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Original article

Cash management and financial performance of microfinance institutions in Lwengo Town Council, Uganda. A cross-sectional study.

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Abstract

Background:

Cash management is a core part of working capital management. It determines whether microfinance institutions (MFIs) can meet loan demand, withdrawals, and operating costs while earning an adequate return. Evidence from small-town Ugandan MFIs is limited. This study examined the relationship between cash management and the financial performance of MFIs in Lwengo Town Council, Uganda.

Methodology:

A cross-sectional, correlational, mixed-methods design was used across five MFIs. Of 103 sampled staff, 100 responded (97.1%), giving 96 usable questionnaires and four branch-manager interviews. Audited financial records for 2021–2025 were also reviewed. The scales were reliable (Cronbach's alpha 0.953 and 0.943). Data were analysed using descriptive statistics, Pearson's correlation, and thematic analysis.

Results:

Most respondents were male (61.5%) and held a bachelor's degree (46.9%). Cash management was rated moderate (mean = 2.94), while financial performance was rated low (mean = 2.59). Cash management had a strong, positive, and significant relationship with financial performance ($r = 0.623$, $p < .001$) and accounted for 38.8% of its variation. Documentary data showed that cash and bank balances fell by 15.3% while total assets grew by 29.3%. Cash fell from 11.9% to 7.8% of total assets, and return on assets declined from 33.0% to 28.0%. Managers reported cash shortages on market days and idle cash at other times.

Conclusion:

Cash management is significantly and positively related to the financial performance of MFIs in Lwengo Town Council. The main weakness is cash planning rather than cash handling, because cash budgets are absent or not linked to the loan calendar.

Recommendation:

Branch managers should prepare written weekly cash budgets linked to disbursement and repayment calendars.

Keywords: *Cash management, financial performance, Microfinance institutions, Working capital management, Lwengo.*
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Background.

Working capital management is the planning, monitoring, and control of an organization's current assets and current liabilities so that it can meet short-term obligations while still earning an adequate return (Smith, 1980). For a microfinance institution (MFI), the main working capital components are cash and bank balances, the short-term loan portfolio (the equivalent of trade receivables), and short-term liabilities such as client savings, accrued expenses, and short-term borrowings. Because MFIs lend and collect in small, frequent amounts, their working capital turns over quickly, and weaknesses in any one component show up quickly in daily operations.

Financial performance is the extent to which an organization achieves its financial objectives. It is usually measured through profitability (return on assets, return on equity), liquidity (current ratio, cash ratio), and efficiency (cost-to-income ratio, portfolio at risk, loan recovery rate) (Rafuse, 1996). For MFIs, strong performance means generating enough income to cover operating and financing costs while keeping liquidity and credit risk under control. This is what allows an institution to remain financially sustainable and keep serving low-income clients.

Working capital management is expected to influence financial performance through two main channels. First, holding the right level of liquid assets lets an institution meet loan demand, withdrawals, and operating costs without interruption, so it does not lose lending opportunities or client confidence. Second, holding too much idle cash, or letting loan collections slip, ties up funds that could earn income and raises borrowing costs (Shin & Soenen, 1998; Nazir & Afza, 2009). Because liquidity and profitability pull in opposite directions, institutions must continually trade one against the other (Smith, 1980). Firm-level evidence outside the microfinance sector suggests that how well this trade-off is managed is associated with differences in profitability (Deloof, 2003; Raheman & Nasr, 2007).

In Uganda, microfinance institutions are an important channel of credit and savings services for households and small enterprises that the commercial banking system serves

poorly, especially in peri-urban and rural areas. The sector is regulated mainly under the Tier 4 Microfinance Institutions and Money Lenders Act, 2016, which is administered by the Uganda Microfinance Regulatory Authority. The Act has formalized the operations of many small deposit-taking and credit-only providers. The institutions that operate in smaller towns are typically lightly capitalized, depend on a narrow client base of farmers and small traders with irregular income, and often lack formal systems for cash budgeting, liquidity monitoring and credit recovery. Under these conditions, poor working capital decisions can quickly lead to liquidity shortages, rising loan arrears, higher costs and, eventually, reduced profitability or closure.

Loan demand and repayment in this setting follow seasonal agricultural income cycles, which makes liquidity planning and collection discipline especially important. Yet there is little documented information on how local MFIs manage their working capital, or on whether differences in these practices are associated with differences in their financial performance. Evidence on this relationship in small-town Ugandan MFIs is limited, which leaves managers, regulators and investors without local data on which working capital practices matter most. This study therefore examines the relationship between Cash management and the financial performance of microfinance institutions in Lwengo Town Council, Uganda, using a cross-sectional design.

Methodology

Research Design

The study adopted a cross-sectional correlational research design. A correlational design determines the nature and strength of the relationship between variables without manipulating them (Creswell & Creswell, 2023). It was appropriate because all three objectives sought to establish the relationship between a dimension of working capital management (cash management) and financial performance. The design was cross-sectional because questionnaire and interview data were collected from respondents at a single point in time, which allowed data to be collected from all five microfinance institutions within a short period (Saunders, Lewis, & Thornhill, 2019). Descriptive statistics were nevertheless used to summarise the data before the relationships were tested.

The study used a mixed-methods approach. Quantitative data were collected from staff using a structured questionnaire and analysed using descriptive and inferential statistics. Qualitative data from interviews with branch managers provided deeper explanations of working capital practices and challenges. In addition, a documentary review of the financial statements, loan portfolio reports and cash flow reports of the five institutions for 2021-2025 provided objective financial indicators against which the questionnaire and interview findings were triangulated (Creswell & Creswell, 2023).

Study Population

The study population comprised 140 staff members of the five microfinance institutions operating in Lwengo Town Council, as recorded by the Lwengo District Commercial Office and the Uganda Microfinance Regulatory Authority (2025). These included microfinance deposit-taking institutions (Tier III) and Tier IV microfinance companies, namely Lwengo Microfinance Ltd, FINCA Uganda, Kiwangala Microfinance, BRAC Microfinance and UGAFODE Microfinance Limited. To protect confidentiality, the institutions are identified in this report only by the codes MFI-A to MFI-E; MFI-A and MFI-B are Tier III institutions and MFI-C, MFI-D and MFI-E are Tier IV institutions.

The respondents were branch managers, accountants and finance staff, credit/loan officers, and tellers and customer service staff, because they are directly involved in managing cash, loans, and short-term obligations. SACCOs, commercial banks, mobile money agents, and agency banking outlets were excluded.

Table 1: Population Size, Sample Size and Sampling Techniques

Category of respondents	Population (N)	Sample size (n)	Sampling technique
Branch managers	5	5	Purposive sampling
Accountants and finance staff	20	15	Stratified random sampling
Credit/loan officers	75	54	Stratified random sampling
Tellers and customer service staff	40	29	Stratified random sampling
Total	140	103	

Source: *Lwengo District Commercial Office; UMRA (2025); Krejcie and Morgan (1970).*

Sample Size

The sample size was determined using the Krejcie and Morgan (1970) table (Appendix IV), which gives the sample size corresponding to a given population at a 95% confidence level and 5% margin of error. For a population of 140 staff, the table gives a sample of 103 respondents. The sample was allocated to each category of staff in proportion to its share of the population, using the formula $n_i = (N_i / N) \times n$, where n_i and N_i are the sample and population of each category, N is the total population, and n is the total sample. All five branch managers were included as key informants.

Sampling Techniques

The study employed purposive sampling and stratified random sampling.

Purposive Sampling

Purposive sampling was used to select the branch managers of the microfinance institutions because they make the main decisions on cash holdings, lending, loan recovery, and payments, and therefore hold specialised knowledge of working capital management and financial performance (Creswell & Creswell, 2023; Saunders et al., 2019).

Stratified Random Sampling

Stratified random sampling was used to select accountants and finance staff, credit/loan officers, and tellers and customer service staff. Each microfinance institution formed a stratum, and within each institution, respondents were selected randomly from the staff list in proportion to the number of staff in each category, so that every institution and category of staff was fairly represented (Kothari, 2004; Sekaran & Bougie, 2020).

Methods and Instruments of Data Collection

The study employed three methods of data collection, namely questionnaires, interviews, and documentary review. Together, they provided both primary and secondary data and allowed the findings from one source to be checked against the others.

Questionnaire Method

A structured questionnaire was used to collect primary data from accountants and finance staff, credit/loan officers, and tellers and customer service staff. Section A captured the background characteristics of respondents. Section B measured cash management (13 items), while Section C measured financial performance (14 items). All items in Sections B to C were rated on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The questionnaire enabled the collection of data from many respondents within a short time while guaranteeing anonymity.

Interview Method

Face-to-face interviews were conducted with the branch managers as key informants using a semi-structured interview guide. The guide covered cash management, loan appraisal and recovery, payment practices, financial performance and recommendations, and allowed the study to probe for detailed explanations. Responses were recorded through note-taking. The key informants are identified as KI-01 to KI-04 in this report.

Documentary Review

A documentary review checklist was used to collect secondary data from the audited financial statements, loan portfolio reports, and cash flow reports of the five institutions for the financial years 2021 to 2025, giving 25 institution-year observations. The data extracted included total assets, gross loan portfolio, cash and bank balances, current assets and liabilities, total liabilities and equity, income, operating expenses, net profit, loans overdue for more than 30 days, loan repayments collected, accounts payable, and late-payment penalties.

Data Collection Procedure

The data collection procedure followed a systematic process to ensure accuracy, reliability, and ethical compliance throughout the study.

First, an introductory letter was obtained from the School of Graduate Studies and Research, which was presented to the authorities in Lwengo District and the selected microfinance institutions to seek permission to conduct the study. Upon approval, coordination was made with the institutional heads to plan appropriate dates and times for data collection.

Next, the research instruments (questionnaires and interview guides) were pre-tested on a small group of respondents outside the study sample to check for clarity, relevance, and reliability. Necessary adjustments were then made based on the feedback obtained.

After refining the instruments, the questionnaires were distributed to the selected staff respondents. The purpose of the study was read and provided guidance on how to fill in the questionnaires. Respondents were given adequate time to complete them, after which the researcher collected the completed questionnaires for analysis.

At the same time, interviews were conducted with the branch managers as key informants. The researcher scheduled appointments in advance and used the interview guide to ensure consistency. Responses were recorded through note-taking (and audio recording where permission was granted) to capture accurate and detailed information.

In addition, relevant documents, namely the financial statements, loan portfolio reports, cash flow reports, institutional reports, policy documents and district records, were reviewed to obtain secondary data that complemented the primary data.

Finally, all collected data were checked for completeness, organised systematically and stored securely to maintain confidentiality. This procedure ensured that the data collected were valid, reliable and suitable for analysis.

Validity of Instruments

Validity of the research instruments was ensured to guarantee that they accurately measured what they were intended to measure.

First, content validity was ensured through expert review. The questionnaires and interview guides were presented to the research supervisor and other knowledgeable experts in the field for evaluation. Their feedback was used to assess whether the items adequately covered all aspects of the study variables. Necessary corrections, additions, and adjustments were then made to improve the instruments.

Finally, the researcher computed the Content Validity Index (CVI) by asking the experts to rate each item in terms of relevance. The CVI was computed as:

CVI = Number of items rated relevant ÷ Total number of items in the instrument

The questionnaire attained a CVI of 0.84, which is above the minimum of 0.70 recommended by Amin (2005); the instrument was therefore considered valid. Items that scored below the acceptable threshold were revised or removed, which ensured that only valid and appropriate items were retained in the final instruments.

Reliability of Instruments

Reliability of the research instruments was ensured to guarantee consistency and stability of the results obtained from the study.

First, a pilot study was conducted by administering the questionnaires to a small group of respondents who were not part of the final sample. The purpose of this pre-test was to examine whether the instruments produced consistent responses under similar conditions. Feedback from the pilot study was used to refine unclear or ambiguous items.

Secondly, the study assessed the internal consistency of the questionnaire using Cronbach's alpha. This statistical measure was used to determine how closely related the items in each scale of the instrument were. A reliability coefficient of 0.70 or above was considered acceptable, indicating that the instrument was reliable (Sekaran & Bougie, 2020).

Table 2: Reliability Results (Cronbach's Alpha)

Variable	No. of items	Cronbach's alpha	Remark
Cash management	13	0.953	Reliable
Financial performance	14	0.943	Reliable

Source: *Primary data (n = 96).*

Table 2 shows that both scales recorded alpha coefficients above 0.90. This shows that the items in each scale measured the same construct consistently, and the questionnaire was therefore reliable.

Measurement of Variables

Questionnaire responses were measured on the five-point Likert scale. For each respondent, a composite score for each variable was computed as the mean of the items in that section. Mean scores were interpreted as follows: 1.00–1.80 very low; 1.81–2.60 low; 2.61–3.40 moderate; 3.41–4.20 high; and 4.21–5.00 very high. In the item tables, the strongly disagree and disagree responses are combined as "disagree," and the agree and strongly agree responses are combined as "agree".

From the documentary data, the following indicators were computed for each institution and year:

Return on assets (ROA) = net profit ÷ total assets;
Net profit margin = net profit ÷ total income;
Current ratio = current assets ÷ current liabilities;
Debt-to-equity ratio = total liabilities ÷ total equity;
Cash to total assets = cash and bank balances ÷ total assets;
Portfolio at risk over 30 days (PAR30) = loans overdue for more than 30 days ÷ gross loan portfolio;
Loan collection period (days) = gross loan portfolio ÷ loan repayments collected × 365; and Payables payment period (days) = accounts payable ÷ operating expenses × 365.

Data Analysis

The data were analysed using both quantitative and qualitative techniques.

Quantitative Data Analysis

Questionnaire data were checked for completeness, coded and entered into a spreadsheet for analysis. Frequencies and percentages were used to describe the background characteristics of respondents, while means, standard deviations, and percentages of agreement were used to describe each item and variable. Pearson's correlation coefficient was used to establish the strength and direction of the relationship between each dimension of working capital management and financial performance, and the corresponding null hypotheses were tested at the 0.05 level of significance. Multiple linear regression was then used to establish the combined and relative contribution of the three dimensions, using the model:

$FP = \beta_0 + \beta_1 CM + \varepsilon$

where FP is financial performance, CM is cash management, AR is accounts receivable management, AP is accounts payable management, β_0 is the constant, β_1 is the coefficient, and ε is the error term. The assumptions of the regression model were checked using the variance inflation factor (multicollinearity), the Durbin–Watson statistic (independence of residuals), and the Shapiro Wilk test (normality of residuals).

Documentary data were analysed using ratio and trend analysis for 2021–2025, both for the five institutions combined (ratios computed on aggregate totals) and for each institution. Pearson correlations between the working capital indicators and the financial performance ratios were also computed across the 25 institution-year observations to establish whether the documentary evidence supported the questionnaire results.

Qualitative Data Analysis

Interview data were analysed using thematic analysis. The interview notes were read several times, coded and grouped into themes under each objective. The number of key informants who raised each theme was recorded; a theme raised by three or four informants was treated as dominant, one raised by two informants as recurring, and one raised by a single informant as an isolated view.

Ethical Considerations

The study observed strict ethical standards to protect the rights, privacy, and well-being of all participants.

Informed consent: Before participating, all respondents were fully informed about the purpose, objectives, and procedures of the study. The researcher ensured that participation was voluntary and that respondents had the right to withdraw at any time without any negative consequences. Written or verbal consent was obtained prior to data collection.

Confidentiality and anonymity: All information provided by participants was treated with strict confidentiality. Personal identifiers such as names were not recorded or disclosed in the report; institutions are identified only by codes (MFI-A to MFI-E), and key informants by codes (KI-01 to KI-04), and the data are presented in aggregate form to maintain anonymity.

Privacy: Interviews and questionnaire administration were conducted in private settings to ensure that respondents felt comfortable providing honest and accurate information.

Avoidance of harm: The study ensured that participation did not expose respondents to any physical, emotional, or social harm. Questions were carefully designed to avoid sensitive topics that could cause distress.

Permission from authorities: The researcher sought and obtained permission from the relevant authorities, including the School of Graduate Studies and Research, the Lwengo District Commercial Office, and the management of the selected microfinance institutions, before collecting data. This ensured compliance with local regulations and institutional requirements.

Integrity and honesty: The researcher maintained honesty and integrity throughout the study, avoiding any form of data fabrication, falsification, or plagiarism. The findings are reported truthfully and objectively, reflecting the actual data collected.

Results

Response Rate

Table 3: Response Rate by Category of Respondents

Category of respondents	Instrument	Sample size	Responses	Response rate (%)
Branch managers	Interview guide	5	4	80.0
Accountants and finance staff	Questionnaire	15	15	100.0
Credit/loan officers	Questionnaire	54	53	98.1
Tellers and customer service staff	Questionnaire	29	28	96.6
Total		103	100	97.1

Source: *Primary data, 2026.*

Table 3 shows that 100 of the 103 targeted respondents took part in the study, giving an overall response rate of 97.1%. All 15 accountants and finance staff (100.0%), 53 of the 54 credit/loan officers (98.1%), and 28 of the 29 tellers and customer service staff (96.6%) returned completed questionnaires, giving 96 usable questionnaires. Four of the five branch managers (80.0%) were interviewed; the manager of MFI-E was absent during data collection. The three non-responses arose because one credit officer was in the field, one teller was attending to customers, and one branch manager was absent. A response rate above 70% is considered very good for analysis and reporting (Mugenda & Mugenda, 2003), so the data were adequate for drawing conclusions.

Background Characteristics of Respondents

The background characteristics of the questionnaire respondents were analysed to establish whether they were suitable to provide information on working capital management and financial performance.

Table 4: Background Characteristics of Respondents

Characteristic	Frequency	Percentage (%)
Gender		
Male	59	61.5
Female	37	38.5
Total	96	100.0
Age		
Below 25 years	15	15.6
25–34 years	38	39.6
35–44 years	30	31.2
45–54 years	10	10.4
55 years and above	3	3.1
Total	96	100.0
Highest level of education		
Certificate	12	12.5
Diploma	34	35.4
Bachelor's degree	45	46.9
Master's degree	5	5.2
Total	96	100.0
Position in the organisation		
Accountant/finance staff	15	15.6
Credit/loan officer	53	55.2
Teller/customer service	28	29.2
Total	96	100.0
Work experience		
Less than 2 years	26	27.1
2–5 years	39	40.6
6–10 years	21	21.9
Above 10 years	10	10.4
Total	96	100.0
Category of microfinance institution		
Tier III (MDI)	50	52.1
Tier IV microfinance company	46	47.9
Total	96	100.0

Source: *Primary data (n = 96).*

Gender: Male respondents were 59 (61.5%) and female respondents were 37 (38.5%). Although men were the majority, both sexes were well represented, so the findings reflect the views of both male and female staff.

Age: Most respondents were aged 25–34 years (39.6%) or 35–44 years (31.2%), meaning that 70.8% were in the active working age of 25–44 years. Such staff are directly engaged in the daily handling of cash, loans, and payments.

Education: Nearly half of the respondents held a bachelor's degree (46.9%), followed by diploma holders (35.4%) and master's degree holders (5.2%); only 12.5% held a certificate. With 87.5% holding a diploma or higher, respondents were able to understand and respond to questions on financial management.

Position: Credit/loan officers formed the largest group (55.2%), followed by tellers and customer service staff (29.2%) and accountants and finance staff (15.6%). This distribution matches the proportional allocation of the sample and means that staff who manage the loan portfolio, cash, and accounts were all represented.

Work experience: 40.6% of respondents had worked for 2–5 years, 21.9% for 6–10 years and 10.4% for more than 10 years, while 27.1% had less than two years of experience. Thus, 72.9% had at least two years of experience, long enough to observe the working capital practices and performance trends of their institutions.

Category of institution: 52.1% of respondents worked in Tier III microfinance deposit-taking institutions and 47.9% in Tier IV microfinance companies, so both categories of institution were adequately represented.

Financial Performance of Microfinance Institutions

Financial performance, the dependent variable, was measured using 14 questionnaire items and the financial ratios computed from the documentary review.

Table 5: Respondents' Views on Financial Performance

No.	Statement	Disagree (%)	Neutral (%)	Agree (%)	Mean	Std. dev.	Interpretation
E1	The organization has consistently achieved profitability over the past three years.	57.3	29.2	13.5	2.42	0.90	Low
E2	Return on Assets (ROA) has improved over time.	40.6	39.6	19.8	2.66	0.95	Moderate
E3	Interest income has been steady and in line with organisational targets.	58.3	34.4	7.3	2.27	0.92	Low
E4	The organization maintains adequate liquidity to meet short-term obligations.	38.5	33.3	28.1	2.82	0.93	Moderate
E5	Profit margins have been stable or increasing over the past three years.	43.8	41.7	14.6	2.60	0.90	Moderate
E6	The organization effectively controls costs to maximize profitability.	33.3	46.9	19.8	2.80	0.94	Moderate
E7	Financial performance indicators are regularly monitored and reviewed by management.	53.1	38.5	8.3	2.39	0.86	Low
E8	The organization has experienced growth in total assets over the past three years.	46.9	36.5	16.7	2.55	1.00	Low
E9	Customer base and market share have been increasing steadily.	50.0	35.4	14.6	2.51	0.94	Low
E10	The organisation recovers loans on time without significant delays.	47.9	44.8	7.3	2.44	0.84	Low
E11	Investment decisions contribute positively to the overall financial performance.	41.7	41.7	16.7	2.70	0.92	Moderate
E12	Financial reports accurately reflect the organization's performance.	52.1	32.3	15.6	2.53	0.95	Low
E13	The organization manages operational risks effectively to protect profitability.	36.5	40.6	22.9	2.85	0.93	Moderate
E14	Return on Equity (ROE) has shown improvement over the past three years.	39.6	41.7	18.8	2.71	0.91	Moderate
	Overall mean				2.59	0.70	Low

Source: *Primary data (n = 96).*

Table 5 shows that the overall mean for financial performance was 2.59 (SD = 0.70), which is low on the interpretation scale. Respondents disagreed more than they agreed with every statement on financial performance. The lowest-rated items were steadiness of interest income in line with targets (mean = 2.27; 58.3% disagreed), regular monitoring and review of performance indicators by management (mean = 2.39), and consistent profitability over the past three years (mean = 2.42; 57.3% disagreed). Only 7.3% agreed that their institution recovers loans on time without significant delays (mean = 2.44), and only 14.6% agreed that the customer base and market share had increased steadily (mean = 2.51).

The relatively better-rated items were maintenance of adequate liquidity to meet short-term obligations (mean = 2.82; 28.1% agreed), effective management of operational risks (mean = 2.85), and cost control (mean = 2.80), all at a moderate level. Even these items had more respondents disagreeing than agreeing. The implication is that staff perceive the financial performance of microfinance institutions in Lwengo Town Council as weak, particularly in terms of income growth, profitability, and loan recovery.

Documentary Findings on Financial Performance

The documentary review provided objective measures of financial performance.

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Table 6: Aggregate Financial Indicators of the Five Microfinance Institutions, 2021–2025

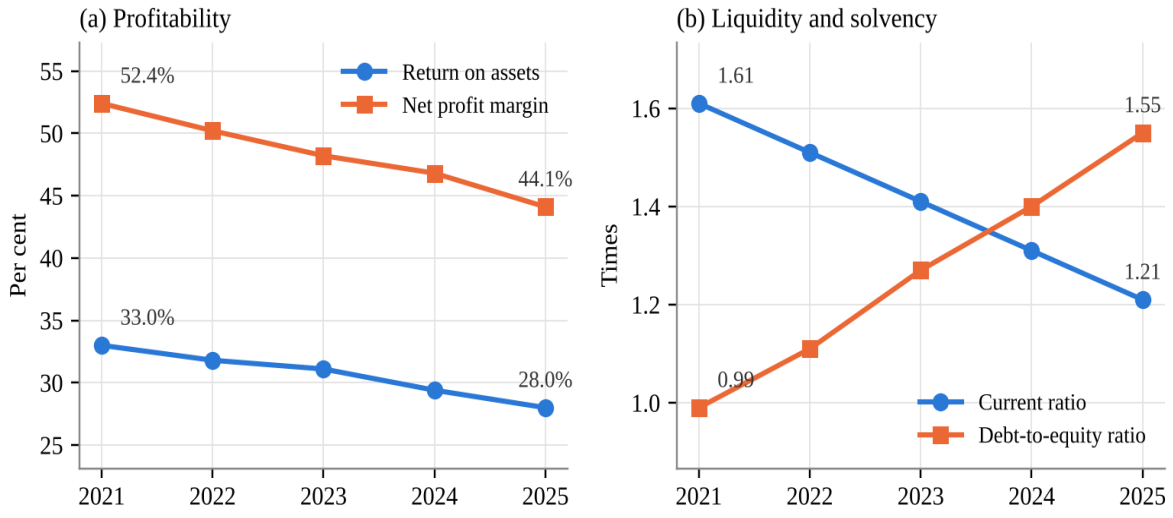
Indicator	2021	2022	2023	2024	2025	Change 2021–2025
Amounts (UGX million)						
Total assets	6,344	6,781	7,230	7,619	8,202	+29.3%
Gross loan portfolio	4,568	4,883	5,206	5,486	5,906	+29.3%
Cash and bank balances	753	726	709	693	638	-15.3%
Total income	3,991	4,300	4,665	4,789	5,211	+30.6%
Operating expenses (incl. provisions)	1,898	2,143	2,418	2,548	2,913	+53.5%
Net profit	2,093	2,157	2,247	2,241	2,298	+9.8%
Loans overdue >30 days	1,371	1,662	1,969	2,295	2,714	+98.0%
Late-payment penalties paid	3.4	7.4	15.7	22.0	23.7	+597.1%
Ratios						
Return on assets (%)	33.0	31.8	31.1	29.4	28.0	-5.0 pp
Net profit margin (%)	52.4	50.2	48.2	46.8	44.1	-8.3 pp
Current ratio (times)	1.61	1.51	1.41	1.31	1.21	-0.39
Debt-to-equity ratio (times)	0.99	1.11	1.27	1.40	1.55	+0.56
Cash to total assets (%)	11.9	10.7	9.8	9.1	7.8	-4.1 pp
PAR30 (%)	30.0	34.0	37.8	41.8	46.0	+15.9 pp
Loan collection period (days)	40.4	44.0	50.2	55.3	60.2	+19.8
Payables payment period (days)	33.7	31.3	28.1	26.2	24.7	-9.0

Source: *Audited financial statements and portfolio reports of the five MFIs, 2021–2025. Ratios are computed on aggregate totals; pp = percentage points.*

Table 6 shows that the five institutions grew in size over the period: total assets rose by 29.3% from UGX 6,344 million in 2021 to UGX 8,202 million in 2025, and the gross loan portfolio and total income rose by similar margins. However, operating expenses, which include provisions for bad loans, grew much faster (+53.5%) than income (+30.6%), so net profit grew by only 9.8%. As a result, return on assets declined every year, from 33.0% in 2021 to 28.0% in 2025, and the net profit margin fell from 52.4% to 44.1%.

Liquidity and solvency also weakened. The current ratio fell from 1.61 to 1.21, while the debt-to-equity ratio rose from 0.99 to 1.55, meaning that by 2025 the institutions were financed by UGX 1.55 of liabilities for every shilling of equity.

Figure 1: Trends in Profitability, Liquidity and Solvency, 2021–2025



Source: *Documentary review, 2021–2025 (aggregate of five MFIs).*

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Table 7: Financial Performance Indicators by Institution, 2021 and 2025

Institution	Category	ROA (%)		Net profit margin (%)		Current ratio		Debt-to-equity	
		2021	2025	2021	2025	2021	2025	2021	2025
MFI-A	Tier III	34.1	29.6	53.0	44.6	1.67	1.26	0.92	1.46
MFI-B	Tier III	33.4	27.7	53.3	44.5	1.63	1.22	0.96	1.53
MFI-C	Tier IV	30.9	26.3	50.6	42.8	1.51	1.14	1.12	1.71
MFI-D	Tier IV	31.9	26.6	51.5	43.9	1.56	1.18	1.09	1.68
MFI-E	Tier IV	31.2	26.0	50.8	41.7	1.51	1.15	1.15	1.72

Source: *Documentary review, 2021–2025.*

Table 7 shows that the decline was not confined to a few institutions: all five recorded lower ROA, lower net profit margins, lower current ratios, and higher debt-to-equity ratios in 2025 than in 2021. The Tier IV institutions ended the period in a weaker position, with a combined ROA of 26.3% in 2025 compared with 28.7% for the Tier III institutions, a current ratio of 1.15 against 1.24, and a debt-to-equity ratio of 1.70 against 1.49. MFI-E recorded the lowest ROA (26.0%) and MFI-C the lowest current ratio (1.14) in 2025.

Interview Findings on Financial Performance

The branch managers confirmed the declining performance shown by the documents. Three of the four key informants reported falling profitability, which made declining ROA a dominant theme. They attributed the decline mainly to provisions for bad loans and uncollected interest. One manager explained:

"We are still profitable, but provisions are eating the margin." (KI-01, MFI-A)

Another manager observed that much of the interest recorded as earned is never received in cash:

"We earn interest on paper, but much of it is never collected." (KI-04, MFI-D)

One manager reported that liquidity had tightened and that growth was being financed by debt rather than equity, which agrees with the rising debt-to-equity ratio in Table 4.4:

"We are growing on borrowed money, not our own." (KI-02, MFI-B)

A Tier IV branch had operated below break-even for several months in 2024 and was losing its larger clients to Masaka City, where liquidity is more reliable:

"Our bigger clients now go to Masaka where cash is always available." (KI-03, MFI-C)

Taken together, the questionnaire, documentary, and interview findings consistently show that the financial performance of microfinance institutions in Lwengo Town Council deteriorated between 2021 and 2025, with falling profitability, weakening liquidity, and rising leverage.

Cash Management and Financial Performance

The first objective was to examine the relationship between cash management and financial performance of microfinance institutions in Lwengo Town Council.

Questionnaire Findings on Cash Management

Table 8: Respondents' Views on Cash Management

No	Statement	Disagree (%)	Neutral (%)	Agree (%)	Mean	Std. dev.	Interpretation
B1	The organization maintains sufficient cash to meet daily operational needs.	28.1	39.6	32.3	3.01	0.95	Moderate
B2	We monitor cash inflows and outflows regularly.	43.8	32.3	24.0	2.76	1.03	Moderate
B3	We follow a formal cash budgeting process.	18.8	40.6	40.6	3.35	0.97	Moderate
B4	We have clear policies for cash collection from customers.	27.1	42.7	30.2	3.06	0.99	Moderate
B5	We maintain cash reserves at an optimal level.	35.4	38.5	26.0	2.89	0.99	Moderate
B6	We plan cash disbursements.	41.7	31.2	27.1	2.76	1.02	Moderate
B7	We regularly reconcile cash at the end of each day.	31.2	36.5	32.3	2.99	1.01	Moderate
B8	Excess cash is invested in short-term instruments.	21.9	35.4	42.7	3.28	0.99	Moderate
B9	We clearly communicate cash management policies.	33.3	39.6	27.1	2.89	0.97	Moderate
B10	We have cash handling procedures.	29.2	41.7	29.2	3.01	0.93	Moderate
B11	We use electronic payment systems.	34.4	42.7	22.9	2.81	0.94	Moderate
B12	We regularly analyze the cash conversion cycle.	35.4	38.5	26.0	2.90	1.04	Moderate
B13	We maintain a balance between cash availability and investment opportunities.	53.1	28.1	18.8	2.49	1.05	Low
	Overall mean				2.94	0.79	Moderate

Source: *Primary data (n = 96).*

Table 8 shows that cash management was rated at a moderate level overall (mean = 2.94, SD = 0.79). The highest-rated practices were following a formal cash budgeting process (mean = 3.35; 40.6% agreed) and

investing excess cash in short-term instruments (mean = 3.28; 42.7% agreed). However, fewer than a third of respondents agreed that their institution maintains sufficient cash for daily operations (32.3%), maintains cash reserves at an optimal level (26.0%), or plans its cash disbursements (27.1%).

The weakest practice was maintaining a balance between cash availability and investment opportunities (mean = 2.49), with which 53.1% of respondents disagreeing; this was the only cash management item rated low. Regular monitoring of cash inflows and outflows was also weak (mean = 2.76; 43.8% disagreed), as was the use of electronic payment systems (mean = 2.81). These results suggest that although cash budgets exist on paper in some institutions, cash is not closely monitored or planned against disbursement needs, leaving institutions exposed to both shortages and idle cash.

Interview Findings on Cash Management

Two recurring themes emerged from the interviews on cash management. The first was cash shortages on peak days, caused by collections lagging behind disbursements. The manager of MFI-A explained that the weekly cash plan was not linked to the loan disbursement schedule, so the branch ran short on market days and during the school-fees season: "On Tuesdays and Fridays, we sometimes tell clients to come back tomorrow because the vault is empty." (KI-01, MFI-A)

"We disburse on time, but collections come late, so the gap keeps growing." (KI-04, MFI-D)

The second recurring theme was the absence or weakness of formal cash budgeting. At MFI-C, cash was managed by the branch manager and head teller on the basis of experience: "We do not have a written cash budget; we know our busy days." (KI-03, MFI-C)

At the other extreme, MFI-B held idle cash at the beginning of each month because it used no short-term investment option: "At the start of the month we sit on cash that earns nothing" (KI-02). Daily reconciliation and mobile money collections were in place at two institutions (MFI-B and MFI-D), which shows that basic cash controls exist even where cash planning is weak. The interviews therefore confirm the questionnaire finding that the main weakness lies in planning cash against the loan calendar rather than in cash handling as such.

Documentary Findings on Cash Management

Table 9: Cash Position of the Microfinance Institutions, 2021–2025

Institution	Cash to total assets (%)					Cash and bank (UGX m)	
	2021	2022	2023	2024	2025	2021	2025
MFI-A	12.4	10.3	9.6	9.0	7.4	295	243
MFI-B	11.1	11.0	9.6	8.7	8.1	210	201
MFI-C	12.1	10.8	10.5	10.0	7.5	108	82
MFI-D	12.4	11.2	10.2	9.8	8.2	81	63
MFI-E	11.5	10.6	10.0	8.9	8.4	59	49
All five MFIs	11.9	10.7	9.8	9.1	7.8	753	638

Source: *Documentary review, 2021–2025.*

Table 9 shows that the cash position of every institution weakened over the period. Combined cash and bank balances fell from UGX 753 million in 2021 to UGX 638 million in 2025 (a fall of 15.3%), even though total assets grew by 29.3%. Cash as a share of total assets therefore declined from 11.9% to 7.8%. This shrinking cash buffer is consistent with the cash shortages reported by the branch managers and with the falling current ratio.

Relationship between Cash Management and Financial Performance

To test the relationship, the following null hypothesis was tested using Pearson's correlation coefficient:

H_{01}: There is no significant relationship between cash management and financial performance of microfinance institutions in Lwengo Town Council.

Table 10: Correlation between Cash Management and Financial Performance

Variables	Pearson r	r^2	t	Sig. (2-tailed)	n	Decision
Cash Management × Financial Performance	0.623	0.388	7.72	<.001	96	Reject H_0

Source: *Primary data. Correlation is significant at the 0.05 level (2-tailed).*

Table 10 shows a strong, positive, and statistically significant relationship between cash management and financial performance ($r = 0.623$, $p < .001$). The null hypothesis was therefore rejected. The coefficient of determination ($r^2 = 0.388$) shows that cash management alone accounts for 38.8% of the variation in financial performance. Institutions whose staff reported better cash

planning, monitoring, and control also reported better profitability, liquidity, and growth.

The documentary data support this finding. Across the 25 institution-year observations, the ratio of cash to total assets was positive. In other words, the years and institutions with stronger cash positions also recorded higher returns and stronger liquidity.

Discussion

Cash Management and Financial Performance

Cash management was practised at a moderate level (mean = 2.94). Formal cash budgeting was the best-rated practice, but balancing cash availability against investment opportunities, monitoring cash flows, and planning disbursements were weak. Branch managers reported cash shortages on market days, cash budgets that are not linked to the loan calendar, and, in one case, idle cash. Cash and bank balances fell by 15.3% between 2021 and 2025, and cash fell from 11.9% to 7.8% of total assets. Cash management had a strong, positive, and significant relationship with financial performance ($r = 0.623$, $p < .001$). The study found a strong, positive, and significant relationship between cash management and financial performance. This agrees with Mujuni and Kamugisha (2024), who found that SACCOs in East Africa with robust cash planning and monitoring achieved higher profitability and more stable liquidity, and with Wangechi and Irungu (2021), who reported that disciplined cash budgeting and reconciliation improved the ROA and ROE of deposit-taking SACCOs in Central Kenya. The finding also supports Karekezi and Omolo (2025), who showed that microfinance institutions in Kenya that anticipated cash shortfalls achieved better returns, and Mwangi and Kibet (2020), who found that banks holding optimal cash reserves were more profitable than those holding excessive or insufficient cash.

The Lwengo findings illustrate both sides of the optimal-cash argument made by Nazir and Afza (2009). Cash shortages on market days forced branches to delay disbursements and turn clients away, losing interest income and pushing larger clients to Masaka City, while idle cash at the start of the month earned nothing. Both problems arise from cash plans that are not tied to the loan disbursement and collection calendar. The finding that basic controls such as daily reconciliation exist, while forward planning is weak, is consistent with Otieno and Chacha (2023), who found that the benefits of cash management depend on institutional capacity and the tools available. In terms of the Cash Conversion Cycle Theory (Richards & Laughlin, 1980), institutions that plan cash against expected inflows and outflows shorten the period during which funds are idle or unavailable, and therefore perform better.

Conclusion

Cash management is significantly and positively related to the financial performance of microfinance institutions in Lwengo Town Council. Institutions that plan, monitor, and balance their cash perform better. The main weakness is not cash handling but cash planning: cash budgets are absent or are not linked to the loan disbursement and collection calendar, so institutions alternate between shortages on peak days and idle cash at other times. The steady decline in cash holdings since 2021 has contributed to falling liquidity and profitability.

Limitations of the Study

Absence of one key informant: The branch manager of MFI-E was absent during data collection, so only four of the five planned interviews were held. The documentary and questionnaire data for MFI-E were nevertheless obtained, which reduced the effect of this gap.

Self-reported data: Questionnaire responses reflect staff perceptions and may contain response bias. This was minimised by guaranteeing anonymity and by triangulating the questionnaire results with audited financial data and interviews.

Small number of institutions: The documentary review covered only five institutions over five years (25 observations). Because the ratios of all five institutions moved in the same direction over time, the documentary correlations partly reflect a common time trend and are therefore treated as supporting rather than conclusive evidence.

Cross-sectional design and generalisability: The questionnaire data were collected at one point in time, which limits causal inference, and the findings relate to microfinance institutions in Lwengo Town Council. Detailed contextual description is provided to allow comparison with similar settings.

Recommendation

Branch managers should prepare a written weekly cash budget that is linked to the loan disbursement and repayment calendar, with higher cash holdings planned for market days and the school-fees season.

Management should set a minimum and maximum cash holding for each branch and invest cash above the maximum in short-term instruments such as fixed deposits or treasury bills, so that idle cash earns a return.

Institutions should expand the use of mobile money and electronic payment channels for repayments and disbursements to speed up collections and reduce cash-handling costs.

A similar study covering microfinance institutions and SACCOs in several districts of the Greater Masaka sub-region, to allow comparison across settings and types of institutions.

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List of abbreviations

MFI(s): Microfinance Institution(s)
MDI: Microfinance Deposit-taking Institution
SACCO: Savings and Credit Cooperative Organisation
UMRA: Uganda Microfinance Regulatory Authority
UGX: Ugandan Shillings
ROA: Return on Assets
ROE: Return on Equity
PAR30: Portfolio at Risk over 30 days
CVI: Content Validity Index
KI: Key Informant
SD: Standard Deviation
pp: Percentage points

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Authors contribution.

AM conceptualized the study, developed the methodology, carried out the investigation, and wrote the original draft.
EB: Supervision, validation, writing, review, and editing.
MM provided supervision, validation, writing, review, and editing
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