

**RISK MANAGEMENT AND THE PERFORMANCE OF
MICROFINANCE INSTITUTIONS**


CASE STUDY: PEARL MICROFINANCE

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DEDICATION

I dedicate this work to my parents Dr Katumba Fred and Mrs Sarah Katumba, my beloved siblings for the contribution and inspiration they have offered during my education. I would also like to acknowledge my beloved friends in Uganda Martyrs University and also the lecturers who guided me throughout the research. DALLAS MUKASA, MULIRA JAMES and DAVID MUKASA special thanks go on to you for all the words of encouragement you have always given to me. Thank you very much for everything all of you.

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I LOVE YOU ALL.

May God bless you abundantly.

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LIST OF ABBREVIATIONS AND ACRONYMS

MFI- Microfinance institutions

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ABSTRACT

The main purpose of the study was to analyze the impact of risk management on the performance of microfinance institutions using a case study; pearl microfinance. The study was guided by the following objectives: To identify the effect of credit risk in the performance of microfinance institutions, to investigate the impact of liquidity risk in the performance of microfinance institutions and to establish the effect of operational risk in the performance of microfinance institutions. The study was carried on using a detailed literature review thereby analyzing what various authors have written about the topic. This was done by looking into different books.

Data was collected using various tools like a self administered questionnaire, interviews to mention but a few. The study was conducted using 50 respondents among the staff, and employees in Pearl Microfinance. The results from the findings indicated that majority of the respondents were females in the institution and were in the age group between 31–50 who were married. The results indicated that, the institution faces problem of lack skilled human power that facilitate the day-to-day activities of the institution and that the performance of the institution is weak in efficient and effective internal credit quality review, liquidity risk makes the institution unable to meet commitments and repayments at the correct time and place and that operation risks affect microfinance institutions earnings due to failures in computer systems, errors, among others. Finally, a number of recommendations were suggested such as institutions should develop an independent department that is in charge for risk management, and that financial institutions should adopt more Advanced technology so as to regulated the risks to enable they say regulate the inconsistencies between the loan management system data and the accounting system data.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

.Financial institutions form up the fourth part of the financial system and they include banks,microfinance institutions,insurance companies,hedge plus mutual trust funds which all play a significant role in this system since they provide a couple of services such as access to financial markets,collection of information about prospective borrowers Ceccehti (2006),keeping financial resources safe and readily available for use,fund transfer via wire transfer and electronic transfer.This study however focused more on banks and therefore sought to establish the extent to which risk management contributed to the performance of financial institutions particularly pearl microfinance.

In this chapter the researcher addressed a number of important areas ranging from introduction,background of the study,problem statement,the purpose of the study,research objectives,research questions,scope and justification of the study.

1.2 Background of the study

Globally the area of risk management in financial institutions was given serious attention which could be partly attributed to the 2007/2008 global crisis and poor risk management policies that witnessed the collapse of major banks around the world such as Lehmann Brothers in the USA,Northern rock a amortgage firm in the UK and insurance companies such as AIG which had to be given had to be bailed out by their respective governments.

In the European Union, the development of enterprise risk management was driven by the promulgation of Basel 2 for banks. In the USA, rating agencies like A.M. Best, Standard & Poor's and external organisations like COSO were driving the development of enterprise risk management practices. As for the case of Australia the adoption of Basel 2 for authorised deposit taking institutions and certain regulations promulgated by the Australian Prudential Regulation Authority drew attention to risk management standards and practices across financial services industry. Whereas in Asia enterprise risk management practices were in the early stages of the maturity and many of the regions' leading practices had been influenced by the enterprise risk management programs of parent companies located elsewhere. Hulin and Tauscheck (2009).

Regionally, Enterprise risk management became a hot issue in virtually all sectors of the economy across East Africa. In particular, within the financial services sector, risk management grew in prominence largely as a result of regulatory push but also as a means of protecting current assets while actively seeking competitive advantage. The emerging threats, competition and rapid shift in the business environment coupled with heightened regulatory demands as well as new exciting opportunities such as regionalisation, improved technologies and enlightened customers with better spending power were developments which made organisations in the East African region put policies and structures to manage risk presented by both opportunities and challenges in the market place. Nyang'aya (2012).

According to Bagyenda (2010) risk management in Uganda's local banks became prominent following the bank failures of the late 90's, she further went ahead to assert that Bank of Uganda which supervises all financial institutions in Uganda emphasised and issued strong risk management guidelines to supervised financial institutions which were in line with

internationally accepted risk management principle and best practices and also aligned with principle 7 of the Basel core principles for effective banking supervision.

Section 10 of the financial Institutions Act 2004 stressed that a company proposing to transact business as a financial institution had to clearly indicate in its written application its broad risk management policies and management operating procedures and systems that will ensure integrity of its financial controls. This illustrates how the Bank of Uganda which supervises all financial institutions is committed towards enhancing a sound financial system by emphasising the need for efficient and effective risk management in the banking sector.

In reference to the above background, the researcher wanted to find out whether risk management had an impact on the performance of microfinance institutions in and to investigate the ideal risk management practices that financial institutions were required to undertake.

1.3 Statement of the problem

Risk management increasingly became a discipline at the core of every supervised microfinance institutions and it encompassed all activities that affect an institutions risk profile. Excessive or poorly managed risk could endanger the safety and soundness of microfinance institutions and overall financial strategy.

Risk management is essential for long term sustainability of micro finance institutions but many micro finance practitioners were unaware of the comprehensive risk management and the institutions that had been performing well had suddenly announced large losses due to financial, operational and strategic risks which had adversely affected the micro finance business.

Despite the adverse effects, it was discovered exponentially with the pace of change but micro finance institutions are slow to adjust their sensitivity against risks in practical terms yet the

market environment was becoming more complex and volatile hence needed to investigate the effects of risk management in micro finance institutions. It is therefore above this background that this research carried out to try and find out the effect of risk management on the performance of micro finance institutions.

1.4 Purpose of the study

To find out the impact of risk management on the performance of micro finance institutions' case study of Pearl micro finance.

1.5 Objectives of the study

To identify the effect of credit risk in the performance of microfinance institutions.

To investigate the impact of liquidity risk in the performance of microfinance institutions.

To establish the effect of operational risk in the performance of microfinance institutions

1.6 Research questions

What is the effect of credit risk on MFIs?

What is the impact of liquidity risk on MFIs?

What is the impact of operational risk on MFIs?

1.7 Scope of the study

1.7.1 Context scope

The study was intended to extensively investigate the role of risk management on the performance of micro finance institutions. As a matter of fact such areas such as credit risk management, liquidity risk management, interest rate risk management and other types of risk

management fields that affect the performance was looked at and formed the gist of the study scope.

1.7.2 Geographical scope

The study analysed the effects of risk management on the performance of micro finance institutions. The study was carried out using a case study of PEARL microfinance located in Kawempe division-Kampala district, approximately 3 kms from the capital city.

1.7.3 Time scope

The study was carried out basing on a period from 2011-2014 and it covered the company's information ranging within a period of four years to date in order to capture some previous and latest statistics and trends to ensure reliability and validity for presented findings.

1.8 Significance of the study

This study was to provide information about the effects of risk management on the performance of micro finance institutions and therefore provide better knowledge for successful integration of risk management in micro finance operation.

The study was also meant to assist the financial institutions to establish a comprehensive risk management framework for the sustainable growth of the sector.

The study was to assist the researcher to improve his skills and knowledge in research and make a fulfillment of the assignments and also in future research.

1.9 Definition of key terms and concepts

Risk;

According to Rohrman and Reun, (2000) the definition of risk varies according to the disciplines such as engineering, physics and toxicology, a definition of risk may be based on the probability

as well as the physical measurements of the negatives outcomes. In the social sciences, risk is looked differently again with attention being paid to the qualitative aspects of risks which are seen as crucial facets of the concept.

However since the study concerns itself with the financial sector, various scholars have defined risk in the following;

Risk to a manager of a financial institution or to a regulator supervising financial institution means perceived uncertainty associated with a particular event Rose (2010)

According to Bagyenda (2011), risk refers to the possibility of an outcome of an action or event could bring adverse impact on the institutions capital, earnings and or viability.

Financial institution;

The financial institution Act (2004) of Uganda defines a financial institution as a company licensed to carry on or conduct financial institutions business in Uganda and it can be commercial bank, merchant bank, mortgage bank, post office savings bank, credit institution, a building society, an acceptance house, a discount house, a finance house or any institution which by regulation is classified as a financial institution by the Central Bank Of Uganda.

Risk management

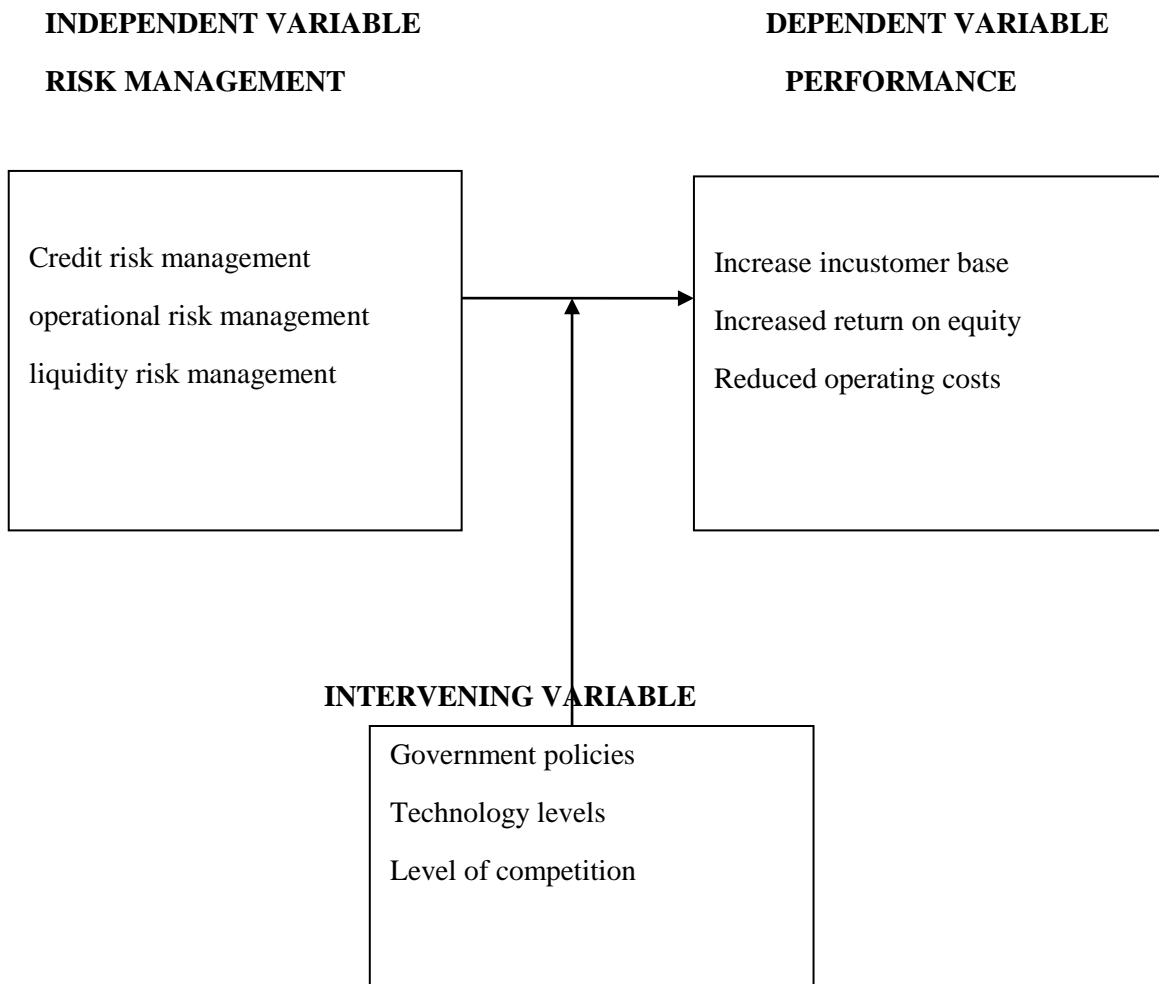
According to Campion (2000), risk management is a systematic approach to identifying, measuring, monitoring and managing business risks in an institution.

Feridum (2006), defines risk management as the process of measuring or assessing the risks and such as transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk and accepting some or all of the consequences of a particular risks

1.10 Conceptual framework

The conceptual framework shows the relationship between risk management and performance of micro finance institutions. However this relationship is affected by other intervening variables like the level of competition, technology levels, and government policies.

This conceptual framework contains four core concepts which include; risk management, performance of microfinance institutions



Source: Developed by the researcher

The above illustration shows how the dependent (risk management) and independent (performance of micro finance institutions) variables are interrelated. That is, risk management programs affect performance of microfinance institutions both positively and negatively. The relationship between risk management and performance of micro finance institutions can be affected by the intervening variables that is, the government intervention and technology levels. The intervening factors come in to compete with the microcredit programs to impact people's lives. Risk management programs according to the conceptual framework are indicated by liquidity risk, credit risk among others. These factors tend to affect people's standards of living by promoting agriculture, promoting entrepreneurship and growth of small scale businesses. According to the above illustration, it is not only managing risks that affects performance of micro finance institutions but also the government intervention and technology levels as intervening variables.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter entails basically the works of previous researchers in a brief and summarized way with special regard to the arguments and ideas deemed necessary to this study clearly outlined and explained. In addition, areas which were not comprehensively investigated in the past studies will be shown and specific emphasis on those in line with the objectives of the study will be given attention to. The literature review was therefore conducted in accordance with the objectives and citations made in each objective indicating the research gaps that the study intends to fulfill

2.2 Conceptual review of risk management

Risk management can be defined as a process of identification, analysis, assessment, control and avoidance, minimization or elimination of unacceptable risks. An organization may use risk assumption, risk avoidance, risk retention, risk transfer or any other strategy (or combination of strategies) in proper management of future events. Fisher (2002) definition of risk management conquers with the above definition as defines it as a process of measuring or assessing the risks and then developing strategies to manage the risk to another party, avoiding the risk, reducing the negative effect of risk and accepting some or all of the consequences of particular risk.

Over the last few years, the importance of strong corporate governance of managing risk has been increasingly acknowledged. Organizations are under pressure to identify all business risks they face; social, ethical and environmental as well as financial and operational and to explain how they manage them to an acceptable level meanwhile the use of enterprise wide risk

management framework has expanded as organizations recognize their over coordinated approaches to risk management (Churchill 2001)

Crockford (2000) defines risk management as the identification, assessment and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor and control the probability and impact of unfortunate events. Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attacks from an adversary. Several risk management standards have developed including the project management institute, the national institute of science and technology and actuarial society's standards. Methods, definitions and goals vary widely according to whether the risk management methods are in context of project management, security, public health/safety and financial portfolios.

The strategies to manage risk include; transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk. However, certain aspects of many of the risk management standards have come under criticisms for not having measurable improvements on risks even though the confidence in estimates and decisions increase Berenbachi (1997)

Flybjerg(2002) states that the theory of value at risk (VAR),which quantifies the probability of large losses in financial transactions, won the Nobel prize in economics for Robert Merton as trading systems become more complex however the dangers of very large losses become more acute. The near collapse of the hedge fund long term capital management based on the VAR the theory was perhaps the most spectacular example, it was not stable against large and sudden

fluctuations in the financial markets. This collection of papers by leaders addresses the weaknesses of VAR and if it might be possible to circumvent them.

Gorrod (2004) asserts that when it comes to risk management and business continuity, risk management is simply a practice of systematically selecting cost effective approaches for minimizing the effect of threat realization to the organization. All risks can never be fully avoided or mitigated simply because of financial and practical limitations; all organizations have to accept some level of residual risks.

He further asserts that whereas risk management tends to be pre-emptive, business continuity planning (BCP) was invented to deal with the consequences of realized residual risk, the necessity to have BCP in place arises because even very unlikely events will occur if given enough time. Risk management and BCP often mistakenly seen as rivals or overlapping practices through risk management process create important inputs for the BCP (assets, impact assessment, cost estimates) and also proposes applicable controls for observed risks.

Therefore, risk management covers several areas that are vital for BCP process however, the BCP process goes beyond risk management's pre-emptive approach and moves from the assumption that disaster will realize at some point.

Frost and Scharfstein (1993) observe that some risks can be eliminated or at least substantially reduced through the technique of risk transfer. Market exists for many of the risk known by the banking firm. The interest rate products such as swaps or other derivatives can transfer interest rate risk. Borrowing terms can be altered to effect changes in their duration, finally bank can buy or sell financial claims to diversify or concentrate the risks of assets created by the firm are

understood by the market, these assets can be sold at their fair value, unless the institution has a comparative advantage in managing the attendant risk and a desire embedded risk they contain.

HM treasury (2003) asserts that when dealing with risk, most of the risks that people face are dealt with by individual choices and market interactions although there are areas in which there is a scope for government regulation or intervention to mitigate risk, typically in cases where there is no government reasonable prospect that market forces deals with the problem in what we regard as a satisfactory manner. Apart from the provision of public goods such as national defense and police services, the most obvious cases for intervention arise when there are market failures. These failures typically arise when information is limited or poorly understood by the public and when participants do not have the edge and capacity to make the informed decisions most especially rural micro finance clients.

Risk management is a dynamic process which the MFI regularly evaluates the effectiveness of its policies and procedures in controlling risks and makes adjustments as necessary. Even if an evaluation finds that the MFI is adequately controlling its risks, the risk management evaluation not only test the effectiveness of controls, but also includes review of the previous process which does not end; it continues with regular, ongoing evaluations because MFI's operate in ever changing risk environments hence a need for the risk management feedback loop (Campion 2000)

2.3 Credit risk and performance

Credit risk is the financial exposure resulting from a microfinance institution's dependence on another party (counterparty) to perform an obligation as agreed. It is the risk to earnings or capital due to borrower's late and non repayment of loan obligation. Credit risk encompasses both the loss of income resulting from the MFI's stability to collect an anticipated interest earnings as well as the loss of principal resulting from loan defaults. Microfinance institutions need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Additionally, microfinance institutions should be aware that credit risk does not exist in isolation from other risks, but is closely intertwined with those risks.

An effective and sound credit risk management is critical to the stability of an institution. Effective credit risk management is the process of managing an institution's activities which create credit risk exposures, in a manner that significantly reduces the likelihood that such activities will impact negatively on a microfinance institution's earnings and capital. Credit risk is not confined to a microfinance institution's loan portfolio, but can also exist in its other assets and activities. Likewise, such risk can exist in both a microfinance institution's on-balance sheet and its off-balance sheet accounts (Fisher 2002)

This risk is defined as the chance a debtor of financial instrument insurer will not be able to pay interest or repay the principal according to the terms specified in the credit agreement. In such a scenario payment may be delayed or no payments is done at all which can in turn cause cash flow problems as well as affect the banks liquidity and is still the major cause single cause of bank failures. Hennie Van Greuning and Sonja (2003)

They furthermore point out that, for microfinance institutions, risk management is a daily part of their business whether the institution is a non government organization, credit union, finance company or specialized bank. The main idea of risk management is well known that risk levels should be directly proportional to expected returns and this concept can be applied in analyzing high risk averse preferring less risk and therefore less return control and reduction of risk is constant priority.

Rose (2010) on the other hand defines risk as the probability that some of the financial institutions assets, especially its loans, will decline in value and perhaps become more worthless. This is because firms hold little of owners' capital relative to the aggregate value of their assets.

Commercial Banks' foreign and domestic assets increased during the financial year 2010/2011, outstanding claims on the private sector went up by 9.3% while commercial Banks' net claims on the bank of Uganda fell by 15.3 billion at the close of the financial year. Cash in vaults increased by 52.1%. This mainly depicted increased Treasury bill Holdings by commercial banks.

Banking improved overtime and this was fostered by the passing of the 2004 banking bill in parliament in which new banking institution guidelines were set. With this new regulation being lifted in July 2007, more commercial banks were licensed and many more are promising to join the league. (Bank of Uganda Quarterly Economic Report 2006)

In 2008 and 2009, many of the banks went on an accelerated branch expansion through mergers and acquisition. As of May 2010, there were twenty three (23) licensed commercial banks in Uganda, Twenty two (22) of these banks fully operational with nearly four hundred (400) bank branches.

As of December 2010, total commercial bank assets in Uganda were estimated at US\$4.1 billion (UGX 7.58 trillion). The number of bank accounts in the country is over five (5) million. This represents a 16% penetration, given Uganda's population of 32,000,000. This growth has been also boosted by the interest displayed by other countries to invest in Uganda's banks like Nigeria in Orient Bank and Rwanda as well as Burundi. This makes it crystal clear that the banking sector is gradually improving. As banking improves, so are the policies to ensure profit maximization, long term survival and societal benefits. (www.bou.or.ug)

The government in the sought of saving banks the credit risk, established the Credit reference Bureau in 2008 and this body traces down all potential borrowers back to their roots, their homes, their earnings and who they really are. This Bureau was established on the assumption that if there is improved credit management policies assessment, then new products could be introduced like medium and long term financing like car loans have been introduced in some banks. Interest rates too have reduced from 20% and 30% to as low as 16% for customers at some banks. With the selection of reliable credit management policies together with the help of the Bureau, the risk of declaration of insolvency is minimized so every manager needs to put the two in consideration not to follow in the footsteps of other say unlucky banks as discussed above.

2.4 Liquidity risk and performance

This is a risk a bank is likely to suffer due to its inability to efficiently accommodate the redemption of the deposits other liabilities and to cover funding increases in the loan investment portfolio. Liquidity risk may cause a bank to have insufficient funds on hand to meet its obligations.

Campion(2000) defines Liquidity risk as a risk to the capital or earnings from an institutions inability to meet its obligations when they come due. She further argues that it results from poor cash flow planning.

Microfinance institutions should properly manage its liquidity taking in to account the complex aspects of sound asset and liability management.

Liquidity is considered a major risk for microfinance institutions. Liquidity risk is the risk of being unable to meet commitments, repayments and withdrawals at the correct time and place. The purpose of liquidity management is to ensure that every microfinance institution is able to meet fully its contractual commitments.

The ability to fund increases in assets and meet obligations as they come due is critical to the ongoing viability of any microfinance institution.

Therefore, managing liquidity is among the most important activities conducted by microfinance institutions.

Sound liquidity management can reduce the probability of serious problems. Indeed, the importance of liquidity transcends the individual microfinance institution, since a liquidity shortfall at a single microfinance institution can have system-wide repercussions. For this reason, the analysis of liquidity requires the management of the microfinance institution not only to measure the liquidity position of the microfinance institution on an ongoing basis, but also to examine how funding requirements are likely to evolve under various scenarios, including adverse conditions (Koch 1995)

Microfinance institutions should review frequently the assumptions utilized in managing liquidity to determine that they continue to be valid. Since a microfinance institution's future liquidity position will be affected by factors that cannot always be forecasted with precision, assumptions need to be reviewed frequently to determine their continuing validity. These assumptions should be made under the different categories of assets, liabilities and off-balance sheet activities. We find that our proposed measure has intuitive properties. Prior to the crisis, the average insurance premium was less than one basis point. Funding liquidity risk increased rapidly after August 2007 and spiked after the rescue of Northern Rock. Following the failure of Bear Sterns liquidity risk rose sharply again, even though to less elevated levels. Unsurprisingly, our measure identifies record pressures in October 2008 after Lehman failed, when the average insurance premium rose to over 40 basis points. More generally, our measure shares characteristics such as a high degree of persistence with occasional spikes, which have been documented by market participants using banks' own models (see Matz and Neu, 2007, or Banks, 2005). Moreover, these properties are also shared by measures for market liquidity (eg see Andrea and Andrea 2007; Chordia et al., 2005; Pastor and Staumbaugh, 2003).

Our measure significantly improves on other measures of funding liquidity risk. A common reference point for practitioners, policy makers and academics of the tensions prevailing during the current financial crisis have been money market spreads. We find that the EURIBOR-OIS spread is much higher than our proposed measure. This is not unsurprising as the former is affected by a host of other risk factors and therefore is not a clean measure of funding liquidity risk (eg Gyntelberg and Wooldrige, 2008). Banks' own measures of funding liquidity risk are also not useful to measure funding liquidity risk on an aggregate basis, as they generally rely entirely on confidential information and contain a lot of judgment (eg Matz and Neu, 2007).

Whilst we use confidential bidding data from the ECB, other central banks have similar data available. Furthermore, we show in the paper that a broadly similar measure of aggregate funding liquidity risk can be easily derived from public data provided by the ECB after each auction. Therefore, our method allows for a frequent and timely assessment of aggregate funding liquidity risk in an environment characterized by limited data availability.

Our measure also allows us to assess the interactions of market liquidity and funding liquidity risk. Whilst this has been shown theoretically (eg Brunnermeier and Pedersen, 2009) and anecdotal evidence points to these effects in the recent crisis, the interaction between both liquidity measures has not been shown empirically due to a lack of measures for funding liquidity risk. Using our measure, we are able to show that there are strong negative interrelationships between funding liquidity risk and a measure for market liquidity. In this sense higher funding liquidity risk implies lower market liquidity

2.5 Operational risk and performance

This refers to the uncertainty regarding a financial firms earnings due to failures in computer systems, errors and misconduct of employees for example by engaging in fraudulent behavior. Hennie and Sonja (2003) say that these risks may include fraud risk, transaction risk and technology risk which can result into losses since they come from the internal process of the organization .Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events or unforeseen catastrophes. It includes the exposure to loss resulting from the failure of a manual or automated system to process, produce or analyze transactions in an accurate, timely and secure manner. Operational risk therefore is imbedded in all of the microfinance institution's operations, including those supporting the management of other risks.

Managing operational risk is an important feature of sound risk management practice in any microfinance institution. The exact approach chosen by an individual microfinance institution will depend on a range of factors, including its size and sophistication and the nature and complexity of its activities. The management of market and credit risks has made great progress as to its methodologies and quantification approaches, given the vast and reasonably reliable data and statistics. This does not mean that misjudgments as to the future are rarer, but the approach is more empirically founded (Barridaman 1994)

Operational risks - while not new but in a new environment - have received tremendously increased attention as of very recent. While dealing with "operational risks" more closely, I realized the breadth and complexity of such a task. You can name anything out of the "banking-life", it almost certainly has an operational risk touch.

The confusion as to Operation Risk and its management is quite impressive in the industry: Definitions not settled, frameworks different, data hazy, models complex and/or not (yet) credible, academics impractical, consultants looking for new assignments lack a track record, quants hungry for fresh challenges. Supervisors - inspite of all - are eager to get additional capital charges. Activism is abound. What an imbroglio to start with (Green book 2003)

Operational risk management is - simply put - good management and close to quality management. As management in financial services is dealing with people for people - in a continuous process and ever changing environment – there cannot be an easy answer. (Moteff 2005)

Mistakes and failures, i.e. Operational Risk losses, happen daily in every financial services organization, some negligible, some more serious; very rarely they can be very grave.

This should make every manager humble, also in the judgment on competitors. With dramatically increased competition - also from non-banks - a successful Operational Risk management is crucial for survival. In the future, the market will be less forgiving of any colossal lapse. Reputation is increasingly also built on Operational Risk management skills. These are some of the reasons why Operational Risk gets such attention at present. Chapter 3 deals with the definition of Operational Risk. Spillenkothen (1995)

Let me stress, however, Operational Risk and Operational Risk management are not only about risks and threats. Both are chances and opportunities as well. New approaches can solve many old problems

Common operational risks in MFIs include the following:

1. The MIS system does not correctly reflect loan tracking, e.g. information on amount disbursed, payment received, current status of outstanding balance, aging of loan by portfolio outstanding etc..
2. Lack of effectiveness and insecurity of management information system in general and the portfolio management system in particular e.g. software does not have internal safety features, inaccurate MIS and untimely reports.
3. Inconsistencies between the loan management system data and the accounting system data.
4. Treating rescheduled loan as on-site loans
5. Lack of portfolio related fraud controls
6. Loan tracking information is not adequate, e.g. no aging of portfolio.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methods that were used in the study. The objectives of the study were, to examine the impact of risk management on the performance of microfinance institutions, to determine the various types of risks exposed in the micro finance business. The research design, the target population, the sample size and sampling techniques, the data collection method, data instruments and tools the researcher used, validity and invalidity of data collected and data analysis are presented here. Also ethical considerations and study limitations are explained in this chapter.

3.2 Research design

Kumar (2005) defines a research design as a plan, structure or strategy for investigation or arrangement of conditions for data collection and data analysis. On the other hand, Wiersma (2000) refers to a research design as a plan for conducting research. He notes that it suggests a set of activities to be done so that a planned research can be conducted. Here the researcher used both qualitative and quantitative methods.

Quantitative method involves collecting absolute data such as numerical data so that it can be examined as unbiased hence making it possible to come up with statistical results. The qualitative method was also used because it has the ability to make the research go beyond the statistical results that were reported in the quantitative research. The research designs that were used include the descriptive design which involves measurement, classification, analysis, comparison and interpretation of data. It was administered through interviews and

questionnaires. Correlation design was used since it enables the researcher to assess the degree of relationship that exists between two or more variables.

3.3 Area of the study

The study was conducted in Kawempe division a suburb of Kampala district. The targeted population included the management of Pearl microfinance and its clients.

3.4 Study population

Where: n = sample size

l = constant number

N = population size

e = desired margin of error set at 0.5 level of
Confidence

$1 + Ne^2$

$N = 60$

$1 + 60(0.05)^2$

$1 + 60(0.0025)$

$N = 60$

1.18

Thus:

$n = 50$ respondents.

Population refers to the totality of all subjects under investigation (Kakooza.T, 2005). Similarly, according to Jill and Hussey (2003), Population refers to a body of people or any other collection of items under consideration for purposes of research. Here, the researcher mainly dealt with the population Kawempe division a suburb of Kampala district by putting more concentration on the members of Pearl microfinance and the clients who include; accountants and cleaners aged between 20years-45years and other people in the village like the youth aged between 18years-30years and are living under the poverty line. The population included the clients of Pearl microfinance ltd of which 50 respondents were sampled out of 70. Therefore the total study population was 70 respondents.

3.4.1 Sample size

According to Bryman and Bell (2003), a sample is a segment of the population that is selected for investigation. That is the subset of the population. Metler and Charles (2008) note that it has been found that samples smaller than 30 are not likely to reflect the trait distributions that exist in the population, a fault could put one's research findings in doubt. Pearl Microfinance Limited has a total of 20 members out of which 1 is a director, 5 are administrators, and 14 are non administrative staff and 30 clients. Therefore, the sample population was 50 respondents.

3.4.2 Sampling technique

The researcher used a sampling technique which was purposive. The researcher purposely targeted a group of people believed to be reliable for the study like directors, administrators, tellers among others and those who had benefited from the risk management programs. The information that was acquired was analyzed deeply in relation to risk management in micro finance institutions

3.5 Data source and collection Methods.

Cooper and Schindler (2006), define data as the facts presented to the researcher from the study's environment. Oso and Onen (2008) also define data as anything given or admitted as a fact and on which a research inference is based. During data collection for the study, the researcher used both *primary* and *secondary sources* of data. This is because the researcher needed to collect data that was both valid and reliable. Primary source is where the researcher got first hand information from the subjects using methods like interviews and questionnaires. Secondary source is where the researcher got information from the works of other scholars for example online journals, text books, news papers, internet and reports. In this case, the researcher used both sources.

3.5.1 Interviews

According to Kumar (2005) an interview is an oral presentation of questionnaires. The researcher used an interview guide with well structured questions. Cooper and Schindler (2006) also define an interview as a two way conversation initiated by an interviewer to obtain information from a participant.

This method of data collection therefore involved face to face interaction between the interviewer and the interviewees. The researcher asked well structured questions and listened carefully to their responses so as to obtain the required information for the study. Interviewing was a good exercise because it helped the researcher get information even from respondents and capture the meanings beyond the words. That is, the meanings behind the respondents facial expression.

3.5.2 Questionnaire

Oso and Onen (2008) define a questionnaire as a data collection technique where items or questions are formulated to which a respondent is expected to react in writing. Here, the researcher formulated questions that were given to the respondents and they answered in a written form. The researcher sent the questionnaires and the respondents answered them and sent them back (self administered). Bryman and Bell (2003) state that with self administered questionnaire, respondents answer questions by completing the questionnaire themselves.

The researcher used self administered type of questionnaires because they had a guide which directed the respondents on what to do and explained what the researcher wanted. This data collection technique was used because of the following reasons;

- 60% of the targeted population was literate
- The population sample was large and time was limited
- The information needed would be easily described in writing

Therefore this helped the researcher to get different views of different respondents which were unbiased. This is because respondents were able to fill in the questionnaire in private and at their own disposal and this enabled the researcher to make right conclusions.

3.6 Quality Control Methods

Oso and Onen (2008) assert that controlling data quality entails ensuring acceptable levels of validity and reliability of instruments. The writers note that the researcher should describe briefly but precisely the techniques that will be employed to control or reduce the effects of extraneous variables. *An extraneous variable is any other independent variable which may affect the*

dependent variable, but which the researcher does not intend to investigate. (Oso and Onen, 2008). The researcher therefore used the following quality control techniques or methods;

3.6.4 Reliability and Validity

According to Amin (2005), **reliability** is dependability or trustworthiness and in the context of a measuring instrument. It is the degree to which the instrument consistently measures whatever it is measuring. Amin also defines **validity** as the ability to produce findings that are in agreement with theoretical or conceptual values. According to Oso and Onen (2005), **validity** is the extent to which research results can be accurately interpreted and generalized to other populations. Therefore, it is the extent to which research instruments measure what they are intended to measure. The reliability and validity of the methods was determined by the use of two methods that is split half and pretesting/piloting methods in order to allow the researcher get actual facts to solve the problem under study. Split half method involved dividing the total number of questionnaires into two halves where the first half of the questionnaires was distributed. They were then retrieved from the field and then analyzed. Then there after the second half was distributed as well, retrieved and then analyzed. The pre-test method was used to see how accurate the responses in the questionnaires were. The validity was pre-tested using the coefficient of validity index (CVI).

$$\text{CVI} = \frac{\text{Items rated relevant}}{\text{Total number of items}} \times 100\%$$

Total number of items

In order to control quality, the researcher endeavored to attain validity and reliability coefficient of atleast 0.70 or 70% but if it was below that, then the data would not be valid or reliable.

3.7 Data Management and Processing

3.7.1 Data analysis

Data analysis according to Oso and Onen (2008), is the organization, interpretation and presentation of collected data. The writers note that data analysis entails separation of data into constituent elements or an examination of data to distinguish its component elements separately and in relation to the whole. In this case, the researcher was able to reduce the field of information or data into a usable size. In analyzing data, the researcher used both quantitative and qualitative research designs hence the study was both quantitative and qualitative in nature. For quantitative, the researcher used mainly two broad techniques. That is, descriptive analysis and inferential analysis.

Descriptive analysis according to Oso and Onen (2008), is the use of measures central tendencies such as the mean, median and mode and measures of dispersion such as range, quartile deviation, standard deviation and variance to describe the group subjects. Measures of central tendencies generally describe how close a measure or a variable is to the central variable while measures of dispersion describe how far a measure is from the central variable. The researcher therefore used descriptive analysis in order to avoid generalizing the findings beyond the sample.

Inferential analysis is used to draw conclusions concerning the relationships and differences found in research results. (Oso and Onen, 2008). The researcher used correlation as the statistical tool in this case. According to Burns and Burns (2008), correlation refers to a measure of the degree of correspondence between variables. It can either be a positive correlation where an increase or decrease in one variable coincides with an increase or decrease in another variable. It can also be a negative correlation where one variable increases or decreases as the other variable decreases or increases.

Therefore, the researcher looked at the relationship between the attributes of the independent variables that is; credit risk management, operational risk management, liquidity risk management and the values of the dependent variables which include the; increase in customer base, increase on return equity, reduced operating costs

3.8 Ethical consideration

Oso and Onen (2008) note that, despite the high values of knowledge gained through research, knowledge cannot be pursued at the expense of human dignity. The researcher therefore paid extra attention to the ethical considerations while in the field so as to be able to get the information that was needed to compile the research report. The major ethical considerations included; informed consent, privacy and confidentiality, anonymity and researchers' responsibility.

The researcher first obtained permission from the University by acquiring the recommendation from the faculty of business administration and management and the institution she was to carry out the research from. The researcher also had to obtain permission from the potential respondents before the real activities of data collection took place. Not all data collected is lawful or based on known statements, events and conditions. Therefore the researcher had to collect data for which consent was obtained and was relevant to the research.

The researcher made an attempt to handle the information given by the respondents as strictly confidential as possible by guarding the privacy which was one of her primary responsibilities.

The researcher did not ask for the identity of the respondents like their names and where they come from. The researcher requested the respondents to kindly answer the questionnaires willingly.

The researcher also avoided deceptions in the process of research. The researcher was honest and trustworthy while explaining the objectives and procedures of the study so as to get the necessary information from the respondents.

3.9 Study Limitations

Limitations refer to hindrances or anticipated constraints imposed on the methodology of the study. Oso and Onen (2008). They assert that limitations should be identified because they partly define the scope of the study and provide the necessary precautions during data interpretation and generalization of results. Limitations can lower the reliability and validity of the data collected. The researcher therefore encountered the following limitations while in the field and during the whole research.

The time allocated for the research was not enough which made the researcher work under pressure. If the time was enough, the researcher would have used a bigger population sample. In this case, the researcher prioritized the available time so as to complete the research report in time

There were limitations in funding of transport and materials for the researcher as not all the available data would be got from the proposed case study and this was avoided by soliciting for fund from well wishers and relatives.

It was also expensive for the researcher in terms of making phone calls in order to collect the data for the proposal. This was avoided by having a research assistant who would go to the field to collect the data. Despite all these limitations, the research had to continue so as to find out why most people in rural areas of Uganda still live under the poverty line despite the extension of microcredit services like small loans to them.

CHAPTER FOUR

DATA ANALYSIS, RESULTS PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

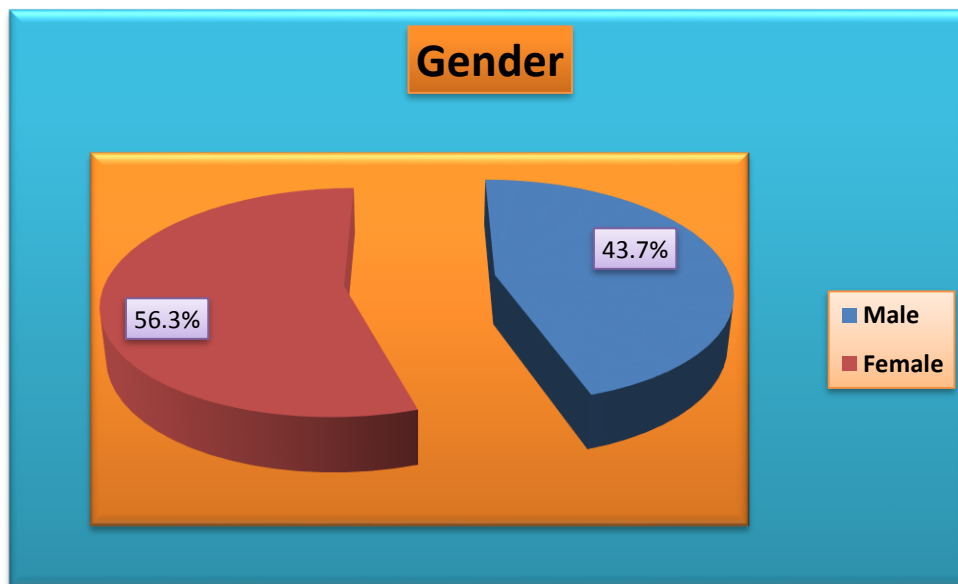
The chapter would generate a logical flow of the study results from that is data analysis presentation and interpretation of the findings putting into consideration the objectives.

4.2 Background Characteristics

This section would look at the distribution of respondent characteristics in regard to gender, age Bracket, and highest level of Education

4.2.1 Distribution by Gender

Figure 1: Showing the gender distribution of the respondents

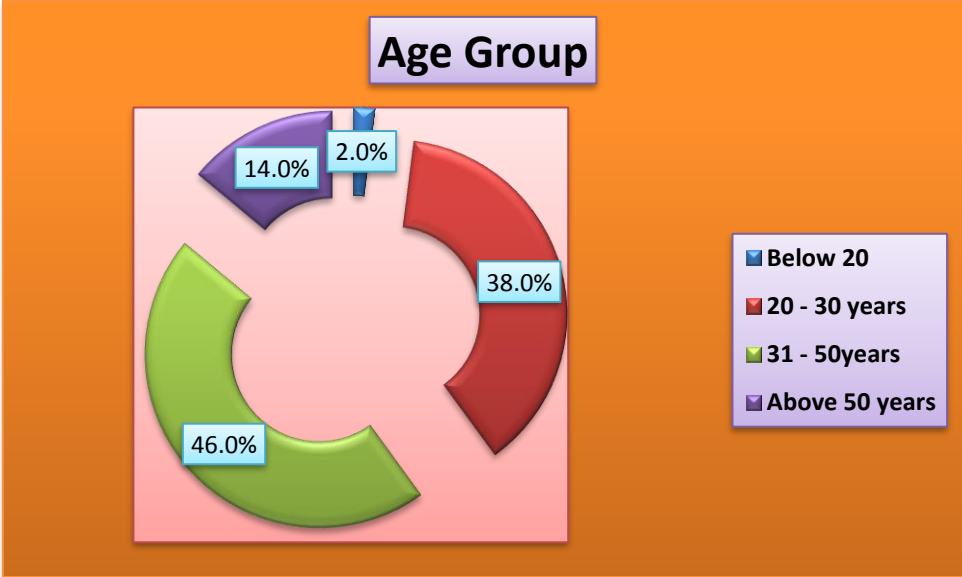


Source: primary data

As observed from the Figure 1: above, the findings indicate that majority (56.3%) of the respondents were female compare to the (43.7%) who were female. This implies that there was gender imbalance in the study and there are more females as compared to Men.

4.2.2 Age Group distribution

Figure 2 showing the age groups of the respondents



Source: primary Data

Results from the figure 2 above indicate that majority of respondents (46.0%) were in the age group of 31 – 50 years, (38.0%) were in the age group of 20 – 30, (14.0%) were in the age group of above 50 years and the minority (2.0%) were in the age group of below 20 years. This implies there are more mature and make wise decisions in Pearl Microfinance.

4.2.3 Marital Status

Table 1 showing the marital status of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Married	23	46.0	46.0	46.0
	Single	18	36.0	36.0	82.0
	Engaged	8	16.0	16.0	98.0
	Divorced	0	0.0	0.0	98.0
	Widowed	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

Source: primary data

Results from table 1 show that the (46.0%) of the respondents were married, (36.0%) single, (16.0%) were engaged, (0.0%) were divorced, and (2.0%) were widowed. This implies that majority of the respondents in the microfinance are married and have family responsibilities and are therefore hard working.

4.2.4 Education qualification

Table 2 showing the education level of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate	7	14.0	14.0	14.0
	Diploma	21	42.0	42.0	56.0
	Degree	22	44.0	44.0	100.0
	others	0	0.0	0.0	100.0
		50	100.0	100.0	

Source: primary data

Results from table 2 above indicate that the majority of the respondents (44.0%) had attained degrees, (42.0%) had attained diploma, (14.0%) were certificate holders and the minority (0.0%) had other qualifications. These means that the majority of the respondents are literate ad learned.

4.3 Effect of Credit Risk in the Performance of Microfinance Institutions

Table 3 showing the Effect of Credit Risk in the Performance of Microfinance Institutions

Effect of credit risk on performance	SA		A		N		D		SD	
	F	%	F	%	F	%	F	%	F	%
The users are not willing to pay borrowed amount with interest at the maturity period	26	52.0%	19	38.0%	5	10.0%	0	0.0%	0	0.0%
Borrowers lack awareness and take loans which is not planned and used for the intended purpose, which result to capital wastage of the institution	32	64.0%	11	22.0%	5	10.0%	1	2.0%	1	2.0%
The institution also faces problem of lack skilled human power that facilitate the day-to-day activities of the institution	33	66.0%	10	20.0%	2	4.0%	3	6.0%	2	4.0%
The performance of the institution is weak in efficient and effective internal credit quality review	26	52.0%	13	26.0%	9	18.0%	1	2.0%	1	2.0%
Performance is affected by the inability to implement sound principle to identify	22	44.0%	24	48.0%	1	2.0%	0	0.0%	3	6.0%

measure, monitor and control credit risks										
The institution has well designed credit administration and loan documentation procedures to enhance performance	29	58.0%	16	32.0%	0	0.0%	1	2.0%	4	8.0%
Average Percentage	56.0%		31.0%		7.3%		2.0%		3.7%	

Source: primary Data

From the results from figure 3 above, when asked how the risks affected the MFIs ability and performance, willingness to extend credit, the most dominant responses were credit risk. The surveyed MFI said because of credit risk, the users are not willing to pay borrowed amount with interest at the maturity period more precautionary lending practices whilst liquidity risks the funds available to lend evidenced by the (52.0%) strongly agreed, (38.0%) agreed who agreed to that. Despite the fact that a few o the respondents (10.0%) being neutral were neutral, and no one disagreeing. This implies that many clients borrow money that they are not able to pay for at the end of the maturity time.

On question about the borrowers lacking awareness and take loans which is not planned and used for the intended purpose, which result to capital wastage of the institution (64.0%) strongly agreed, (22.0%) agreed indicating that more workshops and trainings about the purposes of taking loans are needed to the clients in the MFI. This is backed by the minority (10.0%) who were neutral, (2.0%) disagreeing and strongly disagreeing.

However, that the institution also faces a problem of lack skilled human power that facilitate the day-to-day activities of the institution. This is a major concern of the human resource, because it

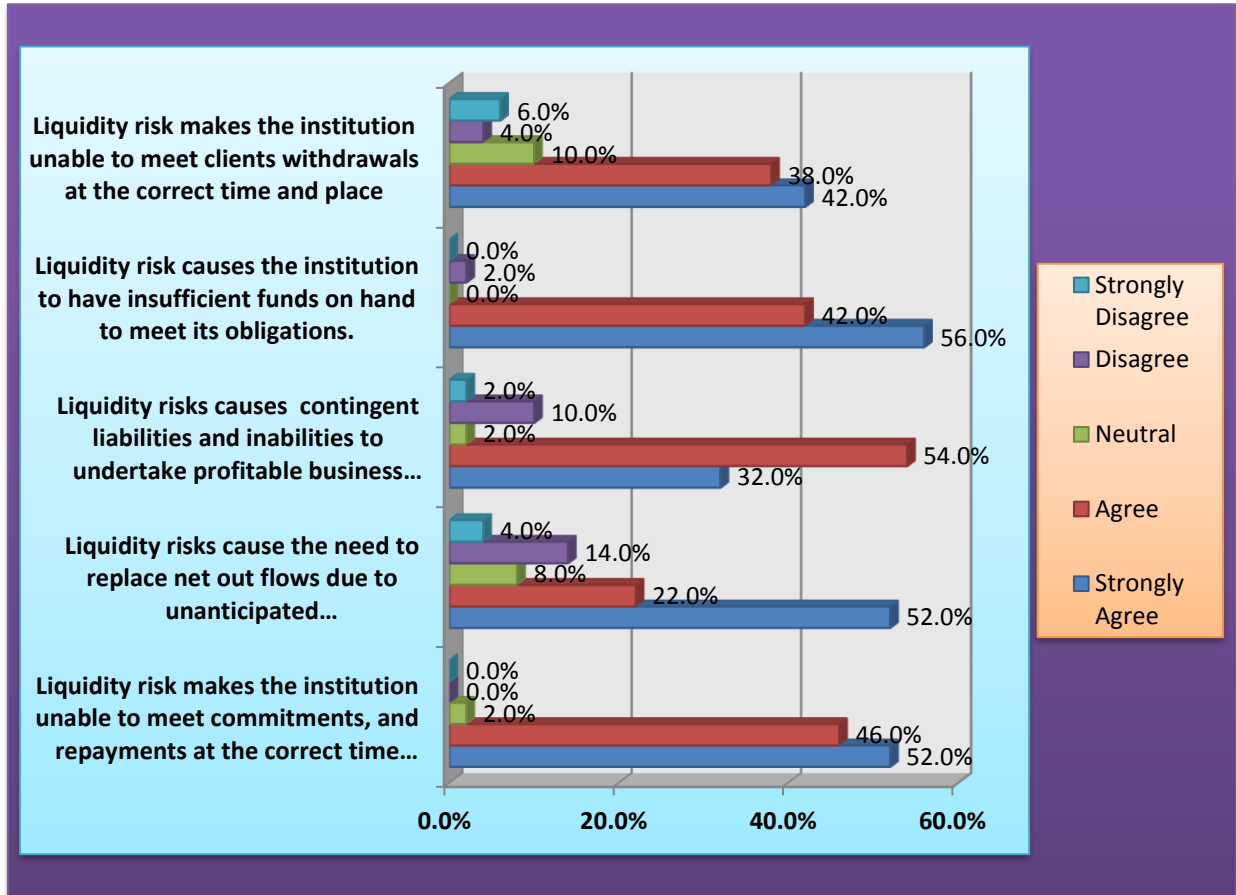
human power are the most important resource of the institution and thus need to be trained more on how to run the daily operations of the micro finance. The majority of the respondents (66.0%) strongly agreed, (20.0%) agreed and only, (4.0%) were neutral, (6.0%) disagreed and the minority (4.0%) strongly disagreed.

Additionally, (52.0%) strongly agreed, (26.0%) agreed, (18.0%) were neutral, (2.0%) disagreed and the minority (2.0%) strongly disagreed that the performance of the institution is weak in efficient and effective internal credit quality review. This implies that the institution is facing a big risk to earnings or capital due to borrower's late and non repayment of loan obligation which could be disastrous if not controlled. (44.0%) strongly agreed, (48.0%) agreed, that is affected by the inability to implement sound principle to identify measure, monitor and control credit risks. This implies that the microfinance institution lacks sound monitoring principles and measures that it uses to control the credit risks, this could be due to the poor management and policy makers of the institution. Still (2.0%) were neutral, (0.0%) disagreed and the minority (6.0%) strongly disagreed to the same question.

No microfinance institution can survive without well formulated loan documentation procedures. That may be the reason to why (58.0%) strongly agreed, (32.0%) agreed, (0.0%) were neutral, (2.0%) disagreed and the minority (8.0%) strongly disagreed that the institution has well designed credit administration and loan documentation procedures to enhance performance. On average, an average percentage of (56.0%) strongly agreed, (31.0%) agreed, (7.3.0%) were neutral, (2.0%) disagreed and the minority (3.7%) strongly disagreed to the statements about the effect of credit risk on performance. This implies that indeed, credit risk has an effect on performance of the institution.

4.4 Impact of Liquidity Risk in the Performance of Microfinance Institutions

Figure 3 showing distribution of responses about Liquidity Risk in the Performance of Microfinance



Source: Primary data

Liquidity risk may cause a bank to have insufficient funds on hand to meet its obligations. Therefore, the institution unable to meet commitments, and repayments at the correct time and place the reason to why (52.0%) strongly agreed, (46.0%) agreed, (2.0%) were neutral, (0.0%) disagreed and (0.0%) strongly disagreed about the inability of the institutions to meet repayments and commitments at the correct time.

From the results still, (52.0%) strongly agreed, (22.0%) agreed, (8.0%) were neutral, (14.0%) disagreed and (4.0%) strongly disagreed that liquidity risks cause the need to replace net out

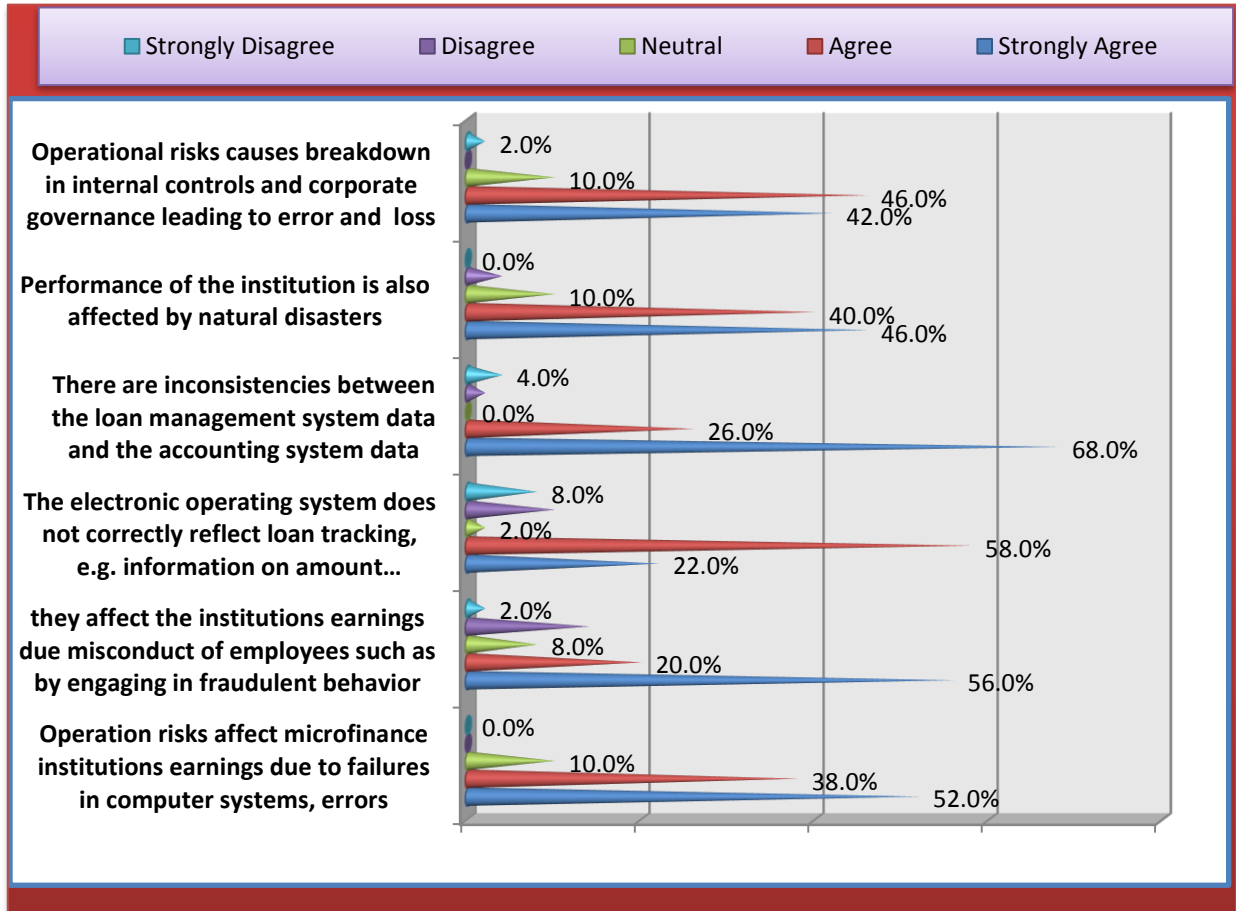
flows due to unanticipated withdrawal/nonrenewal of deposit. This means that the ability to fund increases in assets and meet obligations as they come due is critical to the ongoing viability of the microfinance institution to anticipate withdrawals or renewal of deposits.

The response to the question about whether liquidity risks causes contingent liabilities and inabilities to undertake profitable business opportunities when desired the most dominant answer was that strongly agreed, agreed with (32.0%) and (54.0%) respectively. This means that there is always a risk that the institution will face a sudden rush of withdrawals that it cannot meet, with the cash it has on hand making it unable to undertake other profitable business opportunities. That's why only (2.0%) were neutral, (10.0%) disagreed and (2.0%) strongly disagreed to the same fact.

Further still, concerning the fact that liquidity risk causes the institution to have insufficient funds on hand to meet its obligations, (56.0%) strongly agreed, (42.0%) agreed, (0.0%) were neutral, (2.0%) disagreed and (0.0%) strongly disagreed. This is because the MFI cannot call in loans on demand and cannot legally forbid depositors from withdrawing funds thinking facing the challenge of insufficient funds as agreed by the majority. (42.0%) strongly agreed, (38.0%) agreed, (10.0%) were neutral, (4.0%) disagreed and the minority (6.0%) strongly disagreed that liquidity risk makes the institution unable to meet client's withdrawals at the correct time and place. These results imply that liquidity risks indeed have an impact on performance of the institution.

4.5 Impact of Operational Risk in the Performance of Microfinance Institutions

Figure 4 showing the impact of Operational Risk in the Performance of Microfinance Institutions



Source: Primary data

The responses of surveyed MFI to questions on operational risks as shown in table 2 above concerning how operation risks affect microfinance institutions earnings due to failures in computer systems, errors, (52.0%) strongly agreed, (38.0%) agreed, (10.0%) were neutral and no one disagreed or strongly disagreed to it. Due to the ever increasing exponential growth in the use of technology and increase in global financial inter-linkages, the institutions technological

systems are still liable to error and breakdown which is a big operational risk. Thus the need for the MFI to enhance and develop their systems

The study also reveals that (56.0%) strongly agreed, (20.0%) agreed, (8.0%) were neutral, (14.0%) disagreed and (2.0%) strongly disagreed that operation risks affect microfinance institutions earnings due misconduct of employees for example by engaging in fraudulent behavior. This could be linked to the point that the employees are not well trained on ethical conduct, and may not be adequately paid ending up in the fraudulent behavior.

Concerning the point that the electronic operating system does not correctly reflect loan tracking, e.g. information on amount disbursed, and payment received. (22.0%) strongly agreed, (58.0%) agreed, (2.0%) were neutral, (10.0%) disagreed and (8.0%) strongly disagreed to it. This also implies that the technological advancement and adoption of the MFI is still poor and growing at a slow rate since the operating systems are still lacking some functionalities of loan tracking.

From the results, (68.0%) strongly agreed, (26.0%) agreed, (0.0%) were neutral, (2.0%) disagreed and (4.0%) strongly disagreed that there are inconsistencies between the loan management system data and the accounting system data and this means that the institution has poor book reconciliation processes since there are some discrepancies in the accounting and loan books. Natural disasters are always uncontrollable, such as strong winds, heavy rains, prolonged drought and all these affect the operations of any institution and that why (46.0%) strongly agreed, (40.0%) agreed, (10.0%) were neutral, (4.0%) disagreed and the (0.0%) strongly disagreed that performance of the institution is also affected by natural disasters.

Additionally, (42.0%) strongly agreed, (46.0%) agreed, (10.0%) were neutral, (0.0%) disagreed and the (2.0%) strongly disagreed that operational risks cause breakdown in internal controls and

corporate governance leading to error and financial loss. Therefore these results imply that operational risks affect the performance and operation of the institution.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter generates the summary 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.

5.2 Summary of the findings

5.2.1 Effect of Credit Risk in the Performance of Microfinance Institutions

Results from the study revealed that the borrowers lack awareness and take loans which are not planned and used for the intended purpose, which result to capital wastage of the institution. Still, the results show that the institution faces problem of lack skilled human power that facilitate the day-to-day activities of the institution and that the performance of the institution is weak in efficient and effective internal credit quality review.

These results are in agreement with Campion (2000) who pointed out that credit risk affects the earnings or capital due to borrower's late and non repayment of loan obligation sometimes due to the borrowers lack of awareness and take loans which are not planned. He further added that credit risk encompasses both the loss of income resulting from the MFI's inability to collect an anticipated interest earnings as well as the loss of principal resulting from loan defaults.

5.2.2 Effect of Liquidity Risk in the Performance of Microfinance Institutions

The results from the study discovered that liquidity risk makes the institution unable to meet commitments and repayments at the correct time and place and that it causes the institution to

have insufficient funds on hand to meet its obligations. It also revealed that liquidity risk makes the institution unable to meet client's withdrawals at the correct time and place among others.

These results are in agreement with Koch (1995) who notably said that with liquidity risk, the bank is likely to suffer due to its inability to efficiently accommodate the redemption of the deposits other liabilities and to cover funding increases in the loan investment portfolio. Liquidity risk may cause a bank to have insufficient funds on hand to meet its obligations.

5.2.3 Effect of Operational Risk in the Performance of Microfinance Institutions

Findings from the study indicate that operation risks affect microfinance institutions earnings due to failures in computer systems, errors, breakdown in internal controls and corporate governance leading to error and financial loss and that operation risks also affect microfinance institutions earnings due misconduct of employees for example by engaging in fraudulent behavior.

These results are in line with Moteff (2005) who argued that operational risks can be the root cause of lack of effectiveness and insecurity of management information system in general and the portfolio management system in particular e.g. software does not have internal safety features, inaccurate MIS and untimely reports. He further pinned out mistakes and failures, i.e. losses, happening daily in every financial service of the institution, some negligible, some more serious which affect the performance of the institution.

5.3 Conclusions

5.3.1 Effect of Credit Risk in the Performance of Microfinance Institutions

In conclusion, the institution faces problem of lack skilled human power that facilitate the day-to-day activities of the institution and that the performance of the institution is weak in efficient and effective internal credit quality review among others. This implies that credit risk has an effect on performance of MFI

5.3.2 Effect of Liquidity Risk in the Performance of Microfinance Institutions

The findings show that Liquidity risk makes the institution unable to meet commitments and repayments at the correct time and place. Further still, liquidity risk makes the institution unable to meet client's withdrawals at the correct time implying that liquidity risk has an impact on performance of the MFIs.

5.3.3 Effect of Operational Risk in the Performance of Microfinance Institutions

It can further be concluded that operation risks affect microfinance institutions earnings due to failures in computer systems, errors, breakdown in internal controls and corporate governance leading to error and financial loss and that strategic risk management has affected institutions shareholders.

5.4 Recommendations

Based on this study, the researcher made the following recommendations;

It is recommended that those institutions should develop an independent department that is in charge for risk management

It is also recommended that the financial institutions should adopt more Advanced technology so as to regulated the risks to enable they say regulate the inconsistencies between the loan management system data and the accounting system data.

The financial institution should also involve their employee in workshops and training sessions so s to equip them with knowledge and skills on fighting the risks facing the institution.

5.5 Areas for further study

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

The impact of Risk management on service delivery of financial institutions

Assessing risks in financial management

The impact of Risk man agent management on competitiveness of an organization

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APPENDICES

Questionnaire

Dear respondent,

I am Ssebina Benon, a student of Uganda Martyrs University undertaking a Bachelor's Degree in Business Administration and management. I am carrying out a research study on the topic of **"THE IMPACT OF RISK MANAGEMENT ON THE PERFORMANCE OF MICRO FINANCE INSTITUTIONS IN UGANDA"**

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 humbly request that you complete this questionnaire correctly in the spaces provided or options given

SECTION A: GENERAL INFORMATION

(Please, tick the appropriate answers where options are given).

1. Gender

(a) Male (b) Female

2. Age Group

(a) Below 20 (b) 20 - 30 years (c) 31 - 50years (d) Above 50 years

3. Marital status?

(a) Married (b) Single (d) Engaged (e) Divorced
(f) Widowed

4. Education qualification

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

SECTION B: THE EFFECT OF CREDIT RISK IN THE PERFORMANCE OF MICROFINANCE INSTITUTIONS

The following abbreviations are used; **SA** = (Strongly Agree), **A**= (Agree), **N**= (Neutral). **D**= (Disagree), **SD**= (Strongly Disagree)

5. To what extent do you agree with the following statements with regard to the effect of credit risk on performance your microfinance institution?

	effect of credit risk on performance	SA	A	N	D	SD
a	Assessing the user willingness to pay borrowed amount with interest					
b	Assessing borrowers awareness about loans					
c	Examining the institutions human skilled power to facilitate day to day activities					
d	Assessing the institutions strength in internal credit quality review					
e	Institutions ability to implement sound principle on credit risks					
f	Institutions credit administration and loan documentation					

SECTION C: IMPACT OF LIQUIDITY RISK IN THE PERFORMANCE OF MICROFINANCE

INSTITUTIONS

6. To what extent do you agree with the following statements with regard to the effect of liquidity risk on the performance your microfinance institution?

	effect of liquidity risk on performance	SA	A	N	D	SD
a	Assessing the institutions ability to meet commitments and repayments at correct time and place					
b	Examining the need to replace outflows					
c	Institutions liability and ability to undertake profitable business opportunities					
d	Assessing the institutions fund sufficiency to meet obligations					
e	Assessing the institutions ability to meet clients withdrawals at correct time and place					

SECTION D: IMPACT OF OPERATIONAL RISK IN THE PERFORMANCE OF MICROFINANCE INSTITUTIONS

7. To what extent do you agree with the following statements with regard to the effect of operational risk on the performance your microfinance institution?

	Effect of operational risk on performance	SA	A	N	D	SD
a	Effect of microfinance institutions earnings in computer systems and errors					
b	Effect of microfinance institutions earnings in employee misconduct					
c	Electronic operating system reflections on loan tracking					
d	Loan management system and accounting system data inconsistencies.					
e	Performance of institutions affected by natural disasters.					
f	Breakdown in internal controls and corporate governance					

8. Do you have any recommendations that you would like to give related to our topic under investigation

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END

Thanks very much for your cooperation