

**THE EFFECT OF CREDIT RISK MANAGEMENT ON THE PERFORMANCE
OF LOAN PORTFOLIO: A CASE OF PRIDE MICROFINANCE**

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ABSTRACT

The purpose of the study was to examine the effect of credit risk management on the performance of loan portfolio: a case of pride micro basing on the following objectives; to assess the effectiveness of Credit Risk Management in Pride Micro Finance, to evaluate the level of loan portfolio performance of Pride Micro Finance, and to find out the relationship between Credit Risk Management and loan portfolio performance of Pride Micro Finance

The study used a cross sectional survey design the formula of Krejcie Morgan (1970) was used to determine a sample size of 45. Stratified sampling was used to determine the sample size. This was used because there are different categories of respondents such as middle level managers, low level manager and non managerial staff. Self-administered questionnaires was designed using five point Likert scale, and they were distributed to staff members of pride micro finance. Frequency tables and graphs, analysis of variance, regression, and correlation coefficient were drawn using Statistical Packages for Social Scientist (SPSS), and analysis made there on.

Findings revealed that Pride Micro Finance does not always maintain clear segregations among programmes of different natures, Loans are not poorly designed, does not generate overdue information almost on a daily basis, does not have the information on disbursements and repayments, saving collections, and does not develop clear policies and procedures for client identification and selection. Besides that, number of clients applying for loans increased, the amount of money borrowed by clients from Pride Micro Finance increased, there is Security pledged against the borrowed funds from Pride Micro Finance, the rate of Arrears Recovery increased in Pride Micro Finance, and there is a small number of loan products on the chain. Nevertheless, there is a strong positive relationship between Credit Risk Management and loan portfolio performance of pride micro finance at Pearson correlation coefficient $r=0.881$.