

**Credit Monitoring Policy And Its Impact On Financial Performance Of Microfinance Institutions In Uganda.
A Case Of Pride Microfinance Katwe Branch**

Mugira Esther

Metropolitan International University

Abstract

The study aimed at credit monitoring policy and its impact on financial performance of microfinance institutions in Uganda with a case of pride microfinance Katwe branch. The study utilized a mixed-methods research design to capture the depth and breadth of the research question. This approach involved the integration of qualitative data, obtained through interviews and qualitative surveys, and quantitative data from financial reports and structured questionnaires. The Pride Microfinance Katwe Branch was chosen as the primary case study location due to its prominence and significance within the microfinance landscape of Uganda. The selection was based on the branch's geographical representation, economic diversity in the Katwe area, and relevance to the study's objectives. From the findings, there was a positive strong significant associative relationship between credit monitoring policy and financial performance in Pride Microfinance Uganda Limited ($r = 0.980$, $\text{Sig} = 0.000$). The positive correlation implied that the positive change in Credit monitoring policy resulted into a corresponding positive change in financial performance in Pride Microfinance Uganda limited and vice versa. Therefore, the results of the study confirmed that there was a strong positive strong statistical relationship between Credit monitoring policy and Financial performance in Pride Microfinance. The study recommends that the management of Pride Microfinance Uganda limited must be keen not to set up credit monitoring policies that can negatively affect the profits of the Micro Finance Institution. Pride microfinance Uganda limited and other Micro Finance institutions should adopt and implement stringent credit monitoring policies as it would result in a significant increase in financial performance. Microfinance institutions should endeavor to advance more on monitoring practices as a way of improving their financial performance and profitability.

Key words: Credit Monitoring Policy, Financial Performance and Microfinance Institutions

Background of then study

Credit monitoring generally includes a detailed analysis of the entire credit portfolio carried out regularly; identifying loans to be assessed for impairment on an individual basis and segmenting the remainder of the portfolio into groups of loans with similar credit characteristics for assessment and analysis on a collective basis and identifying individually assessed loans that are impaired; addressing the methods used to determine if and how

loans are individually rated (Collins et al., 2023). Similarly, credit monitoring should be based on current and reliable data, address how loss rates are determined and what factors are considered in determining appropriate time frames over which loss experience is evaluated, consideration of current collateral values, and other credit mitigating factors included in the credit agreement, where appropriate (Polycarp et al., 2023). In addition, addressing the

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credit institution's policies and procedures for loan repayment and recovery, competent personnel are required for the analysis, estimation, review and other functions of the provisioning methodology, and a systematic and logical method of consolidating loan loss estimates and accounting standards. followed (District et al., 2023).

Credit monitoring is the process of monitoring credit management choices and actions to determine whether credit restrictions or reductions are warranted with respect to a particular risk (Faith et al., 2023). Exercises coordinated during the credit check are arranged. In this way, to ensure that the exercises achieve the expected goal of the business, monitoring is necessary so that the results achieved are in line with the set goals (Wegulo et al., 2023). Supposing the results are found to be not as planned, the rearrangement should be done immediately.

This means that financial institutions should ensure that they have complete procedures and information systems in place for effective credit assessment and mitigation (Gracious, 2023). According to the study, these procedures should have a comprehensive criterion for detecting and reporting present and possible problem accounts. In addition, he should also ensure that these accounts are sufficiently reviewed, well monitored and appropriate corrective action is taken if necessary. The World Bank (2016) praises credit monitoring and surveillance, insisting that it could enable credit officers to detect lending problems early (Paul et al., 2023) and thus enable them to involve different partners in recognizing potential activities to mitigate credit, and trigger predetermined decisions (Alex & Kazaara, 2023). In addition,

research confirms that the ability to recognize and revise credit deficiencies in a timely manner can substantially reduce bad returns. As stated by Hassan Al-Tamimi and Mohammed (2007), credit monitoring can be used to ensure that credit management practices are adjusted appropriately (Derrick et al., 2023). Furthermore, it is through credit monitoring that companies may be able to recognize an error at an early stage and take appropriate preventive measures. The study found that there is a critical contrast between domestic and overseas financial institutions in the UAE in the credit monitoring and mitigation process. In particular, the research noticed that the UAE banks are somewhat effective in identifying the loan and also in monitoring it. In support of this observation, (Kazaara & Christopher, 2023) demonstrated that a decent determining technique for credit monitoring is one that prompts a large valuation of goods in line with anticipated risk, which ultimately extraordinarily affects productivity. In this sense, associations should have systems in place to enable them to screen any credits that develop (Ntirandekura & Christopher, 2022).

The World Bank (2016) found that several European countries, such as Colombia, Sweden and Indonesia, have adopted credit monitoring as one of the credit management practices in sovereign guarantees and other lending (Faith et al., 2023). Brown and Moles (2016) expressed that with appropriate monitoring of exposures, concerns can be recognized early at a less severe stage when there are still options to take care of the problem without causing extensive damage (Christopher, Moses, Muhindo, & Nturanabo, 2022). Furthermore, appropriate credit management by

financial institutions should include monitoring of accounts that will be aimed at ensuring that they comply with the law as well as established credit regulations, as well as take into account other concerns such as repayment practices (Ntirandekura, Friday, & Muhammad, 2022). Research continues to emphasize that there should be benchmarks for the exchange of loans between classifications including loans that may be insecure, loans in default and loans in default, and that the procedure for creating allowances and determining bad loans should be definitive (Ntirandekura & Alex, 2022).

Acknowledging the importance of credit monitoring, Mutua (2015) showed that successful credit management needs a proper accounting and evaluation structure to guarantee that credits are recognized and evaluated in a viable manner and that appropriate controls and follow-up are put in place (Turyahebwa, 2013). The research further states that credit monitoring is also essential for the company as it can be used to guarantee that the credit management processes are being legitimately applied other than helping the bank management to find a slip in time. (Christopher, Moses, Muhindo, Muhammad, et al.,

Problem Statement

The study aimed at credit monitoring policy and its impact on financial performance of microfinance institutions in uganda with a case of pride microfinance Katwe branch

Main Objective

To determine the effect of credit monitoring policy on financial performance of microfinance institutions in uganda

Methodology

The study utilized a mixed-methods research design to capture the depth and breadth of the research question. This approach involved the integration of qualitative data, obtained through interviews and qualitative surveys, and quantitative data from financial reports and structured questionnaires. The Pride Microfinance Katwe Branch was chosen as the primary case study location due to its prominence and significance within the microfinance landscape

2022) offers recommendations on how investors of organizations can be useful in credit monitoring by exercising their rights to request data and use it to assess productivity. credit management framework. In an effort to expand investors' wealth and guarantee the safety of contributors' reserves, Tanui et al. (2015) found that MFIs in Kenya act as designated indicators in the interest of individuals who use different developments, advances and methods to implement loan agreements (Derrick et al., 2023).

In any case, Bidani (2014) saw that MFIs are still exposed to some non-alienable loans, for example borrower defaults, reluctance or inability to meet credit responsibilities due to ideas of business exercises or other natural elements, thus qualifying the requirement for MFIs to adopt credit management systems as correlated a tool in basic management that equates to pre-valuation, mitigation or shifting and supervision of credit scoring rates using loan portfolios. The findings of Gakure et al. (2016) in their investigation of the impact of credit loan management practices on the performance of unsecured bank advances revealed that monitoring had a modest effect on the performance of unsecured bank advances.

of Uganda. The selection was based on the branch's geographical representation, economic diversity in the Katwe area, and relevance to the study's objectives. Financial data, encompassing key performance indicators such as portfolio quality metrics, profitability ratios, liquidity measures, and operational efficiency indices, were collected from official financial reports and records of Pride Microfinance Katwe Branch. A structured survey instrument was developed to collect quantitative data. The survey included questions related to specific elements of credit monitoring policies, risk assessment methodologies, loan tracking mechanisms, and the overall effectiveness of credit management practices. The survey was administered to a representative sample of clients and employees of Pride Microfinance Katwe Branch. Descriptive statistics, including means, standard deviations, and frequencies, were computed using SPSS to provide a summary of the collected quantitative data (Nelson, Christopher, & Milton, 2022). Inferential statistical techniques, such as regression analysis, were employed to examine the relationships between credit monitoring policies and various financial performance indicators. This allowed for the identification of significant associations and the quantification of the impact of credit monitoring policies on financial outcomes.

Results

Correlation Between Credit Monitoring Policy and Financial Performance

In order to determine the relationship between Credit monitoring policy and financial performance in Pride Microfinance, Uganda limited the study computed bivariate Pearson Correlation between credit monitoring policy and financial performance and the results are presented in the table below;

Table 1: Correlation Between Credit Monitoring Policy and Financial Performance

		Credit Monitoring Policy	Financial Performance
Credit Monitoring Policy	Pearson Correlation	1	.980**
	Sig. (2-tailed)		.000
	N	212	212
Financial Performance	Pearson Correlation	.980**	1
	Sig. (2-tailed)	.000	
	N	212	212

** . Correlation is significant at the 0.01 level (2-tailed).

Source; Primary Data (2022)

Correlation results in Table 1 above show that there is a positive strong significant associative relationship between credit monitoring policy and financial performance in Pride Microfinance Uganda Limited ($r = 0.980$, $\text{Sig} = 0.000$). The positive correlation implies that the positive change in Credit monitoring policy results into a corresponding positive change in financial performance in Pride Microfinance Uganda limited a and vice versa (Nelson et al., 2023). Therefore, the results of the study confirm that there is a strong positive strong statistical relationship between Credit

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monitoring policy and Financial performance in Pride Microfinance. This finding concurs with Rajedom (2010), who argued that credit monitoring provides parameters, defines procedures and directives that have been carefully formulated, administered from top and well understood at all institution's levels so as to ensure financial performance.

Table 2: Model Summary for Credit Monitoring Policy and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.980 ^a	.961	.961	.11380
Predictors: (Constant), Credit Monitoring Policy				

Source; Primary Data, 2022

The Regression results as presented in Table 2 above show the adjusted R square value of 0.961; it implies that 96.1% of financial performance in Pride Microfinance Limited is influenced by credit monitoring policy, the remaining 3.9% of financial performance being explained by other factors. This therefore means that there is a statistical relationship between credit monitoring policy and financial performance in Pride Microfinance (Innocent et al., 2023).

Table 3: ANOVA Values for Credit Monitoring Policy and Financial Performance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	67.316	1	67.316	5197.569	.000 ^b
Residual	2.720	210	.013		
Total	70.035	211			
Dependent Variable: Financial Performance					
Predictors: (Constant), Credit Monitoring Policy					

Source; Primary Data, 2022

The results of the study in Table 3 above indicate that the regression model predicts the dependent variable significantly well. There is a statistical significance of the regression model indicated by F=5197.569 and P=0.000 which is less than 0.05. This is also supported by the regression mean square value of 67.316 compared to the residual mean square of 0.013. This therefore confirms that, there is a relationship between Credit monitoring policy and financial performance in Pride Microfinance (Moses et al., 2023).

Table 4: Coefficients of Credit Monitoring Policy and Financial Performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.257	.052		4.978	.000
Credit Monitoring Policy	.927	.013	.980	72.094	.000

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Dependent Variable: Financial Performance

Source; Primary Data, 2022

Results from Table 4 above give t values and Beta. The t-values test the hypothesis that the coefficient is different from 0. To reject this, you need a t-value greater than 1.96 (for 95% confidence). The t-value for Credit monitoring policy is 72.094 which are greater than 1.96. This implies that Credit monitoring policy affect the financial performance in Pride Microfinance considering a significant factor (Sig =0.000). Also, the standardized beta coefficients of 0.980 imply that an increase one unit of financial performance is caused by 0.980 units increase in Credit monitoring policy based on the equation $Y = \beta x + C$ where Y= Financial performance (Dependent variable), x = Credit monitoring policy (Independent variable, $\beta = 0.980$ and C= constant. This therefore means that there is a statistical relationship between Credit monitoring policy and financial performance in Pride Microfinance.

From the interview one of the credit managers revealed that of the respondents revealed that “The client profile, business performance, individual loan and savings performance, and effects and impacts on the businesses are measured so as to offer credit to only qualified clients. He noted that examples of questions to be addressed are during client monitoring include: Does the institution deliver financial service to the intended client group? What are the socioeconomic characteristics of the clients? How important is the business activity to them and how is it developing? How many people benefit from the business, and how do they benefit” which results into high level of financial performance.

Also, from the interview another credit manager revealed that, “Monitoring information on the client profile before extending credit to him/her is necessary to determine the extent to which the institution has reached the intended client group. The most important information base of the client and its business is the loan application form filled out by the entrepreneurs, with or without the help of the loan officer. Generally, the loan application form includes the following information”

According to branch manager of Pride Microfinance, “senior managers need to adequately participate in the process of Credit monitoring because a loan officer who handles up to 100 borrowers is lacking time to conduct periodic visits, to assist in credit applications, to participate in training, and to monitor the clients. The collection of monitoring Data, even if someone else tabulates and analyses it, adds a considerable load to the work of field staff often at the expense of other important tasks. Staff may not have the capacity to collect the needed information in a reliable manner, while further training in monitoring and evaluation will require additional time and expense”.

Conclusion

The first research objective was stated as, “To assess the effect of credit monitoring policy on financial performance in Pride Microfinance.” and the first research question was stated as, “What is the effect of Credit monitoring policy on financial performance in Pride Microfinance Uganda limited?” The study concludes that; there is a positive significant strong relationship between Credit monitoring policy and financial performance in Pride Microfinance considering the Pearson correlation coefficient of $r=0.980$. The positive value of (r) implies that a positive change in

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Credit monitoring policy results in a corresponding positive financial performance and vice-versa. Therefore, research objective one was achieved and research question one was answered.

Recommendation

The study recommends that the management of Pride Microfinance Uganda limited must be keen not to set up credit monitoring policies that can negatively affect the profits of the Micro Finance Institution. Pride microfinance Uganda limited and other Micro Finance institutions should adopt and implement stringent credit monitoring policies as it would result in a significant increase in financial performance. Microfinance institutions should endeavor to advance more on monitoring practices as a way of improving their financial performance and profitability.

The study recommends that microfinance institutions need to have effective supervision of borrowers on credit utilization and repayment which should be done frequently. Such supervision will enable Microfinance institutions to monitor the performance of borrowers closely done.

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