis of internal and external risk factors while the 45% agreed, and the minority (6%) of the respondents were not sure as also seen by a mean of 3.89 and SD of 0.6.

The Standard deviation 0.6 shows that the spread of distribution of the respondents from the mean as 3.29 (that is mean score-standard deviation) to 4.49(that is mean score + standard deviation).In relation to the study findings, it was testified that the majority (55%) of the respondents strongly agreed that approval determines the legibility and capability of the loan borrow, (39%) of the respondents agreed, (6%) of the respondents disagreed strongly to it. This also showed a mean of 4.01 and standard deviation of 0.776. Loan approval can also help the microfinance institution in determining the character and capability of a potential debtor which is an important consideration used by lenders. The character of a person applying for a loan is a big factor to the decision for loan approval (Lapenu, 2001).

The findings of the study also revealed that the majority (42%) of the respondents strongly agreed that loan approval minimizes the rate of loan loss since all the loans are approved after credit worthiness has been determined, these were followed by (48%) who agreed, (3%) the respondents were not sure and only (6%) disagreed. This showed a mean if 3.77 and SD of 0.699. This was in agreement with Edwards,(2004) who argued that Loan approval encompasses the practice of mitigating those losses by understanding the adequacy of both a bank's capital and loan loss reserves at any given time; a process that has long been a challenge for financial institution

4.5 Role of loan appraisal on performance of financial Institutions

The third objective of the study was to find out the role of loan appraisal on performance of financial Institutions. To accomplish this, the researcher explored the level of agreement and disagreement with the following statements in figure below.

Figure 4.3: Role of loan appraisal on performance of financial Institutions
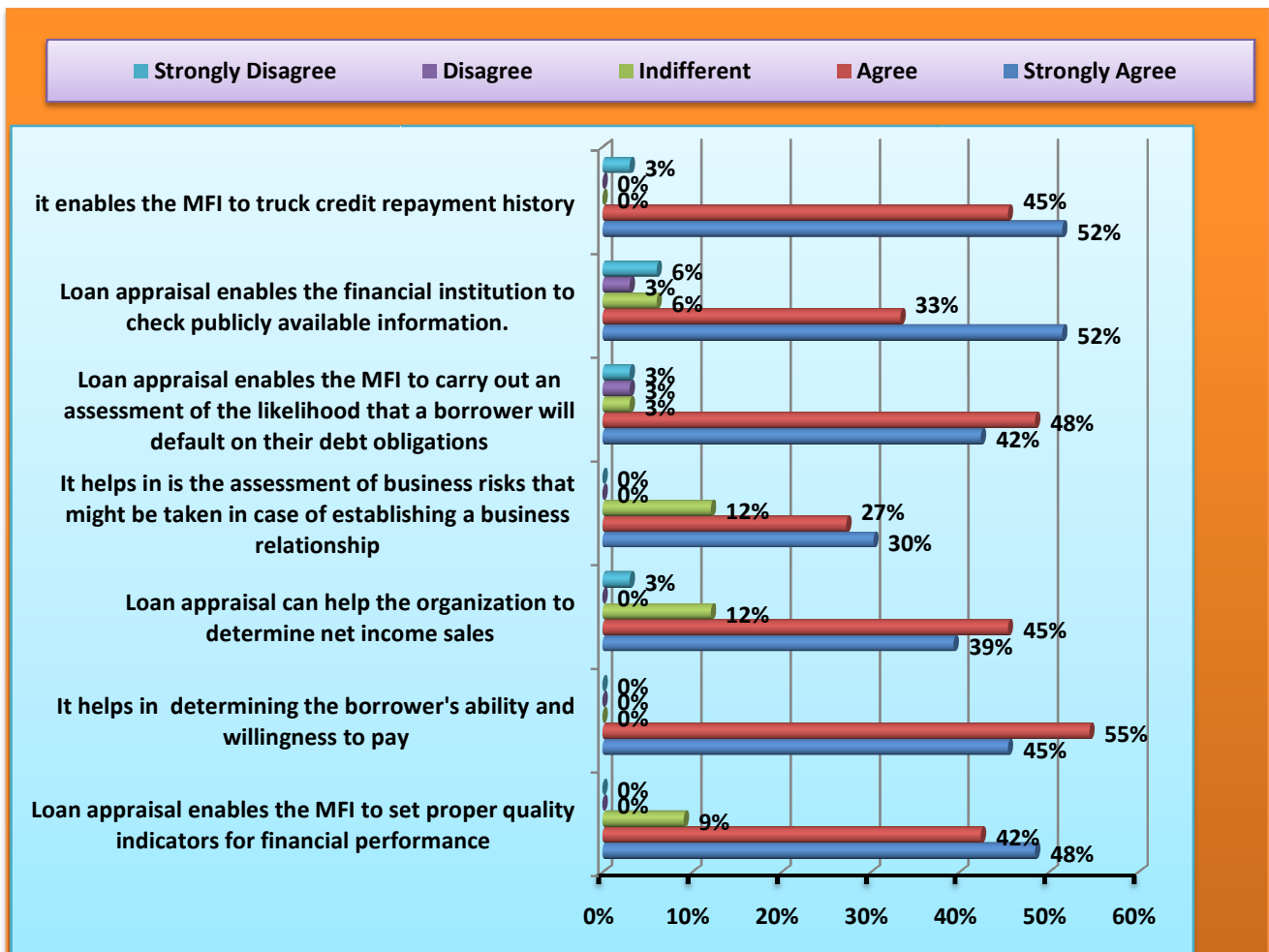
Source: Primary Data

As can be observed from the figure above, it was indicated the majority (48%) of the respondents strongly agreed and (42%) agreed that Loan appraisal enables the MFI to set proper quality indicators for financial performance while the minority (9%) of the respondents disagreed.

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This was in line with Copestake, (2007) who noted that the conducted study sought to determine the significance of quality indicators and their importance in assessing the loan appraisal under current harsh economic conditions.

According to the findings of the study, it was presented the majority (45%) of the respondents said strongly agreed that loan appraisal helps in determining the borrower's ability and willingness to pay while the minority (55%) of the respondents just agreed. The findings of the study, it was revealed that the (39%)of the respondents strongly agreed that Loan appraisal can help the organization to determine net income sales, (45%) agreed as compared to the (12%) who were indifferent on whether Loan appraisal can help the organization to determine net income sales .One of the interviewed respondents emphasized that;

> "*The net income of the clients' business is a fundamental measure of how profitable they and we normally determinate with the loan appraisals*"

In addition to the above to the findings of the study, it was revealed the majority (30%) of the respondents strongly agreed that loan appraisal helps in is the assessment of business risks that might be taken in case of establishing a business relationship as compared to (27%) of the respondents who agreed and (12%) were not sure .In agreement to these findings, Mersland, *et al*, (2009) noted that in evaluating the loan appraisal information about the company's liquidity, profitability and debt data obtained from financial statements, and components related to the assessment of management, ownership structure, market position and other information on the basis of subjective criteria are used to assess the business risks.

More to that, the study findings showed that the respondents that (42%) strongly agreed and (48%) loan appraisal enables the MFI to carry out an assessment of the likelihood that a

borrower will default on their debt obligations. This was followed by (3%) who were both were not sure, disagreed and strongly disagreed that loan appraisal enables the MFI to carry out an assessment of the likelihood that a borrower will default on their debt obligations. In conformity to the findings, one of interviewed respondents attested that

> "*We consider the availability of assets in the business of the clients and extent of liabilities to determine the probability of default by them*"

From the findings, it was also indicated that the largest portion (52%) of the respondents strongly agreed Loan appraisal enables the financial institution to check publicly available information while (33%) of the respondents agreed, (6%) were not sure and strongly disagreed as compared to the minority of the respondents who disagreed with it. It was also revealed that the majority of the respondents (52%) of the respondents strongly agreed, (45%) agreed and the minority (3%) strongly disagreed with the fact that loan appraisal enables the MFI to truck credit repayment history. These findings were in agreement with Feder& Just, (1990) who notably argued that to gauge in loan appraisal, financial institutions normally examine the credit report, which includes information on all the clients' credit accounts, payment history, credit inquiries, and whether or not the client ever declared bankruptcy or had a lien placed against him/her.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter generates the summary of the findings and conclusions drawn from the study based on the findings presented in data analysis and the study objectives. The chapter also advances the recommendations, as well as identifying the areas for further studies.

5.1 Summary of the findings

5.1.1 Role of loan monitoring and recovery on financial institutions

The finding revealed that majority of the employees (91%) generally agreed that financial institutions success lies in its ability to assume and aggregate risk within tolerable and manageable limits and that loan monitoring and recovery enhances the establishment of a framework that defines corporate priorities, credit risk rating system in addition to the fact that it ensures consistency between strategy and implementation that reduces potential volatility in earnings and maximize shareholders wealth. All in all, it was also revealed that loan monitoring and recovery reduces the chance of financial institutions' insolvency and the potential cost of a its failure for its customers because it enhances the development of sound credit management policies so as to improve on loan recovery.

5.1.2 Loan Approval and Performance of Financial Institutions

The study revealed that majority of the respondents agreed that loan approval process helps the officers in charge of the credit management system in rating effective performance of

responsible officers in the work and that it also enables financial institutions in understanding and managing the credit risk profile and with more tools to analyze and control the risk. It was also generally agreed to by (93%) of the respondents that approval determines reliability of approval results. Approval also determines the legibility and capability of the loan borrow and minimizes the rate of loan loss since all the loans are approved after credit worthiness has been determined

5.1.3 Role of loan appraisal on performance of financial Institutions

The study further revealed the majority of the respondents (92%) generally agreed that loan appraisal enables the MFI to set proper quality indicators for financial performance determines the borrower's ability and willingness to pay and the net income sales of the business of the borrowers. It was also shown from the study that loan appraisal helps in the assessment of business risks that might be taken in case of establishing a business relationship and that it can also enable the MFI to carry out an assessment of the likelihood that a borrower will default on their debt obligations.

5.2 Conclusions

In conclusion it was discovered that the financial institutions success lies in its ability to assume and aggregate risk within tolerable and manageable limits and that loan monitoring and recovery enhances the establishment of a framework that defines corporate priorities, credit risk rating system in addition to the fact that it ensures consistency between strategy and implementation that reduces potential volatility in earnings and maximize shareholders wealth. Additionally loan approval process helps the officers in charge of the credit management system in rating effective performance of responsible officers in the work and that it also enables financial institutions in

understanding and managing the credit risk profile and with more tools to analyze and control the risk. Further still, loan appraisal enables the MFI to set proper quality indicators for financial performance determines the borrower's ability and willingness to pay and the net income sales of the business of the borrowers. It was also shown from the study that loan appraisal helps in the assessment of business risks that might be taken in case of establishing a business relationship and that it can also enable the MFI to carry out an assessment of the likelihood that a borrower will default on their debt obligations.

5.3 Recommendations

It is recommended that the staff and employee should be trained and equipped with more skills and capacities on how to handle loan monitoring and recovery (credit risks), loan approval and appraisal processes so as to be able to gain the best out of it.

Additionally, it is also recommended that the financial institutions should focus on strengthening the customer loyalty factors of trust, commitment, mutuality and long- term relationship with proper loan processing procedures.

The financial institutions are also encouraged to develop comprehensive financial analysis, adequate appraisal techniques and loan documentation practices, and sound internal controls so as to enhance their loan monitoring and recovery systems.

5.4 Areas for further study

More study and research should be made on the following areas and topics

The impact of credit risk management on performance of an organization

Assessing the effect of loan realization on loan portfolio of an MFI

The impact of loan appraisal on effective performance of a financial institution.

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APPENDIX I: QUESTIONNAIRE

I am **Erinah Nyakahara** a student of Uganda Martyrs University undertaking a bachelor's degree of Business Administration and Management of Uganda Martyrs University. I am carrying out a research study on the topic: "**the role of loan management on performance of pride microfinance Ltd"**

This questionnaire is therefore intended to seek information on the above subject matter. The information is purely for academic purposes and all the answers will be handled with utmost confidentiality

I therefore request that you kindly spare sometime and fill this questionnaire by ticking appropriate options and filling in the blank spaces where necessary. All information will be kept confidential and will never in any circumstance be personalized.

Thank you

SECTION A: BACKGROUND CHARACTERISTICS

1. Gender

    (a) Male ☐   (b) Female ☐

2. Age Group

    (a) 18-30 years ☐   (b) 31 -40 years ☐ (c) 41-50years ☐ (d)Above 50 years ☐

3. Education qualification

    (a) Certificate ☐   (b) Diploma ☐ (c) Degree ☐ (d) others ☐

4. Marital Status

  (a) Single ☐ (b) Married ☐(c) Engaged ☐(d) Divorced ☐

8. Length of service with the Bank

(a) Less than 2 years ☐ (b) 2 – 10 years ☐ (c) 10-15years ☐ (d) Above 15 years ☐

The following abbreviations are used in the tables. Tick appropriately in the space provided

SA = (Strongly Agree), **A** = (Agree), **I** = (Indifferent**), D** = (Disagree), **SD** = (Strongly Disagree)

SECTION B: Role of loan monitoring and recovery on financial institutions.

8) To what extent do you agree with the following statements with regard to role of loan monitoring and recovery on financial institutions?

	loan monitoring and recovery	SA	A	I	D	SD
A	a Financial institutions success lies in its ability to assume and aggregate risk within tolerable and manageable limits					
B	It enhances the establishment of a framework that defines corporate priorities, credit risk rating system					
C	It ensures consistency between strategy and implementation that reduces potential volatility in earnings and maximize shareholders wealth					
D	It reduces the chance of financial institutions' insolvency and the potential cost of a its failure for its customers					
E	Enhances the development of sound credit management policies so as to improve on loan recovery					

SECTION C: The role Loan approval on performance of financial institutions

7) To what extent do you agree with the following statements with regard to the impact of Loan approval process on performance of financial institutions?

	Loan Approval	SA	A	I	D	SD
A	Approval process helps the officers in charge of the credit management system in rating effective performance of responsible officers in the work.					
B	Approval can also enable financial institutions in understanding and managing the credit risk profile and with more tools to analyze and control the risk					
C	Determines reliability of approval results					
D	Loan approval process contributes a lot in the analysis of internal and external risk factors					
E	Approval determines the legibility and capability of the loan borrow					
F	Loan approval minimizes the rate of loan loss since all the loans are approved after credit worthiness has been determined					

Section D: Role of loan appraisal on performance of financial Institutions

6. The following statements signify the loan appraisal on performance of financial Institutions?

	loan appraisal	SA	A	I	D	SD
A	Loan appraisal enables the MFI to set proper quality indicators for financial performance within the institution					
B	It helps in determining the borrower's ability and willingness to pay,					
C	Loan appraisal can help the organization to determine net income sales					
D	It helps in is the assessment of business risks that might be taken in case of establishing a business relationship					
E	Loan appraisal enables the organization to carry out an assessment of the likelihood that a borrower will default on their debt obligations					
F	Loan appraisal enables the financial institution to check publicly available information.					
G	it enables the MFI to truck credit repayment history					

END

Thanks for your time

APPENDIX II: INTERVIEW GUIDE

I am a student of UMU and currently collecting data for compilation for my dissertation as a partial requirement for the award of Bachelor's Degree in Business Administration and Management of Uganda Martyrs University (Nkozi). I am here to conduct an interview for a maximum of 15 minutes. The interview I am conducting relates to the contribution of loan management on performance of pride microfinance bank. You have been selected to share with us your experience and make this study successful. The Interview I am conducting is basically aimed at obtaining qualitative information to compliment the quantitative information which I am also collecting from this institution. Information given will be treated with utmost confidentiality.

1. What are the various loan management techniques that you use in your organisation?
2. In you view, how has loan monitoring and recovery helped your financial institution in improving its performance?
3. How do you determine reliability of loan approval results?
4. To what extent is approval process in your financial institution been effective?
5. Do you use loan monitoring and recovery as a guideline when establishing goals and objectives?
6. In you view, how has loan appraisal enhanced performance of your institution?
7. How can the loan appraisal policies in your institution be improved?
8. What recommendations can you give related to the topic under investigation?

END

THANKS FOR YOUR TIME

APPENDIX III: INTRODUCTORY LETTER

Uganda
Martyrs
University

making a difference

Office of the Dean
Faculty of Business Administration and Management

Your ref.:
Our ref.:

Nkozi, 25th March, 2015

To Whom it may Concern

Dear Sir/Madam,

Re: Assistance for Research:

Greetings and best wishes from Uganda Martyrs University.

This is to introduce to you NYAKAHARA ERINAH who is a student of Uganda Martyrs University. As part of the requirements for the award of the Degree of Bachelor of Business Administration and Management of the University, the student is required to submit a dissertation which involves a field research on a selected case study such as a firm, governmental or non governmental organization, financial or other institutions.

The purpose of this letter is to request you permit and facilitate the student in this survey. Your support will be greatly appreciated.

Thank you in advance.

Yours Sincerely,

Moses Kibrai
Dean

UGANDA MARTYRS
UNIVERSITY
OFFICE OF THE DEAN
25 MAR 2015
FACULTY OF BUSINESS
ADMINISTRATION & MANAGEMENT
SIGN:...........................

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