CREDIT POLICY AND LOAN RECOVERY IN MICROFINANCE INSTITUTIONS:

A CASE STUDY OF FINCA UGANDA MASAKA BRANCH

BY

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2014 – BO21 - 10126

BUSINESS ADMINISTRATION AND MANAGEMENTT

DISSERTATION SUBMITTED TO UGANDA MARTYRS UNIVERSITY IN FULFILMENT FOR THE A WARD OF BACHELOR OF BUSINESS ADMINISTRATION AND MANAGEMENT

2017

DEDICATIONS

To God, my Dad Mr. Ssebaggala Mathias, my mum Ms. Nakate Mary, and all my family members (brothers and sisters) for their endless effort and assistance that has enabled my dream to come to come true. I greatly appreciate all for the love and support you rendered me, May the good Lord bless you abundantly

ACKNOWLEDGEMENTS

My deepest appreciation goes to the LORD Almighty, for giving me good health, wisdom, understanding and support through my family, friends and staff of Uganda Martyrs University who have been cooperative.

My special appreciation goes to my Father Mr. Ssebaggala Mathias and Mother, Ms. Nakate Mary for their support, gift of education, and virtues of hard work that has been a source of inspiration to me. I would also sincerely thank my sisters and brothers for their non-stop support, my friends for their time, help and encouragement.

I wish to recognize the invaluable assistance of my supervisor Rev. Fr. Ssemwogerere Edward despite his busy schedule he was able to adequately guide me through writing my final research project.

Also many thanks go to staff and some clients of FINCA Uganda Ltd Masaka branch who spared time and provided all the data which made data collection a success. Your cooperation is highly appreciated

LIST OF ABBREVIATIONS

MDI-	Microfinance Deposit-taking Institution
MFIs-	Microfinance institutions
FINCA-	Foundation for International Community Assistance
SPSS-	Statistical Package for Social Scientists

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ABSTRACT

This study was based on Credit policies and loan Recovery of Micro finance institutions, a case study of FINCA-Uganda with the purpose of establishing the relationship between Credit policies and loan Recovery. The study objectives included, to establish the effect of existing credit policies in FINCA, examine how loans are recovered and to establish the relationship between Credit policies and loan recovery.

The research methodology adopted descriptive research design, where both qualitative and quantitative approach was employed to gain an exhaustive understanding of credit policy and loan recovery in MFIs while quantitative design was used to evaluate facts from the field. These were appropriate because data was easily analyzed using frequency counts and percentages derived from questionnaires and interviews which were presented in statistical tables. The study population included the management, credit officers and clients of the branch and a sample size of 36 respondents was used.

The findings indicated that FINCA Uganda Ltd, Masaka branch used customer particulars for tracking purposes as one of its credit controls when issuing its loans to customers. The findings also indicated a positive significant relationship (r = 0.727) implying that credit policies affects the loan Recovery level of FINCA Uganda Ltd by a magnitude of 72.7%, implying that if credit policies are not clearly designed could negatively impact on the performance of Micro finance institutions in terms of Loan Recovery. The following recommendations were suggested; the organization should enhance their collection policy by adopting a more stringent policy for effective loan recovery, enhance their client appraisal and also enhance their credit risk control, this will help in decreasing default levels as well as their non-performing loans. The recommendations if taken into consideration will build up the efficiency of credit policy towards achieving the set objectives hence enhancing loan recovery.

DEFINITION OF TERMS AND CONCEPTS:

Microfinance Institutions–These are organizations that offer financial services to low income populations. Almost all give loans to their members, and many offer insurance, deposit and other services

Micro Deposit- taking Institution - means a company licensed to carry on, conduct, engage in or transact in microfinance business

Tier III Financial Institutions –Microfinance institutions that are allowed to accept deposits from customers but only in the form of savings accounts

Credit policy- Is an institutions' method of analyzing credit request and its decision criteria for accepting or rejecting applications

Credit standards - The criteria that microfinance institutions use to decide the types of customers for purpose of extending credit

Loan recovery-Refers to process and the rate at which the clients pay back the principal plus interest amount extended to them in form of loans

Collection Efforts - Refers to the procedures micro finance institutions use to collect due accounts.

CHAPTER ONE

GENERAL INTRODUCTION

1.1 Introduction

This chapter presents the back ground of the study, Problem statement, Purpose of the study, the objectives of the study, research questions, Scope of the study, Justification, Significance of the study and the Conceptual Framework.

1.2 Back ground of study.

The growth of the Micro-finance sector has been tremendous in Uganda with some transforming to banks and deposit taking institutions. These institutions offer medium amounts of loans mostly to business people who cannot afford collaterals to get loans from the big commercial banks.

Microfinance institutions belong to a wider group of financial institutions regarded as semi-formal financial institutions. These are institutions which are registered as non-government organizations performing financial functions of lending and taking deposits (Microfinance Act 2003).

According to Dumba (1997), microfinance is an economic development approach intended to benefit the low income groups by providing financial services that are not obtained from other formal financial institutions, financial services generally include savings and credit facilitates. However, some microfinance institutions provide payment services and insurance in addition to financial services

However, there are features that differentiate microfinance from formal financing are; Informal appraisal to borrowers and investment use of collateral substitute's access to loans based on payment performance, stream line with disbursement, monitoring and secure savings product (Bank of Uganda).FINCA Uganda Limited is licensed as a Microfinance

Deposit-taking Institution (MDI) under the MDI act 2003 and it became a Micro Deposit-taking Institution (MDI) in 2004 going on record as being the first Micro finance institution (MFI) to be regulated by bank of Uganda and taking deposits from the public, although the institution has been in the country since 1992. FINCA Uganda offers a wide range of financial services including; Small Group Loans, Village Group Loans, Individual Loans, Salary Loans, School Fees Loan among other to Uganda's lowest-income earners and entrepreneurs with the aim of creating jobs, building assets and improving their standard of living. As a Microfinance Deposit-taking Institution, FINCA Uganda is a Tier III Financial Institution. It is therefore prohibited from dealing in foreign exchange and cannot issue checking accounts. As of December 2015, the institution's asset base was UGX: 128.51 billion, with over 268,100 deposit accounts and over 57,600 loan accounts. The shareholders' equity in the institution totaled about, with shareholders' equity of UGX: 42.67 billion. FINCA Uganda remains at the forefront of information technology in service delivery, being one of the first financial institutions in Uganda to introduce biometric technology in 2011

Loans are given to individuals ranging from low income earners to well off individuals. The recovery of the loans is based on the credit policies that the Microfinance Institutions have in place when disbursing credit or loans to their clients. The purpose of this research will be based on finding out the role played by credit policies on the loan recovery in micro finance institutions in Uganda more so FINCA Uganda.

Different Authors have different views and definitions about what credit policy is and loan recovery, and some these are;

Edminster (1990) defined credit policy as an institutions' method of analyzing credit request and its decision criteria for accepting or rejecting applications. The objective of this policy is to have optimal recovery from debtors as a firm may follow a lenient or stringent credit policy. FINCA Uganda employees a combination of three decision variable measures as were also defined by Pandey I.M (1995) credit standards, credit terms and collection efforts. Credit standards (accessibility measures) are criteria to decide the types of customers for purpose of extending credit such as capital adequacy and asset quality. Credit terms are stipulations under which credit is granted, they specify the duration of credit and terms of payments by customers such as loan period and loan size. Collection efforts determine the actual collection period that is procedures that the institution follows to recover payments of past dues. Like phone calls and individual visits.

Loan recovery refers to process and the rate at which the clients pay back the principal plus interest amount extended to them in form of loans, it is determined by repayment rate, portfolio quality ratios, profitability ratios, productivity and efficiency ratios and scale of depth of outreach.

According to Ssewagudde (2000) credit policy provides parameters, defines procedures and directives that have been carefully formulated, administered from top and well understood at all institution's levels. FINCA Uganda undergoes a set of three procedures of evaluating credit applicants to establish whether or not loans should be granted, these are credit information, credit investigation and analysis in a bid to maintain proper credit standards, avoid excess risk and evaluate business opportunities.

According to Kakuru (2000), defines credit policy as a set of policy actions designed to minimize costs associated with credit while maximizing the benefit from it.

Mugisa (1995) stated that loan recovery rates enable the measuring of performing and non-performing asset ratios (ability to measure the recycle of financial resource levels) hence enabling the institution to enjoy public confidence. Efficient and quick loan recovery minimizes default risk; transport cost for locating the defaulters as well as operating cost thus comfortable loan recovery is any lending institution's necessity

1.3 Problem statement

Sound credit policy management is a prerequisite for a financial institution's stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance in terms of loan recovery and this is why Microfinance institutions try to put in place, policies and procedures which are meant to enable the clients pay in time.

According to Ab Manan et al,(2014) credit policy management continues to be a threat to microfinance sustainability, viability and performance standards, this is as a result of loan borrowers largely failing to repay though it is required by the loan officers that repayment should be made promptly with interest after a given period of time

Despite the efforts of microfinance to recover the loans lent out, there are still high rate of loan defaulters. Bension,(2015) as cited from food security and cooperatives report (2012) shows that out of 5,424 microfinance institutions ,1346 (25%) were inactive organizations which is because of poor quality loan portfolio this is because microfinance institutions provide credits to those that lack collateral security. The credit policy in Microfinance institutions is still a problem because of as a result of inadequate application of the tools of credit policy management.

Credit policy therefore, cannot be ignored by any economic enterprise since it's an important activity in any company irrespective of the nature of the business in management of its accounts receivables. Firms should have time flexibility of shaping credit management policy within the confines of their practices to ensure that it's efficient and effective; it is a means of reducing high default risk implying that the firm should be discretionary in granting loans. Therefore, it is upon this background that I seek to examine the credit policy and loan recovery in MFIs

1.4 Purpose of Study

The purpose of this research was to have an in-depth understanding of the relationship between credit policy and loans recovery in FINCA Uganda Masaka branch

1.5 Objectives of the Study

a) To establish the effect of existing credit policies in FINCA Uganda Ltd, Masaka branch

b) To determine how loans are recovered in FINCA Uganda Ltd, Masaka branch

c) To determine the relationship between credit policy and loan recovery in FINCA Microfinance Masaka

1.6 Research Questions

1) What is the effect of existing credit policies in FINCA Uganda Ltd, Masaka branch

2) How are loans recovered in FINCA Uganda Ltd, Masaka branch

3) What is the relationship between credit policy and loan recovery in FINCA Uganda Ltd Masaka branch?

1.7 Scope of the Study

1.7.1 Geographical scope.

The study was carried out in FINCA Uganda Ltd (Masaka branch offices) Located in Masaka town along Elgin Road, Masaka

1.7.2 Time scope

The research covered a period of three years (2013-2015)

1.7.3 Content scope

This covered the performance (loan recovery) as per credit polices carried out in FINCA Ltd Masaka Branch to confirm whether credit policies improved loan recovery rate.

1.8 Significance of the Study

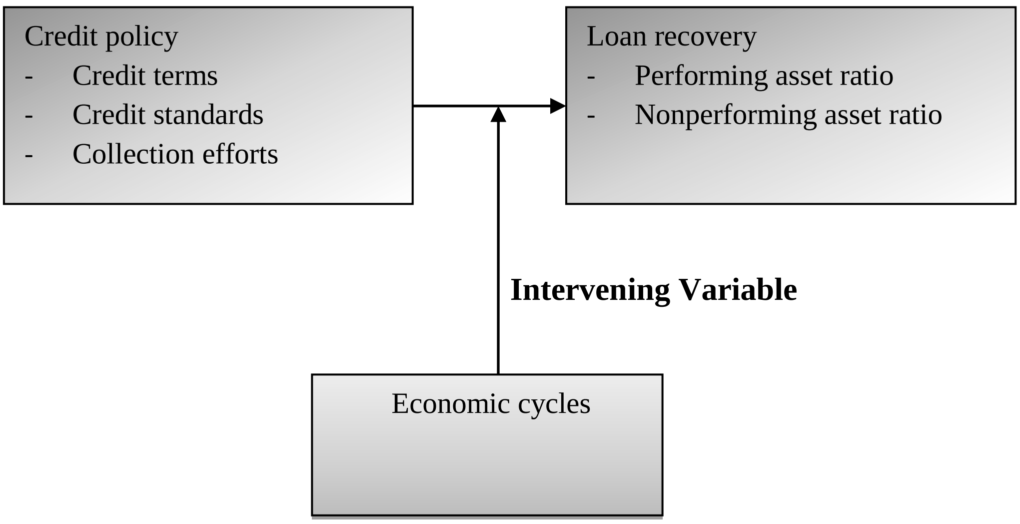
(i) The study will provide an insight to management in FINCA Uganda Ltd Masaka branch how Credit policy affects their ability to recover loans from their clients.

(ii) The study will be of benefit to management in FINCA Uganda Ltd Masaka branch to come up with strong credit policies to ensure that clients are screened properly before extending loans to them

1.9 The conceptual framework

The conceptual frame work below shows the relationship that exists between the independent and the dependent variables and highlights the indicators for credit policy and loan recovery measurement.

Independent variable **Dependent variable**



Source: *Adopted and modified from Karuru (1998), MC Naughton (1996), Pandey (2008) by the researcher*

Credit Terms refers to the conditions under which a microfinance institution extends credit to its customers. If a microfinance institution extends credit to a customer, then the credit terms will specify the credit period and interest rates, this therefore will have an effect on the performance of loans since it stipulates the time of loan repayments hence creating a timely repayment and decrease in default rate. Credit standards help MFIs to improve loan performance, as they get to know their customers. These 5Cs considered in credit standards are character, capacity, collateral, capital and condition. Collection efforts are needed because all customers do not pay the firms bills in time some customers are slow payers which some are non-payers. The collection effort should, therefore aim at accelerating collections from slow payers and reducing bad debt losses, the policy affects timely repayments and decrease in default rate

1.10 Conclusion

This chapter has represented the general introduction of the topic, the back ground of the study and the problem statement. This chapter also represented the purpose of the study, objectives, the research questions, scope of the study, significance and the conceptual framework

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section reviews the available literature on the topic under research. This is done to elaborate the concept of micro finance, the relationship between credit policy and the loan recovery.

It is done mainly from the survey already conducted in the field of credit policy and loan recovery in micro finance institutions in Uganda.

2.1 Concepts of Micro Finance Institutions

Microfinance institutions are defined as institutions that provide financial services to low income earners. These financial services may include savings, loans, insurance transfer and payment services to enhance growth of small scale enterprises (Wood 1998)

According to Graham et al (1990) microfinance refers to the provision of financial services to the low- income earners who do not earn or obtain their services from the formal financial institutions because of their business saving levels and credit needs are very small.

According to Bank of Uganda definition, microfinance institutions are the non-governmental institutions savings and credit co-operatives that provide savings and microloans not exceeding US $ 5000 for project to poor individual's average not exceeding US $1000 per project to poor individual enterprises or groups for the purpose of engaging in income generating activities.

According to Dumba (1997), microfinance is an economic development approach intended to benefit the low income groups by providing financial services that are not obtained from other formal financial institutions, financial services generally include savings and credit facilitates. However, some microfinance institutions provide payment services and insurance in addition to financial services.

The features that differentiate microfinance from formal financing are; Informal appraisal to borrowers and investment use of collateral substitute's access to loans based on payment performance, stream line with disbursement, monitoring and secure savings product (Bank of Uganda, 1995).

2.2 Credit Policy

Credit policies are set of objectives, standards and parameters to guide bank officers who grant loans and manage the loan portfolio. Thus, they are procedures, guidelines and rules designed to minimize costs associated with credit while maximizing the benefit from it (Ahimbishwe, 2002).The main objective of credit policy is to have an optimal investment in debtors that minimizes costs while maximizing benefits hence ensuring profitability and sustainability of microfinance institutions as commercial institutions. The credit policy of an organization may be stringent or lenient depending on the managers regulation of variables that come with credit policy, there are three main variables(elements of credit policy) namely; Credit terms, credit standards and credit procedures (Hulmes, 1992).managers use these variables to evaluate clients credit worthiness, repayment period and interest onloan, collection methods and procedures to take in case of loan default. A stringent credit policy gives credit to customers on a highly selective basis. Only customers who have proven creditworthiness and strong financial base are given loans, the main target of a stringent credit policy is to minimize the cost of collection, bad debts and unnecessary legal costs (Pandey, 2001).

A lenient credit policy on the other hand gives credit to customers on very liberal, lax terms and standards .The main purpose of a lenient credit policy is to increase gains through extending more credits to customers (Kakuru1998 and Pandey 2001).therefore a firm must try to balance between these two extremes in order to maximize portfolio performance. According to Johansson and Terry (1995), credit policy means procedures aimed at checking and controlling the granting of credit facilities, to follow up procedures used to obtain collection of debts outstanding.

2.3 Loan recovery

Robinson M.S report on microfinance revolution Volume I (1994) defines a loan as an extension of credit to another person (client) which maybe long term (more than a year) a short term (less than a year).

Breth (1999) stated that before a deal in signed a loan application is to be completed. This provides risk protections by enabling the lending institutions to follow up when the borrowers fail to honor the agreement.

2.4 Indicators of credit policy

Pandey, (2000) observers that credit policy refers to a combination of three decision variables. These decision variables determine who qualifies for the loan. They include, credit standards, credit terms and collection efforts on which the financial manager has influence.

2.4.1 Credit Standards

This is a criteria used to decide the type of client to whom loans should be extended. Kakuru (1998) noted that it’s important that credit standards be basing on the individual credit application by considering character assessment, capacity condition collateral and security capital.

Character refers to the willingness of a customer to settle his obligations (Kakuru, 2000) it mainly involves assessment of the moral factors.

Social collateral group members can guarantee the loan members known the character of each client; if they doubt the character then the client is likely to default.

Saving habit involves analyzing how consistent the client is in realizing own funds, saving promotes loan sustainability of the enterprise once the loan is paid.

Capacity, this is subjective judgment of a customer's ability to pay. It may be assessed using a customer's ability to pay. It may be assessed using the customer's past records, which may be supplemented by physical or observation.

Condition, this is the impact of the present economic trends on the business conditions which affects the firm's ability to recover its money. It includes the assessment of prevailing economic and other factors which may affect the client ability to pay (Kakuru, 2000)

Collateral security, This is what customers offer as saving so that failure to honor his obligation the creditor can sell it to recover the loan. It is also a form of security which the client offers as form of guarantee to acquire loans and surrender in case of failure to pay; if borrowers do not fulfill their obligations the creditor may seize their asset (Girma, 1996).

According to Chan and Thakor (1987), security should be safe and easily marketable securities apart from land building keep on losing value as to globalization where new technology keeps on developing therefore lender should put more emphasis on it.

2.4.2 Credit Terms

Ringtho (1998) observes that credit terms are normally looked at as the credit period terms of discount and the amount of credit and choice of instrument used to evidence credit. Credit terms may include;

Length of time to approve loans, this is the time taken from applicants to the loan disbursement or receipt. It is evaluated by the position of the client as indicated by the ratio analysis, trends in cash flow and looking at capital position.

Maturity of a loan, this is the time period it takes loan to mature with the interest there on.

Cost of loan. This is interest charged on loans, different microfinance institutions charge differently basing on what their competitors are charging

The chartered institute of bankers and lending text (1993) advises lending institutions to consider amount given to borrowers.

Robinson M.S (1994) pointed out that the maximum loan amount per cycle are determined basing on the purpose of the loan and the ability of the client to repay (including guarantee).

2.4.3 Collection Efforts

Mc Naughton (1996) defines a collection effort as the procedure an institution follows to collect past due account. Collection policy refers to the procedures microfinance institutions use to collect due accounts. The collection process can be rather expensive in terms of both product expenditure and lost good will (Brighan, 1997).

Effort may include attaching mandatory savings forcing guarantors to pay, attaching collateral assets, courts litigation (Myers, 1998). Micro finance institutions may send a letter to such individuals (borrowers) when say ten days elapse or phone calls and if payment is not received with in thirty days, it may turn over the account to a collection agency (Myers, 1998).

Collection procedure is required because some clients do not pay the loan in time some are slower while others never pay. Thus collection efforts aim at accelerating collections from slower payers to avoid bad debts. Prompt payments are aimed at increasing turn over while keeping low and bad debts within limits (Pandey, 1995). However, caution should be taken against stringent steps especially on permanent clients because harsh measures may cause them to shift to competitors (Van Horn 1995).

2.4.4 Economic Cycles

The term economic cycle (or business cycle) refers to economy-wide fluctuations in production or economic activity over several months or years. These fluctuations, according to Pandey (2008) occur around a long-term growth trend, and typically involve shifts over time between periods of relatively rapid economic growth (an expansion or boom) and periods of relative stagnation or decline (a contraction or recession)**.** The economic cycles also play an important role on MFI's choice of issuing or not issuing loans.

2.5 Indicators of Loan Recovery

The following are the measures used to determine loan recovery. Repayment rate measures the amount of payment received with respect to the amount due. Portfolio quality ratios; involves the arrears rate portfolio risk and the ratio delinquent borrowers. The arrears ratio rate shows how much of the loans have become due and has not been received. Portfolio rate refers to the outstanding balance of all loans that have an amount due. Delinquent borrowers determine the number of borrowers who are delinquent relative to the volume of delinquent loans.

Profitability ratio measures on micro finance institutions net income in relation to the structure of its balance sheet. This helps investors and managers determine whether they are earning an adequate return on funds invested in the microfinance institutions. Productivity and efficiency ratios provide the information about the rate at which micro finance institutions generate revenue to cover their expenses. Productivity ratio focuses on the productivity officers because they are primary generators of revenue. The ratio includes; Number of active borrowers per credit officer (performing assets), Total amount disbursed in the period per credit officer, Portfolio outstanding per credit officer (Non- performing assets)

Efficiency ratios measure the cost of providing loans to generate revenue; these are referred to as operating costs and should include neither financing costs nor loan loss provisions.Scale and depth of outreach of the Microfinance institutions to collect data on their clients base both the scale of their activities (number of clients served with types of instruments) and the depth of outreach (type of client reached and their level of poverty).

Outreach indicators include; number of active borrowers, total balance of outstanding loans average outstanding, real annual average growth rate of loans outstanding during the past years loan size, average minimum and maximum, average disbursed loan size, average outstanding raters, average loan term, nominal interest rates, effective annual interest rates, value of loans per staff member and number of loans per staff member.

2.6 Problems faced by microfinance institutions in delivering financial services to rural poor people

Whereas micro finance institutions and other credit programs are designed to benefit the rural poor and disadvantaged in Uganda, their operations have faced a number of constraints, these involve;

Poor client’s assessment procedures, clients are given loans without assessing the character, capacity and collateral of the borrower.

Low incentive to save, Uganda has a very low domestic saving to gross domestic product (GDP) of 6-8% (Bureau of labor statistics 2010).

High interest rate, The higher the interest rate, the more income to micro finance institutions but also means that the higher the cost to borrowing to the clients, (Stem, 1991). If the customers fail to pay on time, the rates cannot yield income. Demand of credit is a function of interest, in accordance to the law of demand (Brook, 1993) customers will stop borrowing if the interest rate is high.

In order to succeed in the promotion of economic interest of member lending institutions, most recognize the responsibility to members; it is important for the aim at sustainability.

Sustainability is the ability of micro finance institutions to generate income from operation that covers administration costs and losses covering costs from earned income (Ministry of finance, planning and economic development 2004) Micro finance institutions need increasing income size and repetitive borrowing of increasing loan size and fail to pay, the micro finance institutions lose revenue and if it continues may lead to its collapse (micro finance forum, 2003). To ensure long term sustainability there must be growth in customers and size of portfolio lent out. Micro finance institutions need to grow in order to generate income needed to pay for operations of their services (Atuhaire, 2001).

Micro finance institutions quote only nominal interest rate to customers but there are other additional costs the clients incur like penalties on default, travel time for meetings, mandatory saving and loan size.

According to UNDP report, Feb. 2005 clients that receive small loans do not utilize the loan on economic activities and those that receive bigger loan spend them on non- productive activities.

Regulatory frame work; Lack of proper regulatory frame work has made micro finance institutions face a high non-loan repayment. Poor regulatory system determines a minimum standard of operation through self-regulatory body of micro finance saving mobilization of fixed interest rates operation overlapping can be looked in to by regulatory body (Shafiques, 2000).

2.7 Relationships between credit policy and loan recovery

2.7.1 Credit standards and loan recovery

Excellent credit management policies provide the institution with a reasonable and adequate return on loans and capital employed primarily through improvement in operations efficiency this generates adequate internal resources to finance the institution's growth (Pandey, 2000).

The institution may have tight credit standards that it may extend loan to the most reliance and financially strong customers such standards will result in no bad debt losses and less cost of credit administration (Pandey, 2000).

Pandey (1995) stressed that credit standards are criteria for selecting customers for credit; the fund may have higher credit standards that is extending loans to selected customers with good reputation or record. On the other hand customers have to be evaluated to see if they meet the standards set by the management before loans are extended to them. However, (Van Home, 1995) states that when an institution extends loan to only strongest customers, it will never have bad losses and will incur fewer administration expenses.

2.7.2 Credit terms and loan recovery

When borrowers are given small amount of money it will not be sufficient for business operations yet given too much money it is spent on non- productive activities causing high non - loan repayment. The credit manager should check on the amount the customer is demanding for whether it is too much or little. The chartered of bankers and lending text (2002) advises lending institutions on the amount to give a borrower.

2.7.3 Collection efforts and loan recovery

Collection efforts determine the actual collection period of the loan (Pandey, 2000) it is the supervision of the credit loans. The policy refers to procedure an institution or firm follows to obtain payment of past due. It may involve sending a letter to such clients when they are for instance, ten days past due data or phone calls, if payment is not received with thirty days court action may be taken. Collection procedures are needed because some clients do not pay their dues in time if firms carry out this policy, it will quicken recovery portfolio and hence reduce bad debts.

However, it may not guarantee full recovery because some clients are slower in repayment while others never pay (Pandey,1992). Credit policy decisions are based solely on borrower's will and ability to recover loans, the amount of loan is therefore based on the client's needs and assessed loan recovery ability of the enterprises.

2.8 Conclusion

As the term microfinance is used to refer to the provision of profitability microfinance services such as small savings and loans to economically active poor people by sustainable financial institutions (Bruntland, 1987). These services are provided by competing institutions within the industry.

Credit policy has continued to be an important aspect in the loan recovery of microfinance institutions. They determine the structure of micro finance institution's performance since its operations are based on granting loans to its customers making a benefit on interest rates.

Microfinance institutions should therefore come up with credit policies which should reflect the borrower's financial needs or otherwise the institutions will be vulnerable to risks arising from failures to non-loan recovery. This affects microfinance institutions' sustainability and it depends on the credit policy in place and if a remedy is not sought of, it significantly affect the performance of such institutions in terms of loan recovery

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This presents the methods employed in data collection and analysis. It describes the research design, study population, sample size, sample design, sample procedure. Data collection tools, data processing and analysis.

3.2 Research Design

The study adopted descriptive research design where both qualitative and quantitative approach was employed to gain an in-depth understanding of credit policy and loan recovery in MFIs a case of FINCA Uganda Ltd microfinance Masaka. Qualitative data helped to draw conclusions and recommendations; it further enabled the understanding of effectiveness and efficiency of the credit policy and loan recovery while quantitative design was used to evaluate facts from the field.

3.3 Study Population

The population comprised of 40 respondents of whom both were staff and clients to FINCA Uganda Ltd microfinance institution in Masaka. Clients and staff members were used as a control group to study the behavior and the rate of credit policy, loan recovery and criteria that is used to give out loans to its customers.

3.4 Area of study

The study was carried out in the FINCA Uganda Ltd (Masaka branch offices) Located in Masaka town along Elgin Road, Masaka

3.5 Sample size and selection

The sample size deduced from study population of 40 respondents with the help of stratified random sampling consisted of 36 respondents whose structures were the employees and clients of FINCA Uganda Ltd Masaka to obtain relevant information.

Table 1 Sample size

Category	**POPULATION (N)**	**SAMPLE (n)**
Credit management officials	17	15
Client	23	21
TOTAL	**40**	**36**

Source: *Krejcie & Morgan*

3.6 Sampling techniques

The researcher used a stratified random sampling technique during the study. Stratified random sampling is a process of sample selection which involves dividing the population into none overlapping groups called strata or selecting the sample from each stratum using a simple random technique. The choice was made in order to enable the researcher get adequate representation of the whole population. With a stratified random sampling, the sample can be kept small without losing its accuracy. Besides this, the characteristics of each stratum can be estimated and hence a comparison between the two variables is easily made. This is because it is not possible to survey the entire population due to financial and time constraint.

3.6.1 Sampling procedure

By stratified method the researcher formed strata and the respondents from each stratum were selected using a simple random sampling for instance how much one borrows

(Less than100, 000, 100,000, 400,000-700,000, 700,000-1,000,000 and above 1,000, 000)

3.7 Data collection methods

Data collection methods used to collect data from the field included the followings:

3.7.1 Questionnaire

This is a list of set questions which respondents answered in writing. The questionnaires were structured in such a way that the questions asked were written in the spaces provided. It contained both open and close ended questions which were easily understood and didn't require a research assistant to answer the questions.

3.7.2 Interview guide.

The researcher used interview method to find out information from respondents and recorded the results, interviews were mainly used for respondents who were not able to read and write. This was done by reading the questions and the respondents are allowed to answer them freely and this provided more information than questionnaires ask for.

3.8 Data management and analysis

Raw data collected from the field was processed into meaningful information. The process involved editing, tabulation and analysis with a view of checking the completeness and accuracy of the information got from the field.

3.8.1 Editing

This was intended to detect and eliminate errors that may have occurred. This aimed at ensuring that only relevant, correct and crucial information is identified and used to draw conclusions.

3.8.2 Tabulation

Some data was presented in tables to enable the researcher analysis and identify the relationship between the variables.

3.8.3 Analysis

Quantitative analysis; under this technique, the data was collected manually and then fed into the computer using the Statistical Package for Social Scientists to generate percentages, frequency, and tables. Pearson's correlation co-efficiency was used to find out the relationship between credit policy and loan recovery.

3.9 Reliability and Validity

For validity and reliability of the data, the research was based on the interviews and the questionnaires that respondents provided during the research study which was properly analyzed and edited to provide complete and accurate information

3.10 Ethical consideration

Confidentiality and the use the information for the intended purposes for which the information or data is obtained for was considered by the researcher

Citing and referencing other peoples' work that has been done on the same topic so as to avoid plagiarism was also considered.

Voluntary participation of the people who assisted the researcher to carry out the research and to analyze the data

3.11 Limitations

There was too much pressure from the supervisor and from the scheduled activities in the semester, but with all that, the researcher had to divide his time appropriately to meet the scheduled activities of the semester and also the pressure from the supervisor to meet the deadline.

Some of the respondents were not friendly and some were reluctant to fill in the questionnaires in time and others could not express themselves in writing when it came to filling the questionnaires. The researcher had to be friendly to all the respondents, for those who were reluctant; he had to make reminders to them and also befriending them and for those who could not write, the researcher had to read for them the questions and make an interpretation and tick where appropriate

Financial constraint since research required a lot in terms of financial resources for printing and transport and feeding. To overcome this, the researcher made sure that he kept enough money with him solicited from family members and the personal savings.

3.12 Conclusion

This chapter has represented the methodology, techniques and the data collection methods that were used to collect data from the field. It also presents how data was managed and analyzed, the reliability and validity of the data, the ethical considerations including the limitations which were encountered by the researcher when collecting the information that was required in the research work.

CHAPTER FOUR

DATA PRESENTATION AND DISCUSSION

4.1 Introduction

The chapter involves presentation, analysis and interpretation of the study results. Data presented, analyzed and interpreted according to the research objectives. It is presented in the form of tables and figures basing on the responses got from the study respondents that were selected during the process of data collection.

4.2. Demographic characteristics of the respondents

4.2.1 Gender composition of the respondents

Table 2: Showing gender composition of the respondents

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Female	23	63.9	63.9	63.9
Male	13	36.1	36.1	100.0
Total	**36**	**100.0**	**100.0**	

Source: Primary Data

According to the study findings as in table 2, most of the respondents were females as compared to the males. The number of females who participated in the study was represented 63.9% as compared to 36.1% of the male respondents. Further findings by the study revealed that the difference in percentage arose as a matter of fact that most female were involved in microfinance activities as a way of elevating themselves from poverty than their counterparts who have a poor perception about microfinance Institutions' services are basically government programs to benefit women only

4.2.2 Marital status of the respondents

The marital status of the respondents was also covered and analyzed to assess their views in relation to the study variables credit policy and loan recovery in FINCA Uganda Ltd, Masaka branch as shown below;

Table 3: Showing marital status of the respondents

Status	Frequency	Percent	Valid Percent	Cumulative Percent
Married	17	47.2	47.2	47.2
Single	15	41.7	41.7	88.9
Divorced	4	11.1	11.1	100.0
Total	**36**	**100.0**	**100.0**	

Source: Primary Data

As seen in the table 3 above, majority of the study respondents constituting 47.2% were married and these were followed by respondents who were single as revealed by 41.7% of the respondents then 11.1% of the respondents who were divorced. The study established that majority of the respondents were married. This means that they have established and permanent homes and have the capacity to borrow compared to the singles that have no permanent places of residence and therefore, they are at a high risk of defaulting

4.2.3 Age composition of respondents

The age composition of the study respondents was also an important factor in the process of understanding credit policy and loan recovery of FINCA. This was so because different age groups were assumed to understand the study variables differently yet considered vital to the study.

Table 4: Showing age composition of the respondents

Age	Frequency	Percent	Valid Percent	Cumulative Percent
Under 25yrs	4	11.1	11.1	11.1
25-35yrs	19	52.8	52.8	63.9
35-45yrs	12	33.3	33.3	97.2
Above 45yrs	1	2.8	2.8	100.0
Total	**36**	**100.0**	**100.0**	

Source: Primary Data

In accordance with the table above, 52.8% of the respondents were in the 25-35 age groups which were the majority. 33.3% were between 35 and 45, 11.1% were under the age of 25years, while 2.8% which was the minority was above 46 years. This indicates that most of the clients are already married with established families to organize and borrow money for income generating projects.

4.2.4 Level of education of respondents

In order to get information from all categories of people, those that have attained Secondary, tertiary, University levels of education and others like primary were all approached during the study process. This established the levels of education of the respondents as indicated in the table below

Table 5: Showing highest level of education of the respondents

Education Level	Frequency	Percent	Valid Percent	Cumulative Percent
Primary	6	16.7	16.7	16.7
Diploma	4	11.1	11.1	27.8
Degree	26	72.2	72.2	100.0
Total	**36**	**100.0**	**100.0**	

Source: Primary Data

The table 5 above shows that most of the respondents had attained up to degree level of education with 72.2% followed by 16.7% of the study respondents who had primary level education while the minorities were diploma level holders which were reported by 11.1% of the respondents. The study on further understanding revealed that poor credit management was dominant among the degree and diploma holders despite their ability to understand all necessities regarding loan management compared to the primary level holders. This further showed that the primary level holders are able to use the borrowed funds and put them in to profitable business ventures which make them to be able to meet their loan obligations.

4.2.5 Existing credit policies in FINCA Uganda Ltd, Masaka branch

4.2.5.0 Credit standards

The study took in to consideration to establish the different credit policies employed in FINCA Uganda Ltd, Masaka branch and different questions were asked and different responses were obtained to achieve the research objective. The following were the results to each element of credit standard

4.2.5.1 Client's character assessment

To find out whether FINCA Uganda Ltd considers client's characters before extending a loan was also another aspect that was carried out under the study by the researcher.

Table 6: Response on whether FINCA Uganda Ltd considers client's character for loan extension

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	15	41.7	41.7	41.7
Agree	16	44.4	44.4	86.1
Not sure	4	11.1	11.1	97.2
Strongly disagree	1	2.8	2.8	100.0
Total	**36**	**100.0**	**100.0**	

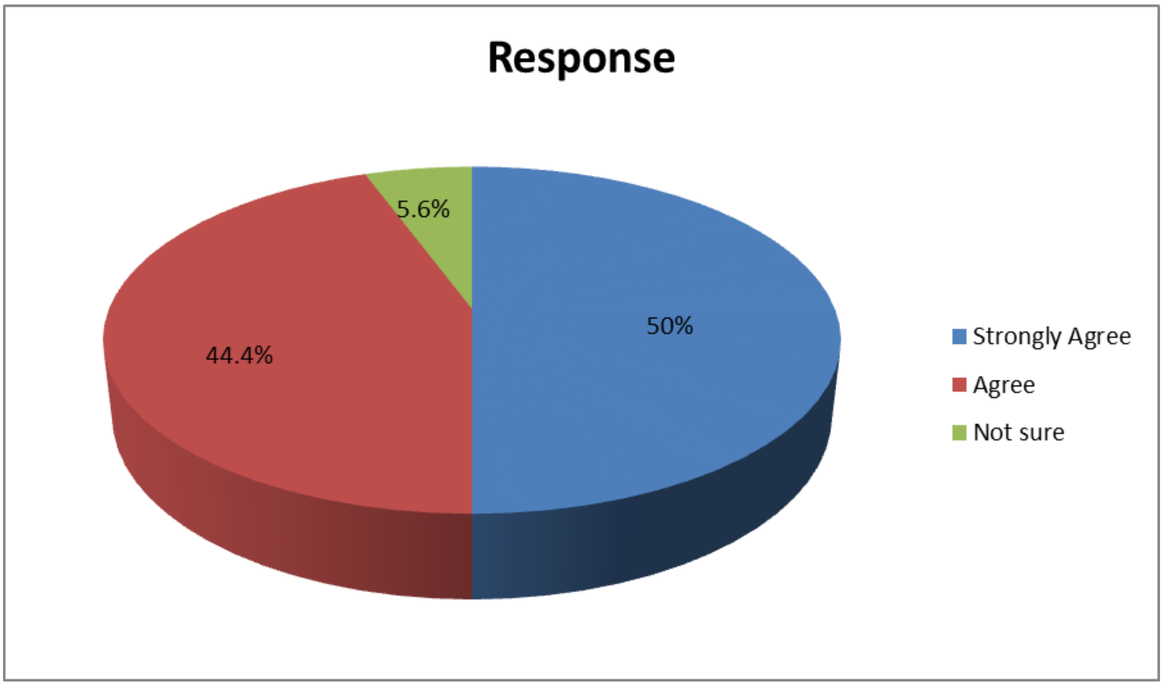
Source: primary data

According to the table above, the respondents who agreed and the ones who strongly agreed were the majority taking the highest percentages of 44.4% and 41.7% respectively and it comprised more of females than their counterparts while those who were not sure were 11.1% and those who strongly disagreed were 2.8%. The findings revealed that 44.4% and 41.7% altogether agreed that FINCA considers client's character before extending the loan. However, it may be difficult for FINCA to critically assess its clients' characteristics

4.2.5.2 Collateral security assessment.

Here the research aimed at finding out whether FINCA Uganda Ltd, Masaka branch considers a person's collateral before giving out a loan was also considered since it's a major aspect in effective loan recovery. The following were the results from the respondents

Figure 1: Showing the whether FINCA Uganda considers collateral



Source: primary data

The analysis found out that 50% of the respondents which was the majority strongly agreed where as 44.4% agreed and those who were not sure were 5.6%. The study revealed that FINCA Uganda considers collateral security before extending the loans to its clients as a way to get assurance that the client will be in position to meet his or her obligation and in case of default the collateral security can be used to recover the loan

4.2.5.3 Prevailing economic conditions assessment.

Given the prevailing economic conditions in the country, the researcher had to find out whether FINCA Uganda Ltd, Masaka branch considers the prevailing economic conditions before extending loans to its clients. The table below summarizes the findings.

Table 7: Prevailing economic conditions determine credit access

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	16	44.4	44.4	44.4
Agree	19	52.8	52.8	97.2
Not sure	1	2.8	2.8	100.0
Total	**36**	**100.0**	**100.0**	

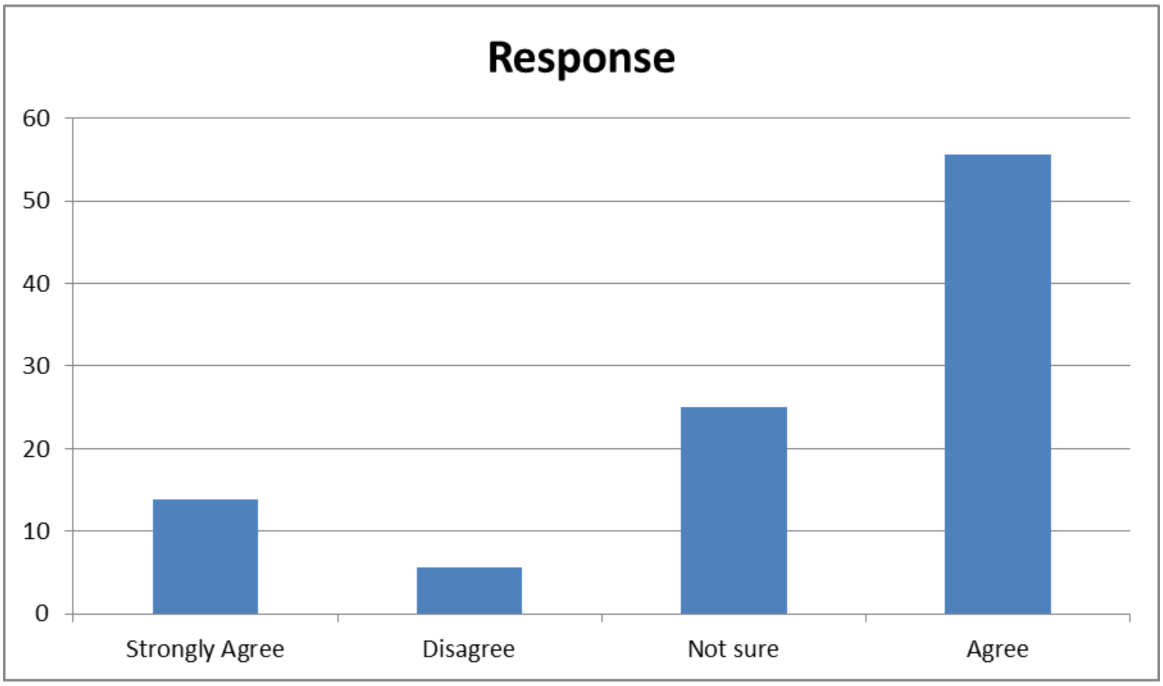
Source: primary data

The table above shows that 52.8% of the respondents agreed that economic conditions are considered while 44.4% also strongly agreed while 2.8% were not sure. The results from the respondents indicated that they were informed that FINCA considers the prevailing economic conditions before it gives out credit to its clients. In order to ensure repayment from clients, these conditions such as political and economic cycles like recession, boom among others need to be considered. For example, if Loans are given to clients during inflationary conditions or given to clients during instabilities, it means clients will not be able to meet their loan obligations

4.2.5.4 Assessment of Customers' financial status for loan access

The researcher carried out also to establish whether FINCA considers financial status of its clients before extending the loans. The following are the findings as shown in the figure below

Figure 2: Showing the analysis of customers' financial status.



Source: primary data

From the figure above, It was observed that 55.6% of the respondents agreed that before a client is given a loan his or her financial status is assessed, 25% were not sure, 13.9% strongly agreed while 5.6% of the respondents disagreed. The analysis showed that the majority 55.6% agreed and 13.9% of the respondents who strongly agreed are literate about the question that FINCA Uganda Ltd considers client's financial status before extending the loan to them. However, 25% of the respondents who were not sure were illiterate about it while 5.6% of the respondents disagreed with it. This is done by FINCA Uganda in an attempt to reduce bankruptcy exposures and also reduce advancing credit to unworthy clients.

4.2.5.5 Clients' capacity to pay back assessment

On the aspect of whether FINCA Uganda Ltd, Masaka branch considers the client's capacity to pay back the loan in a given loan period was considered by the researcher under this study.

Table 8: Assessment of clients' capacity to pay back

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	16	44.4	44.4	44.4
Agree	18	50.0	50.0	94.4
Not sure	2	5.6	5.6	100.0
Total	**36**	**100.0**	**100.0**	

Source: primary data

From the table above, the majority of the respondents represented by 50% agreed that FINCA Uganda Ltd assesses the clients' capacity to pay back, 44.4% strongly agreed while 5.6% of the respondents were not sure of the question. Findings revealed that FINCA's credit officers assess the clients' capacity to pay back by looking at their past records such as earnings and savings. However, findings also revealed that where clients were not able to pay back the loan in time, their pledged property as security could be sold in a bid to regain the principal and besides this, also legal actions could be taken against the borrower.

4.2.5.6Assessment of customers' trustworthiness for loan access

The research also based on the fact to find out whether FINCA Uganda Ltd considers the customers' trustworthiness before a loan could be extended and the following were the results.

Table 9: Trustworthiness of the customers for loan access

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	7	19.4	19.4	19.4
Agree	27	75.0	75.0	94.4
Not sure	2	5.6	5.6	100.0
Total	**36**	**100.0**	**100.0**	

Source: Primary Data

From the analysis, it can be seen that 75% of the respondents agreed that FINCA Uganda assesses the customer's trustworthiness before extending loans to its clients, 19.4% strongly agreed while 5.6% were not sure. The findings revealed that despite all the methods applied by FINCA are properly documented but they are not sufficiently used to cater for all attributes of credit screening of their clients and this was considered to be a weakness of the credit officers

4.2.6 Credit term assessment

4.2.6.1. Assessment of Customers' comfortability with the loan payback period

During the research, respondents were asked whether the customers were comfortable with the loan period extended to them. The following figure shows the level of response.

Table 10: Showing the comfortability of clients with the loan payback period

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	2	5.6	5.6	5.6
Agree	18	50.0	50.0	55.6
Not sure	8	22.2	22.2	77.8
Disagree	6	16.7	16.7	94.4
Strongly disagree	2	5.6	5.6	100.0
Total	**36**	**100.0**	**100.0**	

Source: primary data

The results summarized in the table above show that 50% of the respondents agreed with the fact that customers are comfortable with the loan period extended to them, followed by 22.2% who were not sure, those who disagreed were 16.7% while those who strongly agreed and strongly disagreed tied up with 5.6%. Findings showed that most clients are comfortable with the loan period given to them because they are able to promptly service their loans, and 5.6% who strongly agreed and disagreed, it was revealed that they have ever fallen victims of loan default with penalties and legal means while enforcing payment from them.

4.2.6.2 Respondents' view on the goodness of the loan size extended to them

Respondents during the study were asked whether the loan size that FINCA Uganda Ltd extends to them was good. The following table shows the level of response.

Table 11: Goodness of loan size

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	3	8.3	8.3	8.3
Agree	19	52.8	52.8	61.1
Not sure	7	19.4	19.4	80.6
Disagree	7	19.4	19.4	100.0
Total	**36**	**100.0**	**100.0**	

Source: primary data

From the table above, it is shown that majority of the respondents (52.8%) agreed that FINCA Uganda's loan size that it extends to its clients is good, those who were not sure and disagreed represented 19.4% and 13.9% while 8.3% strongly agreed. This implies that clients are satisfied with the size of the loans that FINCA Uganda Ltd extends to them depending on the loan amount asked.

4.2.6.3 Analysis of loan period length

The response on the length of the loan period was also considered in this study and the results are as follows:

Table 12: Response of the length of the loan period

Response	Frequency	Percent	Valid Percent	Cumulative Percent
4 months	2	5.6	5.6	5.6
less than 8 months	4	11.1	11.1	16.7
1 year	24	66.7	66.7	83.3
above 1 year	6	16.7	16.7	100.0
Total	**36**	**100.0**	**100.0**	

Source: primary data

The table above shows that majority of respondents (66.7%) acquired the loan for one year, 16.7% of the loan was acquired for a period above one year, 11.8% was acquired for period less than eight months while 5.6% was in a period four months. This implies that most of the loans extended to customers have a length period of one year and above one year therefore, are enough periods for the clients. The research findings also revealed that the length of the loan was based on one's loan size.

4.2.6.4 Respondent's view on loan amount asked for.

FINCA Uganda Ltd gives loans of different sizes to its customers in response to the loan amounts asked for by the clients. The table below shows the results.

Table 13: Response to loan amounts asked for.

Amounts	Frequency	Percent	Valid Percent	Cumulative Percent
100,000- 400,000	1	2.8	2.8	2.8
400,000- 700,000	12	33.3	33.3	36.1
700,000- 1,000,000	10	27.8	27.8	63.9
Above 1,000,000	13	36.1	36.1	100.0
Total	**36**	**100.0**	**100.0**	

Source: primary data

From the table above, 36.1% of the respondents asked for loans that were above 1,000,000 Shillings, 33.3% asked for loan amounts ranging from 400,000 to 700,000 shillings, 27.8% asked for amounts ranging from 700,000 to 1,000,000 shillings while 2.8% asked for the amounts ranging from 100,000 to 400,000shs. The findings revealed that FINCA Uganda gives loans to all categories of people ranging from small and big amounts without discrimination depending on the need of their customers for developments projects

4.2.6.5. Description of interest rates charged

The interest rate of loans offered by FINCA Uganda Ltd was another aspect that was analyzed during the study. Responses to the description of interest rates charged by FINCA resulted in to the following information as shown in the figure below.

Table 14: showing the description of interest rates charged by FINCA Uganda

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Very high	4	11.1	11.1	11.1
High	9	25.0	25.0	36.1
Fair	20	55.6	55.6	91.7
Low	2	5.6	5.6	97.2
Very low	1	2.8	2.8	100.0
Total	**36**	**100.0**	**100.0**	

Source: primary data

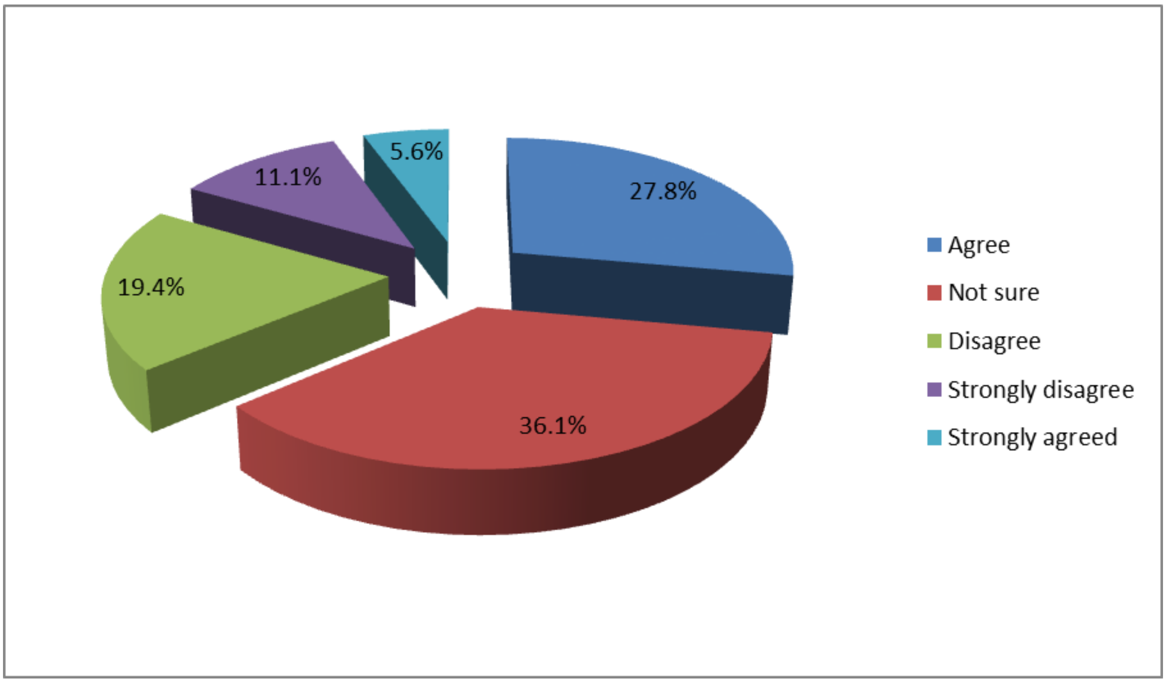
It is shown from the table above that 55.6% were convinced that the interest rate is fair, 25% said the interest was high while 11% of the respondents said that the interest rate was very high, 5.6% the response was that the interest rate is low while 2.8 its very low. The findings revealed that FINCA's interest rates are relatively fair to its clients since it targets people who are low income earners, where the interest rate is high its meant to cover operating costs of the institution and is consequently felt by borrowers. But despite all this, the loans extended by FINCA were of low interest rate which makes them affordable and friendly to clients.

4.2.7. Assessment of the Collection efforts

The researcher also took in to consideration of the Collection efforts that FINCA Uganda Ltd uses to recover payments from the customers as a way to minimize the default rate of the loans disbursed

4.2.7.1 Credit weekly deposits analysis

Figure 3: Requirement to make weekly deposits



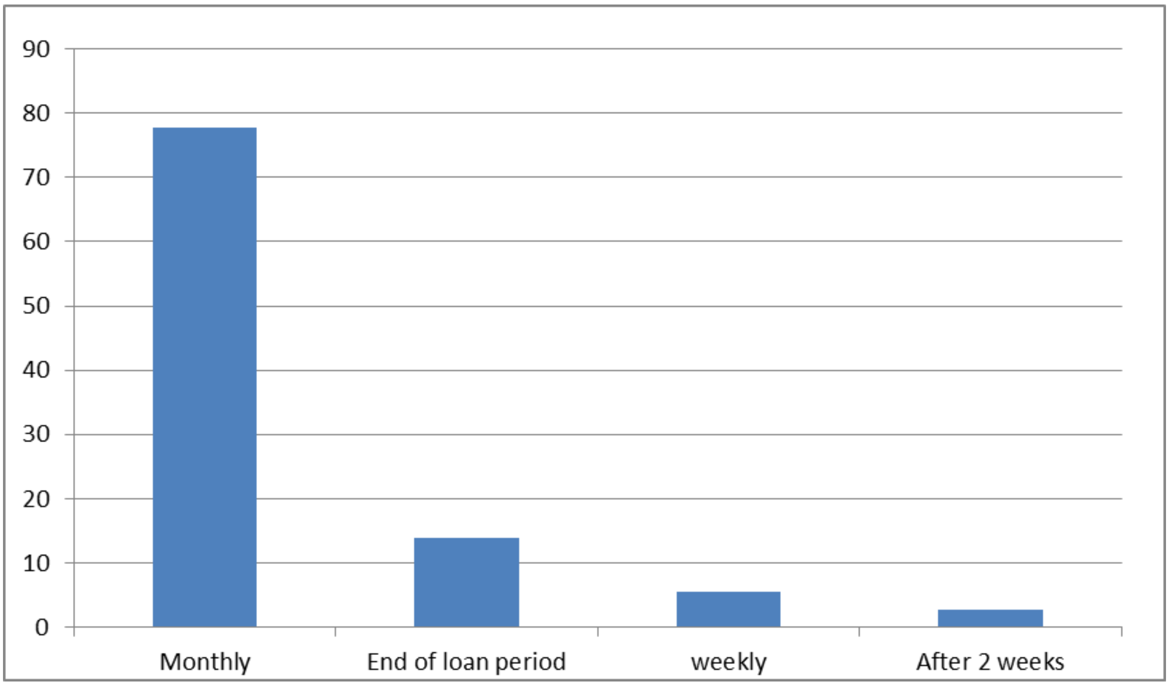
Source: primary data

From the figure, the majority (36.1%) were not sure that clients are required to make weekly deposits in order to avoid default and concluded that the weekly deposits are unfavorable. They further expressed that if weekly deposits are made they can reduce on the risk of defaulting. 27.8% agreed, 19.4% disagreed, 11.1% strongly disagreed and 5.6% strongly agreed. However, finding revealed that the weekly deposits are meant to guarantee and enhance customers to be able to meet their loan obligations in time which reduces the risk of loan defaults but in FINCA Uganda, weekly deposits are at the option of the clients

4.2.7.2 Assessment of whether clients are reminded on repayment in case of default

When asked how often customers are reminded in case of a default, the respondents had the following to say as summarized in the table below

Figure 4: Frequency of customer reminder in case of default



Source: primary data

From the figure above, 77.8% which was the majority of respondents said customers are reminded monthly, 13.9% said they are reminded at the end of the loan period, 5.6% weekly while 2.8% said they are reminded after two weeks. This is done by FINCA Uganda in an attempt to reduce the risk of loan default and also to ensure that clients are informed of their due dates when to clear their obligations. However, the study revealed that customers are normally reminded every end of the month to pay their loans

4.2.7.3 Methods of communication to defaulting clients

When asked on the methods used by FINCA Uganda to communicate to the defaulting clients, the respondents had the following to say as summarized in the table below

Table 15: Communication methods used (Frequency and percentages)

Response	Letters	Percent	Telephone	Percent	Personal visit	Percent
Very common	-	-	28	77.8	04	11.1
Common	02	5.6	07	19.4	06	16.7
Not common	24	66.7	-	-	16	44.4
No opinion	10	27.8	01	2.8	10	27.8
TOTAL	**36**	**100**	**36**	**100**	**36**	**100**

Source: primary data

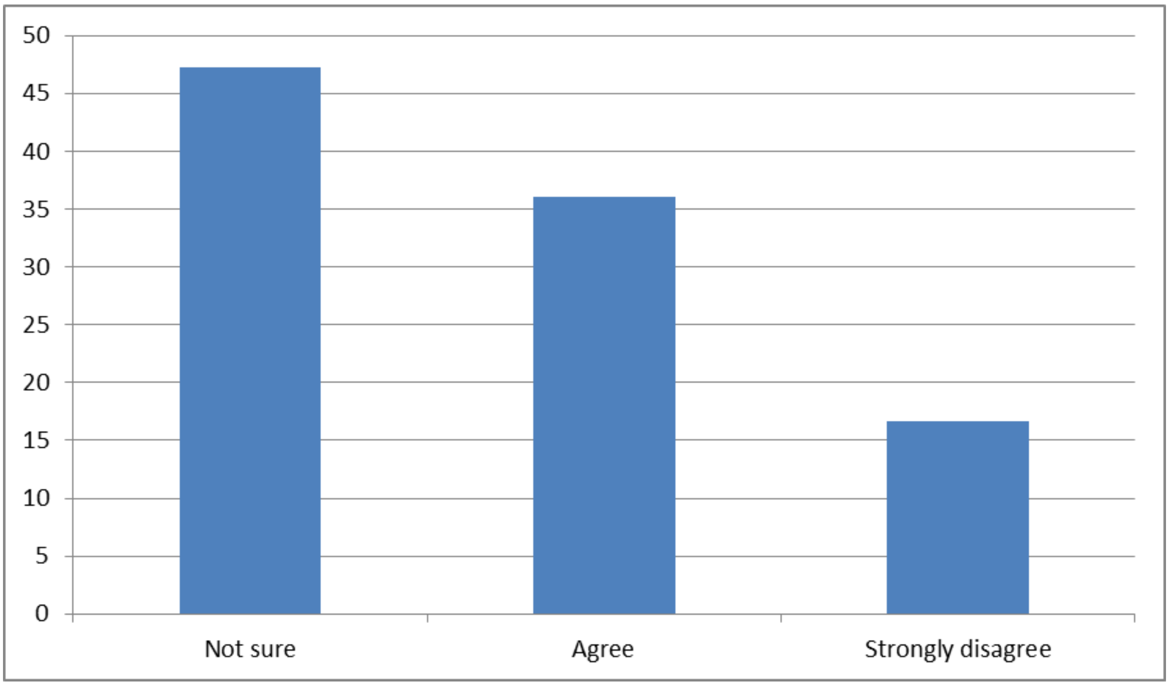
In the table above, the results indicated that 66.7% of the respondents said letters were not commonly used to communicate to defaulting clients in recovery procedures by FINCA Uganda, 27.8% gave no opinion, 77.8% said that telephones were very commonly used by loan officers, 2.8% had no opinion while 44.4% said that personal visits were not commonly used. Finding revealed that the commonly used method was phone calls to remind its customers to pay.

4.2.8 Findings on how loans are recovered in FINCA Uganda Ltd.

4.2.8.1 Regulatory framework influence

During the study, the researcher also asked respondents whether the regulatory framework influences recovery of loans and the results were as below.

Figure 5: Influence of regulatory framework on recovery of loans



Source: primary data

From the figure above, 42.7% of the respondents were not sure whether regulatory framework influences repayment of loans and this was the majority. 36.1% agreed while 16.7% strongly agreed. It was revealed that proper regulatory body could determine the obligation set by the body for example to suit their client's needs. When the government or the association of MFI in Uganda requires MFI to charge low interest rate, the blow is felt by this institution. Especially having extended the loan on a higher interest rate than the one recommended and in this case there is reluctance from customers to meet their loan obligations like monthly interest payments inclusive.

4.2.8.2 Penalties assessment

These are used in loan Recovery procedures to recover the loan. The researcher also asked if the customers can face penalties if they do not pay the loan in time. The following table shows the responses.

Table 16: Responses on use of penalties due to failure to pay in time

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	17	47.2	47.2	47.2
Agree	11	30.6	30.6	77.8
Not sure	5	13.9	13.9	91.7
Disagree	3	8.3	8.3	100.0
Total	**36**	**100.0**	**100.0**	

Source: primary data

The table above shows that the majority (47.2%) strongly agreed that customers face penalties if they do not pay in time. 30.6% agreed, 13.9% were not sure of the question while 8.3% disagreed. The researcher found out that there was a penalty that was imposed on clients who failed to pay their loans in time. However despite penalties, clients still default due to some inevitable factors like deaths and clients diverting of the loans

4.2.8.3 Use of legal means to enforce loan repayment

The researcher also during the study asked the respondents if the legal means are sometimes employed by the management when all other efforts failed. The following responses were recorded.

Table 17: Employment of legal means in loan recovery

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	17	47.2	47.2	47.2
Agree	17	47.2	47.2	94.4
Not sure	2	5.6	5.6	100.0
Total	**36**	**100.0**	**100.0**	

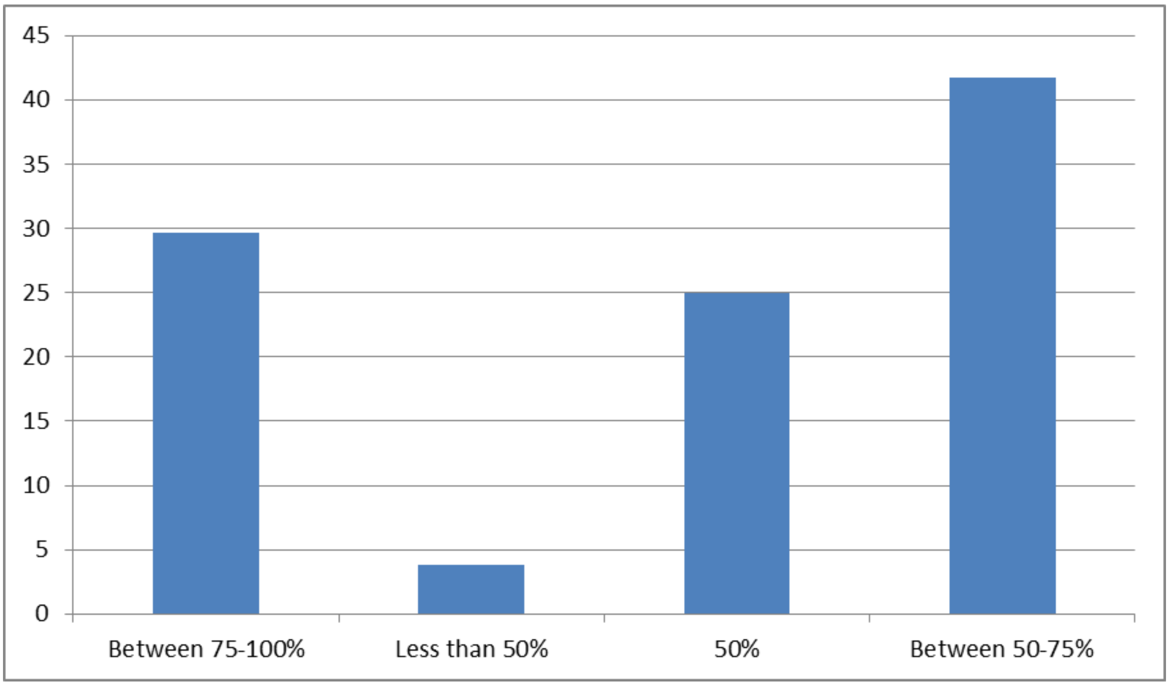
Source: primary data

The table above shows that majority of the respondents representing 47.2% strongly agreed that legal means were sometimes used, 47.2% also agreed while 2.9% were not sure. Findings revealed that some time management uses legal means to recover loans from defaulting clients if all other means have failed. However, despite the use of legal means by management, loan default was still a major challenge to the institution because of the inadequate policies that are used to screen customers for credit

4.2.8.4 Analysis of the loan percentage recovered

The researcher also during the study thought it important to ask the respondents which percentage of the loan disbursed to customers is paid back. The figure below shows the responses

Figure 6: Responses to loan percentage paid back



Source: primary data

From the figure above, 41.7% of the respondents said that 50-75% of the loan is paid back, 29.7% of the respondents said that, the percentage that pays back the loans is between 75-100%, 25% represented respondents who said that it's 50% while 3.8% of the respondents said it is less than 50%.The findings reveled that due to the remainders made by the loan officers, the institution is able to recover 50-75% of the loans given out. However, still a lot has to be done to ensure that the default rate reduces.

4.2.8.5 Assessment on whether loan repayment in time is determined by remainders to customers

The researcher also found it important to find out whether loan repayment in time is determined by remainders to customers in FINCA Uganda. The results were as follows in the table below;

Table 18: Responses on loan repayment in time

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	4	11.1	11.1	11.1
Agree	20	55.6	55.6	66.7
Not sure	6	16.7	16.7	83.3
Disagree	6	16.7	16.7	100.0
Total	**36**	**100.0**	**100.0**	

Source: Primary data

From the table above, the majority of the respondents with 55.6% agreed that loan repayment in time is determined by remainders to customers. 16.7% were not sure about the question, 16.7% also disagreed while 11.1% strongly agreed. Findings revealed that loan repayment in time in FINCA Uganda is determined by the reminders that are made by the loans officers to the clients to avoid unnecessary excuses from borrowers that they were not aware of payment date.

4.2.8.6 Assessment on whether recovery of loans is influenced by interest rates charged

The researcher also during the study asked the respondents if the recovery of loans in FINCA Uganda is influenced by interest rates charged. The following responses were recorded.

Table 19: Responses on whether recovery of loans is influenced by interest rates

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	14	38.9	38.9	38.9
Agree	16	44.4	44.4	83.3
Not sure	1	2.8	2.8	86.1
Disagree	4	11.1	11.1	97.2
Strongly disagree	1	2.8	2.8	100.0
Total	**36**	**100.0**	**100.0**	

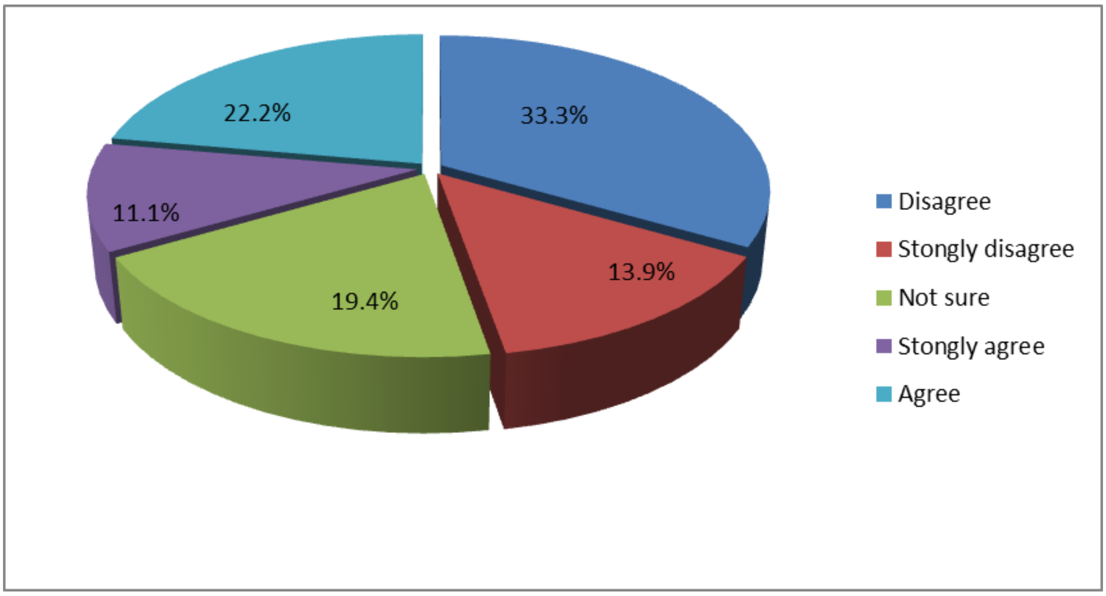
Source: Primary data

From the table above, majority of respondents with 44.4% agreed that recovery of loan recovery is influenced by interest rates, 38.9% strongly agreed, 11.1% disagreed while 2.8% strongly disagreed. Findings revealed that FINCA Uganda charges relatively fair interest rates which are affordable to all its customers. On further research it was revealed that however fair the interest rates, respondents still are unable to meet their loan obligations which make it a challenge to the institution

4.2.8.7 Findings on whether the Loan amount extended to customers affects loan recovery

The loan amount offered by FINCA Uganda Ltd to its clients was another aspect that was analyzed during the study to establish whether it affects loan recovery. Responses to the description of interest rates charged by FINCA resulted in to the following information as shown in the figure below.

Figure 7: showing respondents' views on whether recovery of loans is affected by the Loan amount extended



Source: Primary Data

From the above figure, 33.3% of the respondents who were the majority disagreed that the Loan amount extended to customers affects loan recovery, 22.2% agreed, 19.4% were not sure with the question, 13.9% strongly agreed while 11.1% strongly agreed that recovery of loans is affected by the Loan amount extended to the clients. However, the study revealed that the loan amount extended does not affect loan recovery because there were clients with big loan amounts but where able to meet their loan obligations as compared to those with small loan amounts and this was attributed to customers' characteristics like honesty and trustworthiness.

4.2.8.8 Findings on whether FINCA Uganda loan officers are trained to recover Loans

When respondents were asked whether loan officers are trained to recover loans from clients, they gave the following responses.

T able 20: Training of loan officers in loan recovery

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	10	27.8	27.8	27.8
Agree	19	52.8	52.8	80.6
Not sure	4	11.1	11.1	91.7
Disagree	2	5.6	5.6	97.2
Strongly disagree	1	2.8	2.8	100.0
Total	**36**	**100.0**	**100.0**	

Source: primary data

According to the table above, 52.8% of the respondents agreed that the loan officers are trained to recover loans from clients, 27.8% of the respondents strongly agreed, 11.1% were not sure, 5.6% disagreed while 2.8% strongly disagreed. When asked, the loan officers attributed it to the mechanisms that are in place when screening customers for credit

4.2.9 Data relating to the relationship between credit policy and loan recovery.

The study took in to consideration to establish whether there is a relationship between credit policies employed in FINCA Uganda and loan recovery

4.2.9.1 Findings on the Relationship between credit policies and loan recovery in FINCA Uganda, Masaka

In finding out the relationship between credit policy and loan recovery of FINCA Uganda, the researcher performed a correlation analysis using SPSS, Variables such as credit standards, credit terms and collection efforts were used to explain the effect of a stringent or a weak credit policy in FINCA. The Pearson correlation coefficient was used to establish this relationship as shown below;

Table 21: The relationship between credit policy and loan recovery

Correlations		**Credit policy**	**Loan recovery**
	Pearson correlation	1.000	0.727**
	Sign. (2 tailed)		0.060
	N	36	36
Loan Recovery	Pearson correlation	0.727**	1.000
	Sig. (2 tailed)	0.060	
	N	36	36
** Correlation is significant at 0.05 Level (2. Tailed)			

Source: Statistical Package for Social Scientists (SPSS)

The findings indicated that credit policies affect the loan recovery levels by 72.7%. This is a positive significant relationship (r=0.727) implying that credit policies affect the loan recovery levels. However, the findings also indicated that there are other factors which affect the financial status of the organization represented by 27.3%.

4.2.10 Conclusion

This chapter has presented an analysis and discussion of data collected on the effect of credit policy and loan recovery of FINCA Uganda. The chapter has presented the summary of the various statistics that were important in establishing the relationship that exists. The chapter has also used Carl Pearson’s correlation coefficient to illustrate this relationship.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of data findings, conclusion drawn from the findings highlighted and recommendations made. The conclusions and recommendations drawn were focused on addressing the objectives of the study. The study sought to determine the credit policy and loan recovery in FINCA Uganda Ltd Masaka branch

5.2 Summary and conclusions

5.2.1Assessment of the existing credit policies in FINCA Uganda Ltd, Masaka branch

The study was based on the variables that affect credit policy such as credit standard, credit terms, Client's character assessment and collection procedures or such efforts exists in the lending policy used by FINCA Uganda. There is therefore a need for FINCA to influence financial sustainability while meeting the required social objectives. Credit policy is formulated and reviewed on a regular basis to be consistent with the decision-makings on client appraisal, advancement of loans, collection policy and be in cycle with the objectives and goals of the credit function. The study revealed that a carefully documented credit policy is a fundamental requirement able to serve the following purposes; specify performance targets and monitor activities for credit staff, define the objectives of credit granting and timing of collection actions and define objectives of credit extension in the context of corporate strategy and organization structure.

The study revealed that FINCA Uganda uses credit appraisal as a viable tool in management of credit risk. Aspects of collateral, Client's character assessment; characteristics like age, marital status and education levels were investigated and found to be having a bearing on the client's understanding of the credit policies and recovery procedures and the client's past records with the Institution are considered while appraising a client before extending credit since failure to assess customers' potential in repayment of loans may result to loan delinquency.

FINCA Uganda Ltd should develop a more stringent credit policy of giving credit to customers on a highly selective basis. Only customers who have proven creditworthiness and strong financial base should be given loans, the main target of a stringent credit policy is to minimize the cost of collection, bad debts and unnecessary legal costs

5.2.2 Findings on how loans are recovered in FINCA Uganda

Findings indicated that loans default in FINCA Uganda is relatively low because of the methods used by the institution to enhance its customers to meet their obligations. However, collateral security is the most considered factor for purposes of credit extension, several tactics were used by the institution to ensure payback, and most important was remainders made to customers to avoid unnecessary excuses from borrowers that they were not aware of payment date and more so it was observed that also penalties were given to those clients who failed to pay in time.

FINCA Uganda Ltd should ensure that the credit officers should carry out personal visits as a way of monitoring its customers on a weekly basis and also after the loans have been granted to its customers, they should do the follow-up to ensure that money is used for the intended purposes it was asked for as a way of ensuring that it's not diverted and also encourage its clients to normally make weekly deposits with the institution which will help to reduce the default rate

5.2.3 Relationship between credit policy and loan recovery

The findings indicated a positive significant relationship implying that credit policies affect the loan Recovery level of FINCA Uganda Ltd. The study indicated that credit policies if not clearly designed could negatively impact on the performance of Microfinance institutions in terms of Loan Recovery, implying that the more efforts put on credit policy, the higher the loan recovery made concluding that the two variables are significantly related.

5.3 Recommendations

The study recommends that FINCA Uganda Ltd should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective loan recovery. The study also recommends that there is need for FINCA Uganda Ltd to enhance their client appraisal techniques so as to improve their financial performance in terms of loan recovery. Through client appraisal techniques, FINCA Uganda Ltd will be able to know credit worth clients and thus reduce their non-performing loans.

There is also need for FINCA Uganda Ltd to enhance their credit risk control this will help in decreasing default levels as well as their non-performing loans. This will help in improving their financial performance in terms of loan recovery.

5.4 Suggestions for further research

Further studies should be conducted using various methods of data collections such as interviews and focus group discussion to improve on accuracy of the results. Larger sample size should also be used for more accurate findings

The study should be compared with findings from other institutions in the same industry in order to establish the similarities and differences that may be evident. This will assist Microfinance institutions to benchmark with other organizations

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APPENDICES

APPENDIX I: QUESTIONNAIRES

Confidentiality statement

Dear respondents;

This questionnaire is purely for academic purpose, designed for obtaining information about the relationship between credit policy and loan recovery in FINCA Uganda Ltd Masaka Branch. This research is a requirement for the award of a Bachelor's degree in Business Administration and Management of Uganda Martyrs University and therefore the information obtained will be treated with confidentiality

Thank you

Use the key below answering the following questions: Apply a tick where applicable using the following key. SA – Strongly, A – Agree , NS – Not Sure, D – Disagree SD – Strongly disagree

A. Personal Data

1. Gender (Tick where appropriate)

a) Female ☐ b) Male ☐

2. Marital Status

a) Married ☐ b) Single ☐ c) Widow ☐ d) Divorced ☐

3. Age

a) Under 25 ☐ b) 25-35 ☐ c) 35- 45 ☐ d) Above 45 ☐

4. Level of Education

a) Primary ☐ b) Diploma ☐ c) Degree ☐

Other (specify)……………………………..

B. Data relating to existing Credit Policies in FINCA Uganda Ltd

i) Credit Standards

STATEMENT	SA	A	NS	D	SD
1. FINCA Uganda Ltd considers client's characters before extending a loan					
2. FINCA Uganda Ltd considers customer's collateral before extending the loan to them.					
3. To qualify to credit, prevailing economic conditions are considered					
4. To access capital it considers the customer's financial status in order to extend loan to them.					
5. FINCA Uganda Ltd Masaka Branch assesses customer's capacity to pay back in order to qualify for the loan					
6. FINCA Uganda Ltd considers the trustworthiness of customers before extending a loan to them.					

ii) Credit terms

STATEMENT	SA	A	NS	D	SD
1. Are customers comfortable with the loan period that FINCA Uganda Ltd Masaka Brach extends to them?					
2. The loan size that FINCA Uganda Ltd Masaka Branch extends to clients is good					

3. What is the length of the loan period given to customers?

Less than 4 weeks	4 months	Less than 8 months	1 year	Above 1 year

4. What loan amount do clients ask for?

Less than 100,000	Between 100,000 – 400,000	Between 400,000 – 700,000	Between 700,000 – 1,000,000	Above 1,000,000

5. How do you describe the interest rate charged by FINCA Uganda Ltd MFI?

Very high	High	Fair	Low	Very low

iii) Collection efforts

1) Does FINCA Uganda Ltd requires clients to make weekly deposit in order to avoid default?

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

2) How often are customers reminded by FINCA Uganda Ltd Masaka Branch in case of a default?

Weekly	After 2 weeks	Monthly	End of loan period	Not at all

3) FINCA Uganda Ltd uses the following methods to communicate and remind its clients.

	Very common	Common	Not common	No opinion
Letters				
Telephone				
Personal visit				

C. Data relating to how loans are recovered in FINCA Uganda Ltd Masaka Branch

STATEMENT	SA	A	NS	D	SD
1. The regulatory framework influences customers to repay the loan.					
2. Can customers face penalties if they don't pay the loan in time?					
3. Does management uses legal means when all other efforts have failed?					
4. Does Payment of loan in time in FINCA Uganda Ltd is determined by the reminders to customers?					
5. Recovery of loans is influenced by interest rates charged on clients.					
6. The loan period given to customers affect loan recovery in FINCA Uganda Ltd Masaka Branch					
7. The loan amount extended to customers affects the loan recovery in FINCA Uganda Ltd.					
8. Loan officers in FINCA Uganda Ltd are trained to recover loans from clients.					

D. Data relating to relationship between credit policy and loan recovery

STATEMENT	SA	A	NS	D	SD
1. FINCA Uganda Ltd Masaka Branch credit policy is set in order to recover the loan.					
2. Is there any direct relationship between credit policy and loan recovery?					

3. How do you rate credit policy and loan recovery in FINCA Uganda Ltd?

Very high default	High default	Moderate	Low default	Very low default

a. What challenges do you as customers face in repaying the loan back?

(i)…………………………………………………………………………………………………

(ii)…………………………………………………………………………………………………

(iii)…………………………………………………………………………………………………

b. What steps do you think FINCA Uganda Ltd Masaka Branch should take in order to improve on its credit policy and ensure high loan recovery?

(i) …………………………………………………………………………………………………

(ii)………………………………………………………………………………………………

c. Customers borrow from FINCA Uganda Ltd at the same time from other lending institutions

A. Yes ☐ B. No ☐

If yes why? ………………………………………………………………………………..

…………………………………………………………………………………………………

If no, why ……………………………………………………………………………………

…………………………………………………………………………………………………

APPENDIX II

INTRODUCTORY LETTER

Uganda
Martyrs
University

making a difference

Office of the Dean
Faculty of Business Administration and Management

Your ref.:
Our ref.:

Nkozi, 30th January 2017

To Whom it may Concern

Dear Sir/Madam,

Re: Assistance for Research:

Greetings and best wishes from Uganda Martyrs University.

This is to introduce to you SSEMPALA JOSEPH who is a student of Uganda Martyrs University. As part of the requirements for the award of the Degree of Bachelor of Business Administration and Management of the University, the student is required to submit a field based study work which involves a field research on a selected case study such as a firm, governmental or non governmental organization, financial or other institutions.

The purpose of this letter is to request you permit and facilitate the student in this survey. Your support will be greatly appreciated.

Thank you in advance.

Yours Sincerely,

Mr. Edward Segawa
Associate Dean

UGANDA MARTYRS UNIVERSITY
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30 JAN 2017
P. O. BOX 5498, KAMPALA
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