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THE EFFECT OF DEMOGRAPHIC CHARACTERISTICS ON LOAN PORTFOLIO PERFORMANCE IN MICROFINANCE INSTITUTIONS IN UGANADA, A CASE OF BRAC MICROFINANCE PALLISA

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A RESEARCH REPORT SUBMITTED TO THE FACULTY OF MANAGEMENT SCIENCES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR'S DEGREE OF BUSINESS ADMINISTRATION BUSITEMA UNIVERSITY

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DECLARATION

I Ochekede peter do hereby declare that this research proposal has been my own original work and it has not been submitted to any other University/Institution by anybody else for any other academic award.

Student's signature……………………...   Date………………………….

APPROVAL

This research proposal has been submitted for examination with the approval of my supervisor and is for the award of a Bachelor of Business Administration of Busitema University.

Supervisor: **Mr. EMOJONG RONALD**

Signature: ……………………………...   Date: …………………………………...

DEDICATION

To my family, and wife for their unconditional support. My academic supervisor for academic support and friends for their guidance and continuous encouragement.

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I would like to thank our Almighty God who powerfully handled me throughout the study period.
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God bless you all abundantly.

ABSTRACT

Over the years, most MFIs have experience to a varying degree problem of non-performing loans some of which have been closed down by regulatory authorities. This in turn led to contraction of activities, decline in output, and imposition of substantial costs on loans. This study sought to find out how demographic characteristics of borrowers affect loan portfolio performance of MFIs. The purpose of this study was to investigate the effects of age, gender and education on loan portfolio performance of MFIs in Uganda. A simple random sampling technique is used in selecting the registered and regulated financial institution in Uganda from the population of 35 as derived from Bank of Uganda report as at 30 June 2019. The use of simple random sampling in the selection of the sample for this study provided an equal chance or opportunity to each participant to be selected for the study. The study found out that age is a factor that determines the borrower's preference or self-selection of either being a user or non-user in the credit market. Youthful borrowers are perceived as innovative and good performers, but risky portfolio and age differences have led to an increase in loan delinquencies. There is evidence that suggests women are more likely to repay collateral-free microloans than men. However, little is known about what explains such gender differences. The research has proven that since financial statements are a key requirement by formal credit institutions, borrowers with higher education level, accounting knowledge, better business management skills, are given an added advantage when it comes to credit borrowing. Therefore, it is significantly seen that age, gender and education have a positive effect on loan portfolio performance.

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MFIs	Microfinance Institutions

CHAPTER ONE: INTRODUCTION

1.0 Introduction

This chapter looks at background to the study, problem statement, purpose of the study, research objectives, research questions, and scope of the study, significance of the study, conceptual framework, and assumptions of the study, limitations of the study and the definition of terms.

1.1 Background of study

As part of the financial sector, the microfinance market plays a big role in enabling the low-income section of the population access financial services. The success of MFIs largely depends on the effectiveness of their credit management systems because these institutions generate most of their income from interest earned on loans extended to small and medium entrepreneurs. However, a number of them have reported poor loan portfolio performance. MFIs are faced with low repayment rates, high non-performing loans (NPLs), high arrears rates and high portfolio at risk. MFIs' non-performing loans grew by USh.48.2 billion to reach USh.116 billion at the end of June 2014, thereby accounting for 22.8% of the total NPLs in the industry (Ssekiziyivu, 2017).

Uganda, as a country, has been praised as one of the few economies with a thriving Microfinance industry in Africa (Bond, 2011). Both the new and budding Microfinance institutions in the country have recorded substantial growth with a growing clientele base. The significant contribution of these institutions to narrow the financial exclusion gap has not gone un-noticed. The financial services these institutions offer are not only prominent in eradicating poverty in the country, but they have also built up a diversified capital base for the low-income earners (Cull, Demirguc-Kunt, & Morduch, 2011). A series of impact studies conducted in Uganda have demonstrated that the provision of microfinance services through microfinance institutions reduces client vulnerability to economic shocks, enables microfinance clients to acquire valuable skills, and generally improves financial inclusion. For instance, a series of FinScope studies in Uganda have tracked the trends of financial inclusion in the country since the late 2000s. According to the current FinScope study, more Ugandans access financial services through Microfinance institutions today compared to 10 years back (FinScope, 2018).

Despite their evolution, resilience, and contribution to the financial eco-system, Microfinance Institutions in Uganda continue to grapple with a deteriorating loan portfolio quality (Bananuka et al., 2019). This declining trend may be attributed to several factors; capital structure, cost of capital, credit risk management, and the quality of MFIs' clientele (Bananuka et al., 2019). This

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