THE RELATIONSHIP BETWEEN CREDIT MANAGEMENT AND LOAN RECOVERY ON MICROFINANCE INSTITUTIONS IN UGANDA

A CASE STUDY: HOFOKAM KASESE BRANCH

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Dedication

I dedicate this report to my parents Mr. Baluku Joseph and Mrs. Kiiza Thereza and my uncle Kule Abraham and Fr. Masereka Augustine who have supported me all the way through my academic journey, and also to my brother Mr. Mumbere Julius who also financially supported me.

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List of Abbreviations

MFIs-	Microfinance Institutions
HOFOKAM-	Hoima Fort portal Kasese Microfinance
EBDIT-	Earning Before Depreciation, Interest and Taxes
ROSCA-	Rotating Saving and Credit Associations
SLBC-	State Level Bankers' Committee
UNDP-	United Nation Development Plan
VAT-	Value Added Tax
NGOs-	Non Governmental Organizations
BOU-	Bank of Uganda
GDP-	Growth Domestic Product

Abstract

Following the several services and products offered by MFIs to its clients, a study was conducted to investigate the relationship between credit management and loan recovery on microfinance institutions in Uganda. The study was guided by the following research objectives: to assess the relationship between credit policy and loan recovery in MFIs. To establish the relationship between interest rates on loan recovery in MFIs. To design strategies on how credit documentation and loan recovery in MFIs can be improved.

The researcher used both primary and secondary data. The primary data was got from HOFOKAM loans officers and its clients. The information was obtained by use of self-administered questionnaires. Secondary data was obtained from published material which included journals and online internal reports.

In this study a sample size of 42 respondents was used from whom data was obtained. A cross-sectional survey research design was used to investigate the relationship between the variable. It was found out that HOFOKAM has got well established loan recovery procedures thus the effective credit policies result into effective loan pay backs. More so the bad debts registered in HOFOKAM and as indicated in the problem statement, are as a result of loans officers not following the procedures of loan recovery.

The results of the study show that there is a strong positive relationship between credit management and loan recovery in microfinance institutions in Uganda.

It is recommended basing on the above problem that the loans officers more so put in other strategies to ensure effective loan recovery. Taking all that is required to ensure that bad debts pay the outstanding amount should be taken before the loans are written off as bad debts.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

Microfinance is a tool used in poverty alleviation and empowerment of low income earners in less developed countries (Tamil, 2010) cited by Joseph 2012.

Microfinance Institutions are special financial institutions that have both a social nature and a for-profit nature. Their performance has been traditionally measured by means of financial ratios. The paper goes beyond simple financial ratios using a data envelopment analysis (DEA) approach to measure the efficiency of MFIs. (Omega 2007)

The Microfinance sector in Uganda is made of formal and informal microfinance finance institutions (Hanning 2000) cited by Abanis 2013. The formal institutions are either companies which are regulated under the banking laws; financial intermediaries which are not banks but regulated by the government as Microfinance Deposit taking Institutions; non-regulated companies that offer only credits; or formally registered cooperatives and societies that serve their members. The formal institutions are members of the Association of Microfinance Institutions of Uganda.

Microfinance institutions in Kenya have suffered significant loan repayment default resulting into subsequently decreased employment levels and cash flow problems in microfinance institutions. This study was carried out in order to establish the causes of such repayment defaults in Imenti North District, Kenya. Using a descriptive survey design individual

Microfinance loan beneficiaries and microfinance institution officials were studied. A representative random sample of 400 respondents was selected from the study population using

Census and cluster sampling procedures for micro finance institutions officers and loan beneficiaries respectively (Munene 2013)

How many microfinance institutions (MFIS) exist in Uganda? Where are they located? How many households do they reach? What is their current performance in terms of loan repayment? These questions usually raised about microfinance address issues such as the role of credit management towards loan recovery to microfinance institutions. The problem of loan recovery is not yet adequately addressed. However there have been previous efforts to set up solution to loan recovery in microfinance institutions.

1.1 Background of the Study

The greatest triumph of microfinance is the demonstration that per household can be reliable bank customers. At the start of the 1970s substantial subsidies were required to run financial institutions serving poor households in low income countries like Uganda. Government banks often shouldered the talk of serving the poor, usually with a focus on farmers. However most state run banks were driven by political imperatives and so they charged interest rate well below market rates and even then collected loan repayments only half-heartedly.

Beginning with the 1980's, microfinance pioneers started shifting the focus. Instead of farmers they turned to people in villages and towns running "non-farm enterprises" like running small stores, making handicrafts. The shift brought advantages: non- farm business tend to be less vulnerable to the vagaries of weather and crop prices and they can generate income on a fairly steady basis. The top micro lenders boast repayment rates of 98 percent and higher, achieved without requiring that loans be secured with collateral. The experiences in cities and villages in Africa and Asia refute decades, of assertions that the way to serve the poor is with massive subsidies.

The high loan recovery rates for microfinance institutions were credited to new lending practices, especially “group lending” or “joint liability lending”, and economic theorists took note. There is now a rich literature following Stiglitz (1990) cited by Cull 2008. In the original models, customers were typically formed into small groups and required to guarantee each other’s loan repayments, aligning their incentives with those of the bank. Today a broader set of mechanisms is recognized as also contributing to microfinance success especially the credible threat to deny defaulters’ access to future loans, with or without group contracts. In addition, microfinance institutions have proven particularly able to reach poor women, providing the hope of breaking gender based barriers. In most place men dominate farming decisions, but women play large roles in running household side business and women have quickly become the main microfinance client, even in countries where gender equality is far from the norm. by 2000, 95 percent of Grameen Bank’s customers were women, and this shows that women have become a focus of microfinance worldwide.

In the 1990s, policy makers took a big leap, arguing that the new microfinance institutions should be profitable or in the prevailing code language, they should be financially sustainable. The argument for emphasizing profit making microfinance institutions proceeds. First it holds that small loans are costly for banks to administer but that poor households can pay high interest rate. Money lenders it is often pointed out routinely charge interest rates of over 100 percent per year, so it is reasoned charged anything lower must be a benefit. (GAP, 1996) cited by Cull 2008 articulates this argument sharply. Secondly, at the root of problems in state banks and that even in non-governmental institutions, ongoing subsidization can weaken incentives for innovation and cost-cutting. Thirdly subsidies are not available in the quantities necessary to fuel the

growing sector, so that if the goal is to spread microfinance widely, no practical alternative exists to pursuing profitability and, ultimately, full commercial status.(Cull 2008)

The less developed countries share common characteristics in terms of economic and social goals that identify them either as poor or nation in transition. Microcredit programs in Sub-Saharan Africa for the most part, face the same set of problems and opportunities, everything from debt repayment to outreach- as do comparable programs in those regions across the globe. Annan.2005

As part of global effort World Back and UNDP has been showing concern over poverty in Africa. Millions of US dollars have gone into giving aid to poor countries of Sub-Saharan Africa (SSA) to help reduce poverty. Today it is said that donors are getting tired because poverty situations are getting worse despite huge aid and other resources to Africa.

Microfinance Institutions and other finance institutions must develop a credit policy to govern their credit Management operations (Pandey, 2008) Cited by Haron and since microfinance institutions generate their revenue from credit extended to low income individuals in the form of interest charged on the funds granted (Central Bank Annual Report, 2010) cited by Haron the loan repayments may be uncertain. The success of lending out credit depends on the methodology applied to evaluate and to award the credit (Ditcher, 2003) Cited by Haron and therefore the credit decision should be based on a thorough evaluation of the risk conditions of the lending and the characteristics of the borrower.

Numerous approaches have been developed in client appraisal process by financial institutions. They range from relatively simple methods, such as the use of subjective or informal approaches, to fairly complex ones, such as the use of computerized simulation models (Horne, 2007) cited

by Haron. Many lending decisions by Microfinance institutions are frequently based on their subjective feelings about the risk in relation to expected repayment by the borrower. Microfinance institutions commonly use this approach because it is both simple and inexpensive. While each company would have its own method of determining risk and quality of its clients, depending on the target group, the following client evaluation concepts are useful for most occasions. These concepts are referred to as the 5C's of credit appraisal (Edward, 1997) cited by Haron, 2012. These elements are Character, Capacity, Collateral, Capital and Condition (Edward, 1997) as cited by Haron O. Moti 2012.

1.2 Problem Statement

Credit Management is an effort aimed at monitoring loans right from the time of loan application to maturity and it also involves evaluation of credit applicants, repayment of loans by the clients, planning procedures to recover back the loans from clients. The credit policies adopted by post HOFOKAM are: It writes-off loans over 120days late once yearly in June. The write-off policy is well executed for the past two years, but outside the loan reserves. Follow up of written-off loans is monitored quarterly and tracked in off-balance sheet accounts in the MIS.

Despite the fact that HOFOKAM has adopted the above credit policies the microfinance has had challenges recovering its debt from clients hence the problem poor loan recovery. This is highlighted as follows; no specific guidelines have been set-up as of yet when to stop collection and remove late loans from off-balance sheet accounts. Overall there is a lack of awareness regarding concentration risk within HOFOKAM. Currently no information is available on portfolio diversification as this data is not tracked.

1.3 Broad Objective of the Study

1.3.1 Major objective

To Investigate the Relationship between Credit Management and Loan Recovery in Micro Finance Institutions in Uganda

1.3.2 Specific objectives

1. To assess the relationship between Credit Policy and Loan Recovery in Micro Finance Institutions

2. To establish the relationship between interest rates on loan recovery in Micro Finance Institutions

3. To design strategies on how credit documentation and loan recovery in Micro Finance Institutions can be improved.

1.4 Research Questions of the Study

1. What is the relationship between credit policy and loan Recovery in Micro Finance Institutions?

2. What is the Relationship between interest fee and loan Recovery in Micro Finance Institutions?

3. What strategies were designed to improve credit documentation and loan Recovery in Micro Finance Institutions?

1.5 Research Hypotheses of the Study

Of central interest is the question; Do Credit Management affects Loan Recovery mostly in the event of default and if so, does this contribute to systematic variation of the recovery rates? The latter question arises because there is evidence that commercial loan standards vary counter-cyclically. To answer this, I examine the determinants of loan recovery. I employ the recovery concept that specifies recovery rates as a fraction of the face value. Other recovery concepts employed in the literature include the "recovery of Market value", which defines the recovery rate as a fraction of the per-default market value.

1.6 Significance of the Study

This research will help the researcher to better understand Credit Management setting in relation to loan recovery.

The research will highlight or elaborate more on the areas of loan recovery that may need to be modified.

The research will pave way for other researchers who are interested in this field to learn from it and expand upon their research.

1.7 Justification of the Study

Though many writers have written on Loan recovery in micro finance institutions, there is need to also research more on loan recovery using the Credit Management of the micro finance institutions.

The research about Credit management on loan recovery in microfinance institutions will bring about awareness to understand what credit management does towards loan recovery in microfinance institutions.

The study also served as a basis of reference for further studies on the impact of credit management on loan recovery on microfinance institutions of Uganda.

The research will equip the students and other people with the skills and techniques on how to conduct a research and this will help in future research because of the wider knowledge, methods and experience on carrying out there research.

1.8 The Scope of the Study

1.8.1 Geographical scope

The research is going to be carried out at HOFOKAM microfinance Kasese. Located on Margarita street and it is in Western region more so near the near the Equator.

1.8.2 Content scope

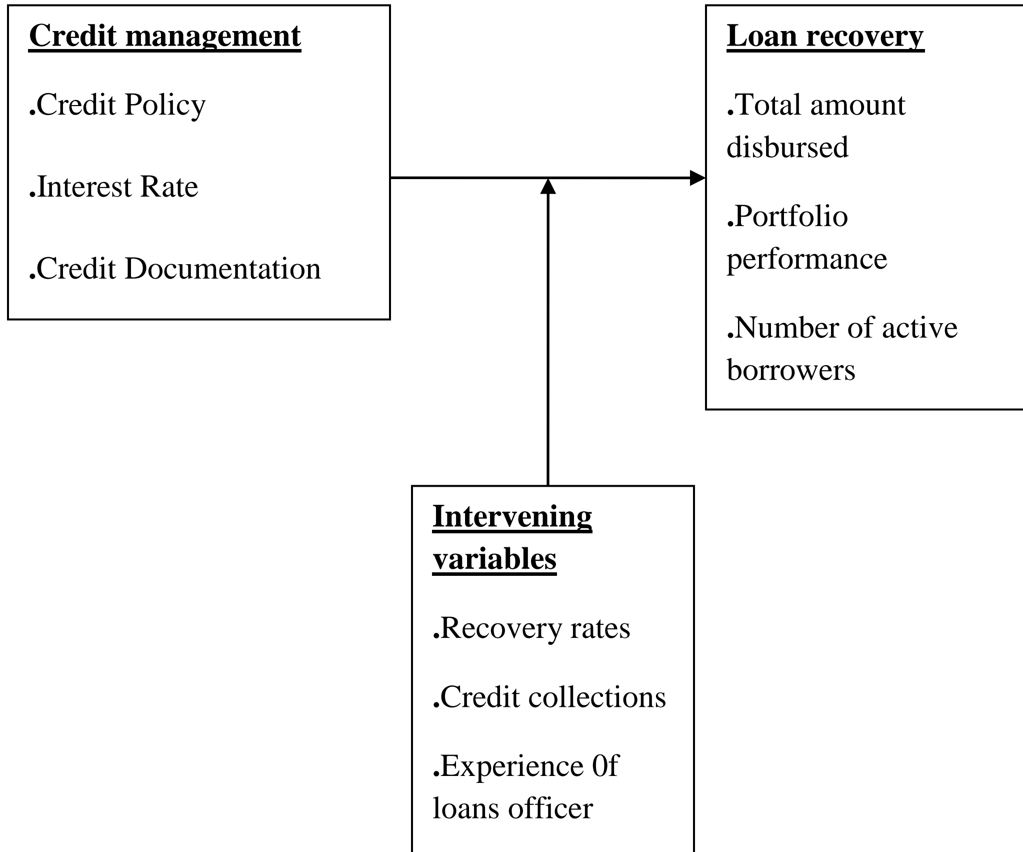
It cover the performance of loan recovery as per credit management is carried out in HOFOKAM micro-finance Kasese and to confirm whether Credit Management improve Loan recovery rates.

Subject in studying A, B and their dimension they influence of intermediate variable will not be elaborate in this study.

1.8.3Time scope

Credit Management and loan recovery between 2005 and 2014 was considered.

1.9 Conceptual Framework of the Study



Source: Ainebyona, F 2011. As developed by the researcher in this study

Dependent variable

Loan recovery is the prime variable of interest. It is the dependent variable

In addition intervening variables are also found in this framework however they are not studied in my literature.

Independent variable

A number of factors have been identified as contributing to loan performance. For the purpose of this study they were categorized into credit management. Under which the following were studied; credit policy, interest rate and credit documentation.

Intervening variables

The intervening variable include; recovery rates, credit collections, and experience of the loans officers. These influence the relationship between the independent variables credit management and loan recovery in MFIs.

1.10 Definition of Key Terms

Credit: the ability of a customer to obtain goods or services before payment, based on the trust that payment will be made in the future.

Management: the process of dealing with or controlling things or people in an institution.

Loan: a thing that is borrowed, especially a sum of money that is expected to be paid back with interest.

Recovery: a debt from a loan, credit line or accounts receivable that is recovered either in whole or in part after it has been written off or classified as a bad debt.

Loan Recovery: When a loan has been taken by a person from a bank then he has to repay it according to the EMI fixed by the bank but if the person has failed to pay the EMI regularly for a fixed period then the account is named as NPA and after that bank start recovery procedure means to take back his loan amount from the mortgaged property of the person according to the procedure of securitization act.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents literature related to the study. Furthermore this chapter concerns a review of major existing literature on credit management and loan recovery. It is done mainly from the survey already conducted in the field of credit management and loan recovery in microfinance institutions in Uganda. This chapter will be presented in relation to the research objectives or research questions earlier noted in chapter one of the study.

2.1 Concepts of microfinance institutions.

A microfinance institution is an organization that offers financial services to low income populations. Almost all give loans to their members, and many offer insurance, deposit and other services. Cited by (world press 2009)

The main aim of microfinance institutions is to provide funds for investment in micro businesses that is expected to increase income to investor or households, and hence improve their livelihood. It has been observed that most borrowers use micro credit finances on food, shelter and clothing to meet their basic needs rather than investment. Bayang (2009) cited by Munene (2013). Put it at the time of loan disbursal, the poor borrowers are preoccupied with pressing economic problems ranging from shortages of food, lack of seeds for planting and paying medical bills among others, a practice which makes microfinance recovery difficulty.

In order to overcome challenges of loan defaults, microfinance institutions use various credit lending models such as the Grameen (villages) Bank in India founded by professor Yunus

(Yunus 2003) cited by Menene, et al (2013). The bank adopted a methodology where a bank unit is set up with a field manager and a number of bank workers covering area of about 15 to 22 villages. The managers and the workers start by visiting villages to familiarize themselves with local milieu in which they will be operating and identity prospective clientele, as well as explain the purpose, functions and mode of operation of the bank to the local population. Lending starts with forming of groups of five prospective borrowers. The group is observed for a month to see if the members are conforming to the rules of the bank. Only if the first two borrowers repay the principal plus interest over a period of fifty weeks do other members of the group become eligible for an additional loan.

The mechanism ensured that collective responsibility of the group served as collateral on the loan. Another popular model in microfinance is rotating saving and credit associations (ROSCA). ROSCA forms groups of individual who pay into an account on a monthly basis. Each individual then earns an opportunity to receive a relatively large loan with to invest. The group decides who receives the loan each term, often based on rotating schedule. The initial money is either accumulation of the group members' individual deposit or more frequently by an outside donation. Loan recovery is ensured through peer pressure. Anyone who does not repay the loan amount risks the privilege to borrow in the future.

2.2 Credit Management

Credit is the money that is owned to a business. This arises when there is a gap or time lag between the points when credit is acquired and when payment is received from the client (Kakura 2000). In addition credit management is the whole process and system through which the microfinance institutions lending operations strive to: offer services which meet the demand of the clients; operate as efficiently as possible by minimizing costs; charge interest rates and

fees, which are sufficient to cover all costs; motivate clients to repay loans as per agreed terms; achieve sustainability of operations through high degree of efficiency exercised. (Kagaba, 2001)

2.2.1 Stages of credit process:

The first stage is pre-loan. This involves the lender screening the applicant and is done mainly to assess his/her creditworthy. In microfinance, screening is done at the household and business in order to assess and determine the ability and willingness to pay. The client character plays a big role in recovery. It is at this stage that the credit officer after attaining, assessing and evaluating the information advises whether to grant a loan or not.

The second stage is loan disbursement. If the credit office has positively recommended the application, loan disbursement follows. This is a critical stage in that it involves exchange of instruments and control. The microfinance institution should ensure all conditions are fulfilled; loan agreements, collateral, guarantors commitment, proper recording in the books of accounts.

Finally in this stage post loan, once the loan has been disbursed the borrower's interest in the lender reduces unlike in pre-loan. The lender must therefore take all possible ways to ensure recovery of the loan and its interest. Incentives like access to bigger loans can be provided for on-time and penalties to ensure proper delinquency management. (Kagaba & Babyale, 2001)

2.2.2 Importance of credit management

Turnover can only become profit when your debtor has fully paid for your product/service. It is of outmost importance that payment takes place within the agreed upon time limit.

Your debtor paying later than agreed upon (or not paying at all) cost your institution a lot of money. Consequently, it may be necessary to request payment or, in extreme cases, resort to legal debt collection.

A perfectly organized credit management contributes to a better assessment of your credit risks as to a better collection of you debts, increasing the efficiency of your institution and its usable capital.

2.3 Loan Recovery

Loan recovery is defined as the process involving procedures that banks or any financial institution uses to collect its money from debtors (Kyagulanyi, 1998) cited by Ainebyona 2011. The longer the debt is allowed to run, the higher the possibility eventually defaults and thus systematic progress of follow up procedures is required bearing in the risk of offending a valued bank customer to such an extent that they lose business.

2.3.1 Loan recovery process

Loan recovery process can seem confusing and daunting. The following are the different steps of the debt recovery process: instruction, letter before action, tracing agents, issuing proceedings, undefended action, defended action, entering judgment, enforcement, concluded.

Letter before action, we shall send our first letter before action to the debtors based upon outstanding invoices completely free of charge.

Tracing agents, before commencing legal proceedings, we must know the debtors whereabouts. If you are in any doubt, we can confirm their current location by the instruction of a tracing agent. For this we change $15 plus VAT, Plus the fee of the tracing agent.

Issuing proceedings, the law does not allow litigation to be undertaken on the basis of a percentage of recovery. Solicitor's fees will therefore vary depending upon whether the proceedings become defended. The solicitor's fees will be restricted to the sums allowed by the court as recoverable from the debtor. Payment is required in advance of the total court cost and fees. If recovery is successful a rebate of the sum recovered will be credited back to you.

Defended action, where a defense from the debtor is filed at court should you wish to pursue the claim, solicitor's fees will be charged on an hourly basis. The current hourly rates are set out.

Undefended action, where no defense from the debtor is filed at court, judgment will be entered in default.

Entering judgment, once proceedings are issued, if no defense is filed or if the judge finds against the debtor in a defended action, a country court judgment can then be entered. There is no court fee involved. This amount is added to the debt and is recoverable in principle from the debtor.

Enforcement, once judgment has entered, if the defendant fails to settle the judgment steps may be taken to enforce the court judgment.

Claims for possession of residential properties: prompt recovery of overdue rent and ensure the tenant is evicted. In order to proceed with a claim for possession we will require a copy of the tenancy agreement, rent schedule and evidence of title to the property.

We shall restrict our fees to the sums allowed by the court as recoverable from the tenant. We require payment in advance of the total court costs and fees. If we make recovery a rebate of the sum recovered will be oredited back to you. (Simpson, 2009)

2.3.2 Importance of loan recovery

Having a system in place for quick and effective business debt recovery is vital if you want your business to maintain profitable, because while small amount may not have much of an impact they can quickly add up to become a huge issue. But, the right processes will ensure that does not happen it's important to regularly check up on payment dates to see whether any late payments are apparent.

Investing in the service of solicitors will help ensure a swift resolution to your problems. You get the advantage of expertise and authority which should boost the return rates. They are able to provide a quick and effective means of business debt recovery, helping to ensure you do not lose out. (Dirk, 2011)

2.4 Indicators of Credit Management

2.4.1 Credit Policy

A credit policy is an institutional method for analyzing credit requests and its decision criteria for accepting or rejecting applications (Girma 1996) cited by Kwizera 2011. Credit policy is important in the management of accounts receivables. A firm has time flexibility of shaping credit policy within the confines of its practices. It is therefore a means of reducing high default risk implying that the firm should be discretionary in granting loans (Pandey, 1995) cited by Kwizera 2011. Policies save time by ensuring that the same issue is not discussed over and over again each time a decision is to be made. This ensures that decisions are consistent and fair and that people in the same circumstance get treated in the same manner (Khandkar and Khan, 1998) cited by Kwizera 2011. According to Mc Naughton (1996) cited by Kwizera 2011, credit policy provides a frame work for the entire management practices. Written credit policies are the

cornerstone of sound credit management, they set objectives, standards and parameters to guide micro finance officers who grant loans and manage loan portfolio. The main reach for policy is to ensure operation's consistency and adherence to uniform sound practices. Policies should be the same for all and is the general rule designed to guide each decision, simplifying and listening to each decision making process. A good credit involves effective initiation analysis, credit monitoring and evaluation.

2.4.2 Interest rates

It is the price of the loanable funds and serves to allocate credit and moderate the level of investment (Ross, 1991) cited by Omara 2007. Interest rates can be looked at from the borrowers' and lenders' point of view. To the borrower, interest rate is the costs of borrowing money expressed as a percentage of the amount borrowed (Martin, 1998) cited by Omara. A borrower evaluates all costs including interest rates and expected returns before deciding to take a loan or not. To the lender, interest rate is determined by factoring in costs such as costs of production, the inflation rate, personnel, administrative costs, loan loss provisions and capital growth (Kasibante, 2001) cited by 2007. The rate charged should be able to cover costs and make a contribution for the financial institution. Financial institutions charge different interest rates depending on their peculiar conditions ranging from 2 to 4% per month (Brochures, 2001) cited by Omara 2007

2.4.3 Credit documentation

Credit documentation encompasses the conduct of key exposure control measures that ensures securities and documentation is obtained before funds are disbursed, and that modification on all credit facilities is approved within credit policy. It also includes the maintenance of orderly up

dated credit files and the imposition of relevant fees, updating of records and prompt notification of credit reviews and renewal dates (McNaughton et al, 1996) cited by Omara 2007. Loan documentation involves the legal drafting, document review, collateral checks and the waiver of terms. While the disbursement function involves checking the validity of notes as well as ensuring that the documentation for the credit facilities are properly executed. Loan documentation defines the necessary security and covenant before the loan is made. It provides risk protection by providing grounds for the bank to take legal action when borrowers fail to honor their obligations (Day et al, 1996) cited by Omara 2007. Credit documentations clearly states the credit terms which are the conditions attached to the loan after the borrower's loan application has been favorably appraised.

2.5 Indicators of Loan Recovery

2.5.1 Total amount disbursed

Loans are disbursed based on cash flow requirements of the borrower. However, from the lessons derived from microfinance programme (UNDP, 1997) cited by Kagwa 2000. Because microfinance institutions provide short term loans which are intended to test the client's commitment to repay and allow client to lean on the loan. Disbursement is designed to offer on the loan training for the borrowers.

2.5.2 Portfolio performance

Loan portfolio performance depends on the effect of the loan on the beneficiaries business and the repayment of the principle. Microfinance institutions have been extending loans to deficit units in Uganda's economy. However as observed by the Governor, Bank of Uganda (Bahnstedt, 2000) cited by Kagwa 2003. Commercial banks have facing problems due to poor portfolios

more than micro-finance institutions and have been stock with high level of non-performing assets, which affects their performance.

2.5.3 Number of active borrowers

The numbers of individual who currently have an outstanding loan balance with the microfinance for responsible for repaying any portion of the gross loan portfolio. (The Mix Market).

2.6 Problems faced by microfinance institutions in delivering financial services to its clients

The following are the problems faced by microfinance institutions in delivering financial services to its clients;

Limited branch networks from the major microfinance institution to reach the people in the villages.

Unsuitable products for the segments that is to say the poor or low income earners, especially in rural areas where farming is predominant lack these products.

Inaccessibility and lack of basic infrastructure in some rural and remote rural areas of the country have limited the microfinance officers in reaching the clients in hard to go areas.

The high cost of delivering financial services to the poor or low income earners in rural areas which makes services expensive for clients and less attractive to microfinance institutions. Sustainability considerations for the institutions in rural and remote rural areas where there is no critical mass to sustain delivery of services limits options for branch networks by formal institutions.

Lack of regular income (on the part of the poor rural populations) to save in order to open and maintain a bank account Discomfort (on the part of poor, modestly literate people) about perceived sophistication of banks and inability to speak ‘their language.

High transaction costs to users transport to bank, service fees, time it takes to draw money from the formal institution.

In addition to direct interventions like those that reduce the cost of microfinance to clients, addressing the problem of access will also need continued and intensified sensitization or education on basic business or entrepreneurial skills and financial literacy (Friends Consult Ltd 2008).

2.7 Relationship between Credit Management and Loan Recovery

Credit management is basically divided into three major aspects which if properly managed then credit will be considered to have been effectively handled in the company (Barry, 2000) cited by Ainebyona 2011.Those aspects include evaluating credit, applicants advancing loans to only successful applicants and monitoring advanced loans to maintain a performing loan portfolio.

Sufficient information should be collected about applications or applicants (Kakuru, 2000) cited by Ainebyona 2011. He further argued that this should be done in a bid to minimize losses as a result of investigating unreliable clients. Kakuru adds that sources of such information include companies, associate suppliers and individual applicant themselves.

Collection of such information is not free much as costs are justifiable if it is to increase the potential profitability of the credit (Pandey, 1995) cited by Ainebyona 2011.

Once the firm has taken decision to extend credit to the applicants, the amount and duration of credit have to be decided (Pandey, 1995) cited by Ainebyona 2011. He however warns that the

decision on the magnitude of the credit will depend upon customer's financial strength since this has a direct bearing on loan recovery.

A firm needs to continuously monitor and control its credit clients to ensure the success of efforts, however he cautions that t he firm should not extend collection periods since this delays cash inflows, impairs the firms liquidity position and increases the chances to bad debts losses. With respect to decision on credit standards, credit terms, and collection efforts aspects as credit policies, they all have a direct effect or influence on the credit recovery process in financial institutions as they determine how much is recovered from the successful loan applicants.

Both credit management policies and loan recovery are related in a sense that credit management policies is depended upon by loan recovery; in other wards loans recovered in any financial institution after a given financial year end, depend on how the loans disbursed were managed. Therefore if the management of loans is efficient, then in return, a high rate of loan recovery will be enjoyed, while as in case the management of loans was poor, loan recovery too will be poor.

2.8 Credit policy and loan recovery

A credit policy spells out guidelines which are followed in extending credit to customers including the procedures for recovering loans in arrears however every microfinance institution is having its own procedures that they consider under credit policy to ensure that loans are recovered. A credit policy is important because of its impact on customer retention and outreach strategies adopted by MFIs (Yoran, 2010) cited by Mutumba 2012. A stringent credit policy turns away potential customers and slows the loan portfolio growth which lowers customer retention whereas a liberal credit policy attracts slow paying customers and increases the arrears rate. Therefore a good credit policy is one which strikes a balance between customer retention and defection to facilitate outreach. In addition a credit policy whether stringent or liberal is

composed of lending terms which are the methods used to analyze credit requests and used in decision making. Lending terms are therefore are a combination of credit conditions and standards of advancing credit these will help a microfinance institution to recover their credit. Recovery includes all efforts of collecting loan balances in arrears to maintain a profitable loan portfolio (Alexis, 2010) cited by Mulumba 2011.

Boah (2010) cited by Mulumba adds that a credit policy is the primary means by which senior management and the Board of an institution guides the lending activities. It therefore provides the scope for achieving the loan portfolio quality and returns, guides the risk tolerance levels in a manner commensurate with the institutions strategic direction. Riach (2010) cited by Mulumba forwards that a credit policy enables an MFI to limit bad debts and improve cash flows since loans are in most cases the core business activities in MFIs. The credit policy also assures a degree of consistency among departments by writing down what is expected of each department as well as ensuring consistence in handling customers based on predetermined parameters.

In addition credit policies are the various policies that lenders put in place to ensure that credit administration is done effectively. One of these policies is collection policy which is needed because all customers do not pay the firms bills in time. The collection effort should, therefore aim at accelerating collections from slow payers and hence reducing bad debt losses. A collection policy ensures prompt and regular collection for fast turnover of working capital keeping collection costs and bad debts within limits and hence maintaining collection efficiency. The collection policy specifies clear cut collection procedures and hence dissuades conflicts arising from loan repayment periods, amounts and loan structure (Pandey, 2004) cited by Munenue 2013. The policy analyses business viability position and business Management by appraising the financial strength of the applicant, the firm`s quality of management and nature of

the customers businesses. The lender also conducts management audit to identify weakness of the customer's business management. If the nature of the customers business is highly fluctuating or has financially weak buyers or the business depends on a few buyers, then it is risky to extend credit to such borrower (Weston, 1982) cited by Munenue 2013.

In addition, credit policies also considers credit limit that is to say maximum amount of credit which the firm will extend at a point in time. It indicates the extent of risk to the firm by extend credit to a customer. Credit limit is also a function of the Character of a customer (customer's willingness to pay and the moral factor). There are various methods employed to analyze Credit Worthiness. The debt capacity of the applicant is reflected in cash flow projection, forming the basis for the decision on the loan conditions and the payment plan .The willingness to pay is assessed either on the basis of his credit history or, if there is none , using statement of suppliers, neighbours on the borrowers reputation and how promptly. According to Batar (2008) cited by Munenue 2013, the lender can identify target clients` MFI's financial services needs, evaluate their needs, assess their character and capacity for repayment and determine the appropriate loan amount using financial expertise Batar (2008) cited by Munenue 2013. A firm may develop its own approach of numerical credit scoring to determine the credit worthiness of customers. The attributes identify by the firm may be assigned weights depending on their importance and be combined to create an overall score. Firms also employ a simple discriminate analysis by using more objective methods of differentiating between good and bad customers. For example, empirical analysis may show that the ratio of earnings before depreciation, interest and taxes (EBDIT) to sales is a significant factor in discriminating good customers from bad customer. The firm should select a cut off point for granting credit to those customers who have EBDIT to sales ratio above the selected cut off point.

2.9 Interest rates and loan recovery

The level and structure of interest rates were determined by the Central Bank, the Bank of Uganda (BOU) until 1992. Nominal interest rates were held well below the rate of inflation for most of the 1970s and 1980s. Annual consumer price inflation was high during the 1970s and 1980s, fuelled by monetary financing of large government deficits. Inflation averaged 103 percent during 1981-90, while nominal lending rates for commerce averaged 31 percent and time deposit rates 24 percent. Date on inflation rates in the 1970s is not readily available. Consequently real interest rates were substantially negative on average, although there were wide annual fluctuations because, while adjustments to the administered nominal interest rates were generally small, the inflation rate displayed considerable instability. Although fiscal deficits were the principal cause of the inflation, monetary policy does not appear to have been particularly restrictive until the SAP was introduced in 1987 and credit ceilings were imposed on the banks as part of the stabilization measures. Apart from interest rate controls (which were clearly useless as a macroeconomic tool given that they were set at levels far too low to clear the market), the main instrument of monetary policy was the cash reserve requirement (set at 10 per cent of deposit liabilities until 1993), but the effectiveness of this was undermined because banks had automatic access to BOU lending facilities whenever they faced liquidity constraints (Musinguzi 1995 cited by Brownbridg 2002)

Negative real returns on monetary assets contributed to the steep decline in the financial depth of the Ugandan Economy. Between 1970 and 1990 the M2/GDP ratio fell from 18 per cent to 7 percent while the share of bank deposits in M2 fell from 65 per cent to 59 percent. The attractiveness of bank deposits for the Ugandan public was further eroded because the banks operated a very inefficient payments system hence cash was needed to effect most transactions

(Harvey 1993: 1) cited Brownbridg 2002. Unsurprisingly in view of the chronic instability in real returns, the holding of long term financial assets by the public was negligible. Although the severe financial shall owing in Uganda was partly attributable to developments exogenous to the banking system - the share of monetized output in GDP declined as a result of acute security problems and unattractive producer prices paid to farmers - it is clear that sustained financial repression had very damaging consequences for the banking system. Public confidence in the holding of financial assets is also likely to have been undermined by the demonetization exercise in 1987, which imposed a tax of 30 per cent on holdings of currency and bank deposits as well as some other financial assets in an attempt to reduce.

(Chaffer 2010) cited by Mirembe 2011, wrote that it won't come as a huge surprise to discover that the cheapest unsecured loans are offered to those applicants who are in the best position to repay them. This type of low interest rate loan is provided without collateral so it can be extremely difficult for the lender to recover its money in the event of default. The lending criteria for low cost loans has been tightened in recent years, but building credit scores for a better credit report will increase the likelihood of approval. Not only that a higher credit score will dramatically reduce the cost of borrowing money.

(Shirley 2009) cited by Mirembe 2011, wrote that lenders have tightened the eligibility criteria for low interest loans due to rising levels of defaults. In order to get approval for an affordable loan, it is necessary to have a good credit score, a stable job and a sustainable level of existing debt. Whilst financial make money by lending money to customers, many have withdrawn unsecured low costs loans due to the growing risk of bad debt.

(Bruce 2009) cited by Mirembe 2011, asserted that the amount of debt an individual has expressed as a percentage of disposable income, and ultimately determines that person's ability to repay the money they owe. Lenders are looking for an income to debt ratio of under 30%. This is because low debt gives the customer a better chance of maintaining their repayment schedule in the event of a change of personal circumstances.

(Bell 2009) cited by Mirembe 2011, urged that receiving approval for the cheapest loans means that less interest will be paid over the full lending term. Despite low central bank base rates, the cost of borrowing has actually risen over the last couple of years. Whilst rising unemployment has meant that many lenders have withdrawn their loan and credit card product, the remainder will only lend money to customers with very good credit scores becomes they are less likely to default on their agreement.

However high interest rate charged by MFIs have attracted criticism from government and opposition leaders in many countries including India and Uganda. Some borrowers complained to the district authorities that these MFIs are charging "usurious interest rate" from the poor borrowers and also using "forced loan recovery" practices. The crisis has attracted the attention of both local and national media. The local media, especially carried many stories which where highly critical of the role played by MFIs.

The issue also came up before the state level bankers' committee (SLBC) meeting held on March 17, 2006. MFIs where alleged that they are exploiting the poor by charging exorbitant rates of interest and adopting unethical means of loan recovery. They expressed the view "MFIs were turning out to be worse than moneylenders by charging interest rates in excess of 20 percent" (Hindu 2006) cited by Subrata 2009. Further to the development, there was even an allegation

that 10 borrowers of MFIs in Krishna district committed suicide because they were unable to repay the loans taken from MFI. There were three major allegations against the MFIs that come up during the crisis (Shylendra 2006) cited by Subrata 2009.

2.10 Credit documentation and loan recovery

Credit documentation encompasses the conduct of key exposure control measures that ensures securities and documentation is obtained before funds are disbursed, and that modification on all credit facilities is approved within credit policy.

Microfinance institutions in an attempt to document the various currently being used by microfinance institutions throughout the world, the models include; associations, bank guarantees, NGOs, peer pressure, small business and village banking models. These models were developed through extensive field work and observation and interviews carried out in India, Thailand and Philippines, Indonesia and Srilanka, and includes information from literature as well. (Srinivas,H). Documentation focuses on; understanding the importance and valve of credit management to microfinance institutions and designing a framework for systematically managing risks to the institutions.

The main purpose of credit documentation is to help senior managers and directors of microfinance institution design a comprehensive and systematic approach to identify, anticipate, and respond to the major risks that threaten their institutions. While excellent resource exist on credit management strategies for specific topics such as liquidity or internal control. The goal of credit documentation is to provide an overall framework to help MFIs organize and coordinate these specific tools into a process that anticipate and minimizes risks in a systematic fashion.

The complexity of credit documentation will vary with the size and complexity of the MFIs. All MFIs, however, will benefit from credit management framework that helps senior managers focus on the most important risks and learn how to manage them effectively. Effective credit management allows MFIs to capitalize on new opportunities and to minimize threats to their financial viability. (Dr. Steinwand 2000)

In addition under documentation management, the experience in Uganda of NGO, MFIs transforming to regulated microfinance deposit-taking institutions revealed a surprising lack of documented and standardized policies and procedures. Much of the day to day operations were based on the job training and experience being passed on as the MFI grew. Furthermore many MFIs did not have adequate document security and inventory management both important areas a transforming MFI likely needs to improve.

Once an MFI decides to become regulated, it will find it imperative to ensure all policies and procedures are documented and standardized throughout the organization. Most regulators will not license a financial institution to take deposits before inspecting the various operating manuals and ensuring through branch visits that policies and procedures are followed in a standardized manner.

More so all documents held as security for loans should be registered in a securities register at each branch. When supervisors conduct on-site inspections at the branches they will verify the physical existence of items recorded in the security register and ensure that all security forms are completed fully and correctly. Supervisors will check that the MFI’s books, registers, and vouchers are all properly maintained and only used by authorized persons. They will also confirm that all important documents such as government stocks, insurance policies, title deeds,

and all pledges for loans are recorded in the securities register and maintained in the strong room, inaccessible to unauthorized persons (ARB Apex Bank Limited 2004) cited by Ledgerwood 2006.

2.11 Conclusions

In conclusion basing on above literature much and a lot was written and analyzed on credit management and loan recovery by loans officers and clients, very few have paid particular attention to the relationship that exists between the two variables thus the success of the HOFOKAM largely depends on the extent the microfinance recovers loans advanced to the clients. This is made possible by the fact that HOFOKAM has effective credit management and how this facilitates loan recovery.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This is chapter we looked at the methods that were used during the research study and the basic contents in this chapter include; research design, study population, sample size, sample design, sample procedure, data collection tool, data processing, data analysis techniques and the limitations that are likely to be faced during the study process.

3.1 Research design

The study adopted descriptive research design where both qualitative and quantitative data was employed to gain an in depth understanding of credit management and loan recovery in MFIs a case of HOFOKAM Kasese branch. Qualitative data helped to draw conclusions and recommendations; it further enabled the understanding of effectiveness of efficiency of the credit management and loan recovery while quantitative design was used to evaluate facts from the field.

3.2 Survey Population

The survey population comprised of 8 loans offices and a random group of clients was studied which had 52 clients. Using Krejcie and Morgan table the following respondents of whom both were staff and clients to HOFOKAM in Kasese 8 staff and 34 clients were used as a group to study the behavior and the rate of credit management, loan recovery and criteria of loan disbursement.

3.3 Sampling

3.3.1 Sample size

The sample size deduced from study population with the help of stratified random sampling consisted 42 respondents whose structure were the employees and clients of HOFOKAM Kasese to obtain relevant information.

3.3.2 Sampling methods

Purposive sampling method was used in selection of respondents from credit management officials since the researcher had to identify the respondents with full knowledge about how credit is managed in the microfinance institution, on the other hand, simple random sampling was used in the selection of respondents from the clients since they were assumed to have the information on the selected subject.

3.3.3 Table showing Population & Sample size structures

Nature of the respondents	Sample
Loans Officers	**8**
Clients	**34**
Total	**42**

Source: Primary data

S=X^2 NP(1-P)+d^2(N-1)+X^2P(1-P)

3.4 Data Collection

3.4.1 Data sources

Both primary and secondary data sources were employed in the study process whereby primary data was collected from the respondents selected from the microfinance institution especially credit officers and also clients while secondary data was obtained from the text books, internet, company journals and magazines.

3.4.2 Primary Data

The data was obtained from HOFOKAM clients and from Loans officer. The information was obtained by use of self-administered questionnaires.

3.4.3 Secondary Data

This data was obtained from published materials, which included journals and online internal reports.

3.5 Data collection methods

3.5.1 Questionnaires

This is one of the major instruments that were used while collecting data. They were phrased in simple language for the respondents to understand.

3.6 Data collection instruments

3.6.1 Self Administered Questionnaire

This consisted of closed ended questionnaires because of being the quickest method and reliable for wide information. Self administered questionnaires were designed using likert scale, and they were distributed to staff members of HOFOKAM Kasese Branch who then filled them.

3.7 Data processing, summary and presentation and Analysis

3.7.1 Data processing

Data from the field was sorted, coded and organized to reveal the percentage scores of different attributes and to ensure accuracy and completeness using SPSS and Microsoft word.

3.7.2 Data summary and presentation

Data was coded on the computer using SSPS.

Data was summarized and presented using tables, charts and mean.

3.7.3 Data analysis

The relationship between the variables was analyzed comparing them with the objectives of the study and the possible conclusions were drawn from the study using Statistical Package for Social Scientists (SPSS).

Spearman correlation coefficient was also to be computed to establish the relationship between credit management and loan recovery.

3.8 Validity and reliability analysis

3.8.1 Validity

Validity of the instrument was measured using the content validity index (CVI). Questionnaires were sent to experts to rate the relevance of the questions to the study variables using a four point scale of relevance, quite relevant, somewhat relevant and not relevant. The content validity index for the questionnaires should be above 0.5 then the questions will be relevant to the study objectives.

3.8.2 Reliability

A pre test of the designed questionnaires was carried out to test their reliability in MFIs using the targeted respondents. Reliability was tested using cronbach alpha coefficient method of internal consistence. Source: SPSS output file, if the variables is above 0.6 it implies that the questions were reliable.

3.9 Ethical considerations

The researcher will get an introductory letter from the Graduate and Research Department to obtain permission to conduct research in the respective microfinance institution

3.10 Limitations of the study

Unwillingness to complete questionnaires by respondents as some saw the exercise being unbeneficial to them.

Accessibility to information was hard since financial information was considered confidential

Financial constraints at various stages in terms of delivering questionnaires to respective MFIs was encountered

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0. INTRODUTION

This chapter presents the analysis and discussion of findings got from the field using the methodology described in this chapter three and in accordance with the objectives of this study. The study was carried out in HOFOKAM Kasese branch and this Questionnaire was divided into four parts which are listed down as follows;

- The Background Information of the Study
- Credit Management of HOFOKAM
- Loan Recovery of HOFOKAM.
- Relationship between Credit Management and Loan Recovery of HOFOKAM

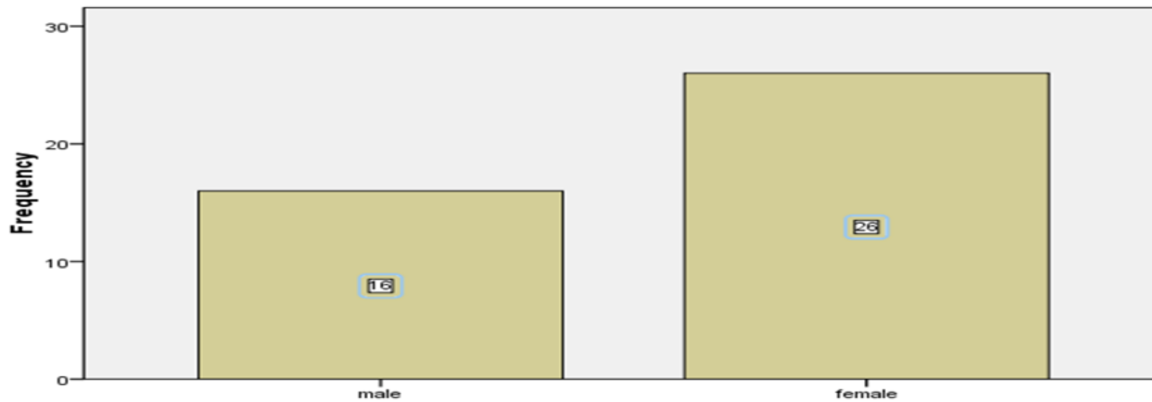
4.1. THE BACKGROUND OF FINDINGS OF HOFOKAM KASESE BRANCH

Table4.1.1, showing the sex of respondents

Valid	Frequency	Percent
Male	16	38.1
Female	26	61.9
Total	42	100.0

Source: primary data

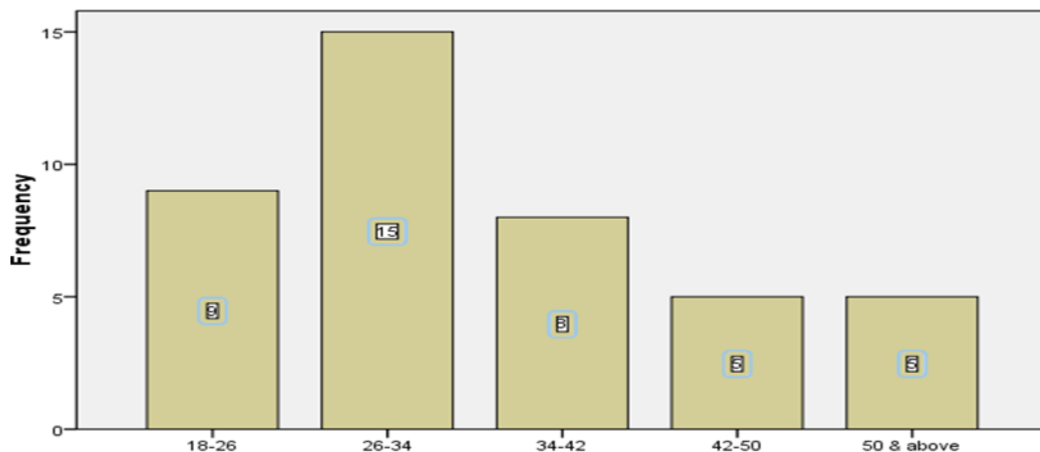
A table4. 1 showing the sex of respondents



A table4. 1 showing the sex of respondents

In table above, 38.1% of the respondents were male and 61.9% were female. The frequency in this table was, 16 of the respondents were male and 26 were female. This implies most employees and clients of HOFOKAM Kasese branch post bank are female and the minority are the male.

A table4. 2 showing the age of respondents



A table4. 2 showing the age of respondents

Source: primary data

Table4.1. 2 showing the age of the respondents

Valid		Frequency	Percent
	18-26	9	21.4
	26-34	15	35.7
	34-42	8	19.0
	42-50	5	11.9
	50& above	5	11.9
	Total	**42**	**100.0**

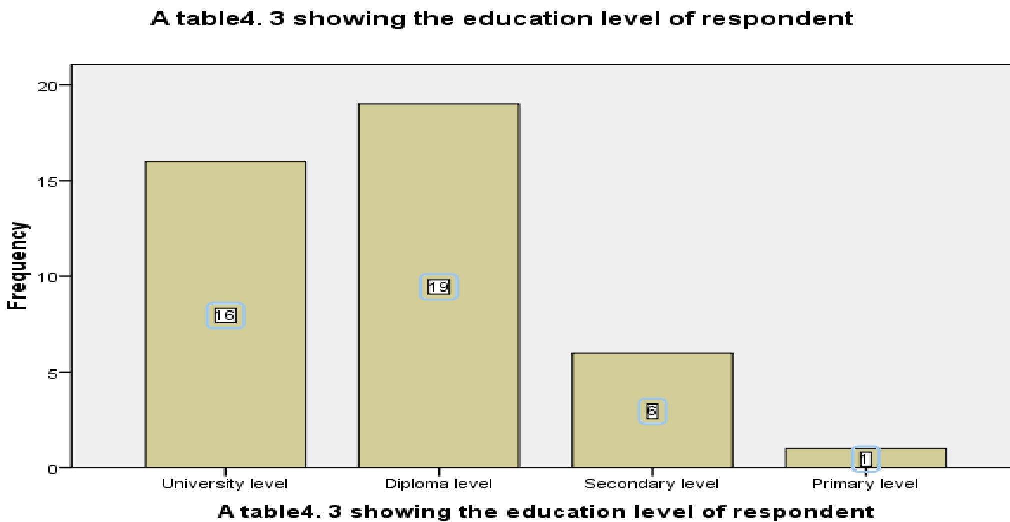
Source: primary data

In this table, 21.4% of the respondents were aged 18-26 years, 35.7% were between 26-34 years, 19.0% were between 34-42 years, 1i.9% were between 42-50 years and 11.9% were between 50 & above year. The frequency was, 9 of the respondents were aged i8-26 years, 15 of the respondents were aged 26-34, 8 were between 34-42, 5 were between 42-50 and 5 were between 50 & above. This implies most respondents were aged between 26-34 years.

Table4.1. 3, showing the education level of respondents

Valid		Frequency	Percent
	University level	16	38.1
	Diploma level	19	45.2
	Secondary level	6	14.3
	Primary level	1	2.4
Total		**42**	**100.0**

Source: primary data

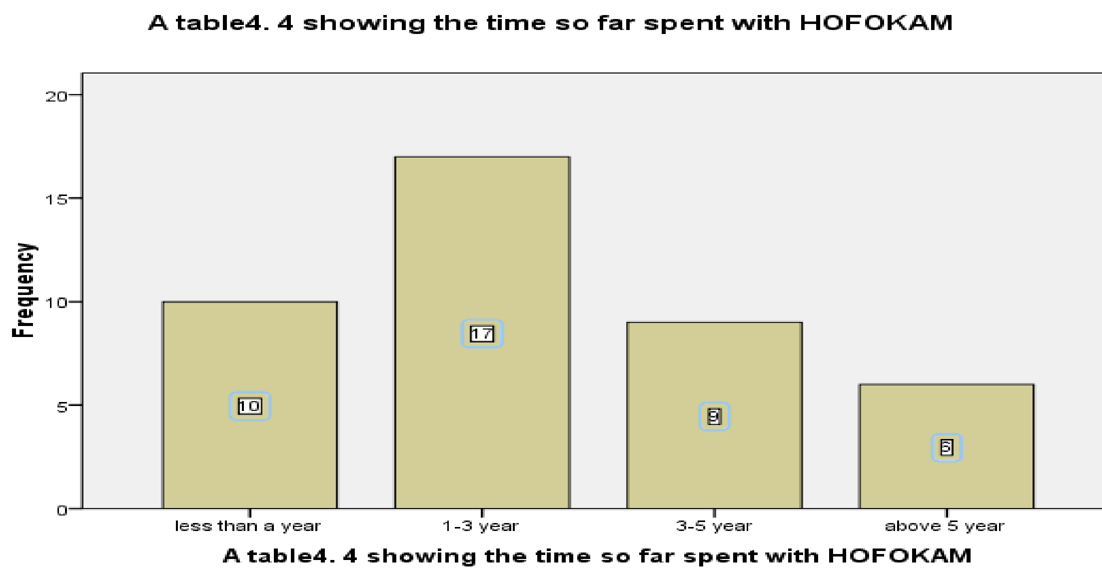


The table above indicates that 38.1% of the respondents completed university, 45.2% completed diploma, 14.3 % completed secondary and 2.4% completed secondary. More so a frequency of 16 completed university, 19 completed diplomas, 6 completed secondary and 1 completed primary. This means that most of the respondents were diploma holders.

Table4.1. 4, showing the time so far spent with HOFOKAM

Valid		Frequency	Percent
	Less than 1 year	10	23.8
	1-3 years	17	40.5
	3-5 years	9	21.4
	Above 5 years	6	14.3
Total		**42**	**100.0**

Source: primary source



From the table above, it is well indicated that 23.8% of the respondents have been with HOFOKAM for less than a year and 40.5% for 1-3 years, 21.4% for 3-5 years and 14.3% for 5 years and above. And the frequency of 10 for less than a year, 17 for 1-3 years, 9 for 3-5 years and 6 for 5 years & above. This implies that most of the respondents have been with HOFOKAM for more than 1-3 years.

A table4.1. 5, showing sectors where HOFOKAM offers loans

Valid		**Frequency**	**Percent**
	Business	21	50.0
	Agriculture	16	38.1
	Housing	5	11.9
Total		**42**	**100.0**

Source: primary data

The above tables show that HOFOKAM offers 50% 0f its loans to the business sector, 38.1% to the agricultural sector, and 11.9% to service sector. In additional to that, a frequency of 21 to business sector, 16 to agricultural sector and 5 to service. This means that the HOFOKAM usually offers to the business sector.

A table4.1. 6, showing types of loans offered by HOFOKAM

Valid		Frequency	Percent
	Salary loans	6	14.3
	Business Loans	28	66.7
	Others	8	19.0
Total		**42**	**100.0**

Source: primary source

The tables above indicate that 14.3% of the loan type offered is salary loan, 66.7% is business loans, and 19% other loans. More so the frequency of 6 to salary loans, 28 to business loans and 8 to other loans. This implies that the business loan is offered most type of loan in HOFOKAM.

4.2 THE FINDINGS ON CREDIT MANAGEMENT OF HOFOKAM KASESE BRANCH

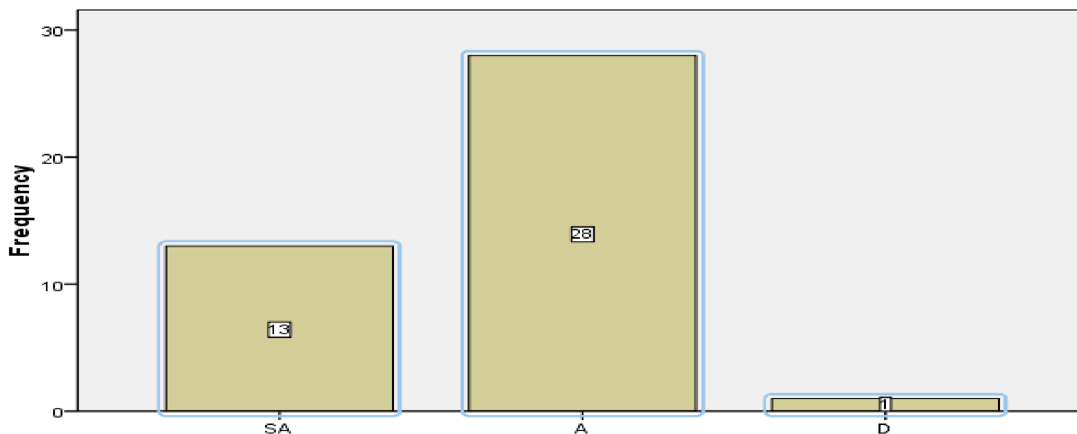


Table4.7 Showing Whether HOFOKAM has got a standard procedure for credit client screening before advancing the loan

Table4.2**.** 7 majority of the respondents agreed that HOFOKAM has gotten a standard procedure for credit client screening before advancing for the loan. And minority of the respondents strongly disagreed with the statement and this is clearly observed in the table above. The respondents of the study seemed to agree with a study conducted by Yoran 2010 cited by Mutumba 2012 where it was argued that a credit policy spells out guidelines which are followed in extending

Table4.2. 8, Whether relevant credit information is obtained from the loan client before disbursement

Valid		Frequency	Percent
	SA	11	26.2
	A	28	66.7
	NS	2	4.8
	SD	1	2.4
Total		**42**	**100.0**

Source: primary source

The above tables show, 26.2% of the respondents strongly agreed that relevant information is collected from clients before loans are disbursed, 66.7% agreed, 4.8% were not sure, 2.4% strongly disagreed. And the frequency of 11strongly agreed, 28 agreed, 2 not sure and 1 strongly disagreed. This gave me an impression that relevant information is collected before loans are disbursed as most of the respondents agreed. The respondents seemed to agree with the study

done by Srikant. 2008 which argued that the MFIs should track how their clients use their loans and how they allocate their profits

Table4.2. 9, Whether the company normally extends loan on liberal terms to the extent of the whole amount required by the client

Valid		Frequency	Percent
	SA	12	28.6
	A	16	38.1
	NS	9	21.4
	D	4	9.5
	SD	1	**2.4**
Total		**42**	**100.0**

Source: primary data

28.6% of the respondents strongly agreed that loans are extended on liberal to the extent of the whole amount required by the client, while 38.1% agreed, 21.4% were not sure, 9.5% disagreed and 2.4% strongly disagreed. The frequency of 12 strongly agreed, 16 agreed, 9 not sure, 4 disagreed and 1 strongly disagreed. This implied that loans are extended on liberal terms because more respondents agreed. In this study the respondents seemed to agree with the study conducted by Alexis, 2010 cited by Mulumba 2011 which argued that lending terms are therefore a combination of credit conditions and standards of advancing credit these will help a MFI to recover their credit.

Table4.2. 10, Whether the company first gives short-term loans to test the credit worthiness of the clients

Valid		Frequency	Percent
	SA	19	45.2
	A	19	45.2
	NS	3	7.1
	SD	1	2.4
Total		**42**	**100.0**

Source: primary data

45.2% of the respondents strongly agreed, 45.5% agreed, 7.1% were not sure and 2.4% strongly disagreed. The frequency was 19 strongly agreed, 19 agreed, and 3 not sure while 1 strongly disagreed. This implies that the HOFOKAM first gives out short term loans to test the credit worthiness of the clients. The respondents in this study seem to be in line with the study made by UNDP 1997 cited by Kagwa 2003 which argued that small short-term loans are intended to test the clients commitment to repay and allow client to learn on the loan.

Table4.2. 11, Whether there is security required before advancing the loan amount

Valid		Frequency	Percent
	SA	19	45.2
	A	21	50.0
	D	1	2.4
	SD	1	2.4
Total		**42**	**100.0**

Source: primary data

45.2% of the respondents strongly agreed, 50% also implying there is security required before advancing the loan amount to client, 2.4% disagreed and I strongly disagreed was found. The respondents in my study tend to be in line with study of ARB Apex ltd 2004 cited by Ledgerwood. 2006 which argued that all documents held as security for loans should be registered in a securities register at each branch. Supervisors would check the MFI's books, registers, and vouchers are all properly maintained and only used by authorized person

Table4.2.12, Whether loan follow up and monitoring is normally done to check the viability of the clients loan project

Valid		Frequency	Percent
	SA	23	54.8
	A	14	33.8
	NS	3	7.1
	D	1	2.4
	SD	1	2.4
Total		**42**	**100.0**

54.8% of the respondents strongly agreed and 33.3% agreed 7.1% were not sure, 2.4% disagreed and 2.4 strongly disagreed. And the frequency of 23 strongly agreed, 14 agreed, 3 not sure, 1 disagreed and 1 strongly disagreed. Meaning that loans follow up and monitoring is normally done to check loan performance since most respondents strongly agreed**.** The respondents seemed to agree with the study conducted by Naughton 1996 cited by Kwizera 2011, the study argued that written credit policies are the cornerstones of sound credit management, they set objectives, standards and parameters to guide micro finance officers who grant loans and manage loan portfolio. Thus a good credit involves effective initiation analysis, credit monitoring and evaluation.

Table4.2. 13, Whether loans are offered for a long period of time e.g. over 1 year.

Valid		Frequency	Percent
	SA	16	38.1
	A	23	54.8
	NS	1	2.4
	D	1	2.4
	SD	1	2.4
Total		**42**	**100.0**

Source: primary data

38.1 of the respondents strongly agreed, 54.8% agreed, 2.4% were not sure, 2.4% disagreed, 2.4% strongly disagreed. Frequency of 16 strongly agreed, 23 agreed, 1 not sure, 1 disagreed and 1 strongly disagreed. This implied that loans are offered for a long period of time since most respondents agreed. The respondents of my study seemed to agree with a study conducted by Gyasi 2002 cited by Kyeyune 2007 which argued that the management of MFIs should revisit the loan repayment period offered to clients. Lengthening the repayment period would enable them meet their financial obligations in time.

4.3. THE FINDINGS ON LOAN RECOVERY

Table4.3. 14, Whether there are established procedures to collect the principle amount and interest due from the loan clients

Valid		Frequency	Percent
	SA	12	28.6
	A	18	66.7
	NS	1	2.4
	D	1	2.4
Total		**42**	**100.0**

Source: primary data

Table4.3.14, 28.6% of the respondents strongly agreed that there are established procedures for loan collection from the clients. These procedures mentioned included factoring of the not repaid loans, telephoning defaulted clients, sending reminders to the clients, legal procedures and writing off debt as a bad debts, 66.7% agreed, 2.4% not sure and 2.4% disagree. More so the frequency is 12 strongly agreed, 28 agreed, 1was not sure and 1 disagreed. This gave an impression that the HOFOKAM has got well established procedures of collecting their loans. The respondents seemed to agree with the study done by Yoran, 2010 cited by Mutumba 2012. Where by a credit policy spells out guideline which are followed in extending credit to customers including the procedures for recovering loans however every MFI has its own procedures that they consider under credit policy to ensure that loans are recovered.

Table4.3. 15, whether clients normally pay their debts on the due date i.e. they don't exceed the date of repayment

Valid		Frequency	Percent
	SA	12	28.6
	A	20	47.6
	NS	1	2.4
	D	8	19.0
Total		**42**	**100.0**

Source: primary data

According to table 15, 28.6% of the respondents strongly agreed, 47.6% agreed, 2.4% were not sure, 19.0% disagreed and 2.4% strongly disagreed that clients normally pay their debts on the dates. This implies that clients normally pay their debts on the due date i.e. they don't exceed the date of repayment because more respondents agreed. Respondents seemed to agree with the study done by Garber, 1997 cited by Pafula 2003.which argued that institutions should have a culture of handling funds that must be repaid in time.

Table4.3. 15, whether clients normally pay their debts on the due date i.e. they don't exceed the date of repayment

Valid		Frequency	Percent
	SA	12	28.6
	A	20	47.6
	NS	1	2.4
	D	8	19.0
Total		**42**	**100.0**

Source: primary data

According to table 15, 28.6% of the respondents strongly agreed, 47.6% agreed, 2.4% were not sure, 19.0% disagreed and 2.4% strongly disagreed that clients normally pay their debts on the dates. This implies that clients normally pay their debts on the due date i.e. they don't exceed the date of repayment because more respondents agreed. Respondents seemed to agree with the study done by Garber, 1997 cited by Pafula 2003.which argued that institutions should have a culture of handling funds that must be repaid in time.

Table4.3. 16, Whether clients fail to pay their debts due to failure in their loan projects

Valid		Frequency	Percent
	SA	6	14.3
	A	29	69.0
	NS	4	9.5
	D	2	4.8
	SD	1	2.4
Total		42	100.0

Source: primary data

In table4.3. 16, 14.3% of the respondents strongly agreed, 69.0% also agreed that failure to pay back the loan is as a result of failure of loan projects, 9.5% were not sure, 4.8% disagreed and 2.5%strongly disagreed. This implied that some projects are not well evaluated and monitored by the loans officers hence they have been unable to service the loan and this has resulted into loan default this is because more respondents agreed. Respondents of this study seemed to agree with the study conducted by Bahnstedt 2000 cited by Kagwa 2003. Where by the study argued that high level of non-performing assets, affects their performance.

Table4.3. 17, Whether clients fail to pay outstanding balance due to high interest rate attached.

Valid		Frequency	Percent
	SA	13	31.0
	A	16	38.1
	NS	3	7.1
	D	4	9.5
	SD	6	14.3
Total		**42**	**100.0**

Source: primary data

According to table4.3.17, 31% of the respondents strongly agreed, 38.1 % agreed, 7.1% were not sure, 9.5% disagreed and 14.3 strongly disagreed. Those that agreed attributed the failure of loan repayment to high interest rates which affects the viability of the loan projects and this implies that the HOFOKAM changes high interest rate which has resulted into loan default problem. The respondents seemed to agree with the study done by Hindu 2006 cited by Subrata 2009. It expressed the view MFIs were turning out to be worse than moneylenders by charging high interest rates which worsen the payments of their poor clients.

Table4.3. 18,Whether there are times instituted due to failure to pay the principle amount and the accrued interest in time

Valid		Frequency	Percent
	SA	9	21.4
	A	29	69.0
	NS	2	4.8
	D	2	4.8
Total		**42**	**100.0**

Source: primary data

Table4.3.18, 21.6% of the respondents strongly agreed, 69.0% agreed, 4.8% were not sure and 4.8% disagreed. And the frequency was 9 strongly agreed, 29 agreed, 2 were not sure and 2 disagreed. This implied that there are fines charged on clients who delay to pay HOFOKAM the principle amount and the accrued interest in time since more respondent agreed. The respondents seemed to agree with the study conducted by Garber 1997 cited by Pafula 2003.which argued that organizations should have a system of tracking late payments and real losses, deploy staff to maximize return of resource, this implies that there are times instituted due to failure to pay the prince amount and the accrued interest in time.

Table4.3. 19, Whether in your View, do you agree that the loan recovery system is efficient as it prompts loan repayments in time

Valid		Frequency	Percent
	SA	14	33.3
	A	24	57.1
	NS	2	4.8
	D	1	2.4
	SD	1	2.4
Total		**42**	**100.0**

Source: primary data

In table 4.3. 19, 33.3% of the respondents strongly agreed, 57.1% agreed, 4.8% were not sure, 2.4% disagreed and 2.4 strongly disagreed. The frequency of 14 strongly agreed, 24 agreed, 2 were not sure, 1 disagreed and 1 strongly disagreed. This implied that the loan recovery system of the HOFOKAM is efficient since most of the respondents agreed. The respondents seemed to agree with the study carried by Coleman et al 2005 cited by Kyegune 2007 which argued that management of MFIs should endeavour to appraise and recommend projects to be funded. More so the management should go an extra mile to periodically monitor the operations of the projects funded so as to reduce default rates.

4.4 THE FINDINDS ON THE RELATIONSHIP BETWEEN CREDIT MANAGEMENT POLICY AND LOAN RECOVERY OF HOFOKAM KASESE BRANCH

Table4.4. 20, Whether the procedures for loan disbursement are liberal that whoever wants the loan is given and pays at the time he feels like

The procedures for loan disbursement are liberal that whoever	Mean	Std. Deviation
Wants the loan is given and pays at the time he feels like.	3.74	1.260

Source: primary data

According to table 20, the mean was 3.79 and the standard deviation was 1.260. This implied that the procedures for loan disbursements are not liberal since most of the respondents strongly disagreed basing on the mean. The respondent seemed to disagree with the study carried by Yoran, 2010 cited by Mutumba which stated that liberal credit policy attracts slow paying customers and increases the arrears rate.

Table4.4. 21, Whether there are clients who have failed to repay their amounts and have been written off

There are clients who have failed to repay their amounts and	Mean	Std. Deviation
Have been written off.	3.40	1.260

Source: primary data

According to table 21, the mean of the study was 3.40 and the standard deviation was 1.432. This implied that clients who fail to repay the loan are not written off as bad debts since more

respondents disagreed this was clearly shown in the mean. The respondents seemed to agree with Shirley 2009 cited by Mirembe 2011 who wrote that lenders have tightened the eligibility criteria for low interest loans due rising levels of defaults. Hindu 2006 cited by 2009 argued that there was even an allegation that 10 borrowers of MFIs in Krishna district committed suicide because they were unable to repay the loans taken from MFI. These arguments clearly show that MFIs do not write off bad debtors unless if nature detect.

Table 22, Whether the company invests much money in loans collection but it benefits the company because loans are recovered in time

the company invests much money in loans collection but it benefits the company because loans are	Mean	Std. Deviation
recovered in time	1.98	0.563

Source: primary data

Table 22 shows, that mean of the study was 1.98 and the standard deviation was 0.563. This implied that HOFOKAM invests much money in loan collection besides loan is repaid with an interest a factor that increases the HOFOKAMs cash inflows basing on the mean. The respondents of this study seemed to agree with the study made by Pandey 1995 cited by Ainebyona 2011. Where it was argued that a firm needs to continuously monitor and control its credit clients to ensure the success of efforts. With respect to decision on credit standards, credit terms and collection efforts aspects as credit policies, they have a direct effect or influence on the credit recovery process.

Table 23, Whether the credit management system of HOFOKAM is so inefficient to enhance loans collection

The credit management system of HOFOKAM is so inefficient to enhance loans collection	Mean	Std. Deviation
	2.43	0.831

Source: primary data

In table 23, the mean of the study was 2.43 and the standard deviation was 0.831. This implied that credit management system of the HOFOKAM is inefficient since more respondents agreed basing on the mean. The respondents seemed to agree with the study conducted by Pandey1995 cited by Ainebyona 2011 where it argued that if the management of the loans is efficient, then in return, a high rate of loan recovery will be enjoyed, while as in case the management of loans was poor, loan recovery too will be poor.

Table 24, Whether loan disbursement without security is most likely to result into default of payment by the client

Loan disbursement without security is most likely to result into default of payment by the client	Mean	Std. Deviation
	1.76	0.726

Source: primary data

In table 24, the mean of the study was 1.76 and the standard deviation was 0.726. This implied that loans disbursement without security is most likely to result into default of payment by the clients this was determined by the mean. The respondents seemed to disagree with the study

done by Chaffer 2010 cited by Mirembe 2011where it was argued that the cheapest unsecured loans are offered to those applicants who are in the best position to repay them. This type of loans is provided without collateral and the lending criteria have been built on a higher credit score.

Table 25, Whether the credit management policy of HOFOKAM enhances loan recovery without involving much financial costs

The credit management policy of HOFOKAM enhances loan recovery without involving much financial costs	Mean	Std. Deviation
	1.52	**0.634**

Source: primary data

Table 25, the mean off the study was 1.54 and the standard deviation of the study was 0.634. This implied that the credit management policy of HOFOKAM enhances loan recovery without involving much financial costs basing on the mean. The respondents seemed to agree with the study carried by Dr. Steinwand 2000 which argued that effective credit management allows MFIs to capitalize on new opportunities and to minimize threats to their financial viability.

Table 26,Whether without the credit management currently in place, the levels of default would be so high

without the credit management currently in place, the levels of default would be so high	Mean	Std. Deviation
	1.5952	**0.91223**

Source: primary data

According to table 26, the mean of the study was 1.5952 and the standard deviation was 0.91223. This implied that without the credit management policy currently place the levels of default would be so high this is strongly supported by the mean. The respondents seemed to agree with the study conducted by Batar 2008 cited by Munenue 2013 where it argued that a firm should develop its own approach of numerical scoring to determine the credit worthiness of customers, this will reduce default levels.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter: summary of findings, the conclusions, recommendations and suggestions for further research in relation to the study. The discussion explains the findings of the study in support or in contrast to the literature after which conclusions and recommendations are drawn.

5.1 Summary of Findings

Here the summary of findings is in relation to the literature review in chapter two which entails the theory of different scholars in relation to the study variables is presented.

5.1.1 Credit management

Credit is the money that is owned to a business. This arises when there is a gap or time lag between the points when credit is acquired and when payment is received from the client (Kakura 2000) cited by Ainebyona 2011. It involves credit policy spells out guidelines which are followed in extending cited by Yoran 2010 cited by Mutumba 2012. Credit management also argues that the MFIs should track how their clients use their loans and how they allocate their profits cited by Srikant. 2008. It also argues that lending terms are therefore a combination of credit conditions and standards of advancing credit these will help a MFI to recover their credit. Alexis, 2010 cited by Mulumba 2011. These involves small short-term loans are intended to test the clients commitment to repay and allow client to learn on the loan it was cited by UNDP 1997 cited by Kagwa 2003. It further argues that all documents held as security for loans should be registered in a securities register at each branch. Supervisors would check the MFI’s books,

registers, and vouchers are all properly maintained and only used by authorized person cited by ARB Apex ltd 2004 cited by Ledgerwood 2006. Furthermore it argues that written credit policies are the cornerstones of sound credit management, they set objectives, standards and parameters to guide micro finance officers who grant loans and manage loan portfolio. Thus a good credit involves effective initiation analysis, credit monitoring and evaluation cited by Naughton 1996 cited by Kwizera 2011. In additional it argues that the management of MFIs should revisit the loan repayment period offered to clients. Lengthening the repayment period would enable them meet their financial obligations in time cited by Gyasi 2002 cited by Kyeyune 2007.

5.1.2 Loan Recovery

Loan recovery is defined as the process involving procedures that banks or any financial institution uses to collect its money from debtors (Kyagulanyi, 1998) cited by Ainebyona 2011. The longer the debt is allowed to run, the higher the possibility eventually defaults. Credit management spells out guidelines which are followed in extending credit to customers including the procedures for recovering loans however every MFI has its own procedures that they consider under credit policy to ensure that loans are recovered cited by Yoran, 2010 cited by Mutumba 2012. It further argues that institutions should have a culture of handling funds that must be repaid in time by Garber, 1997 cited by Pafula 2003. It expressed the view MFIs were turning out to be worse than moneylenders by charging high interest rates which worsen the payments of their poor clients by Hindu 2006 cited by Subrata 2009. It furthermore argues that organizations should have a system of tracking late payments and real losses, deploy staff to maximize return of resource, this implies that there are times instituted due to failure to pay the prince amount and the accrued interest in time by Garber 1997 cited by Pafula 2003.

On the credit management, a great number of the respondents indicated that HOFOKAM applies good policies and procedures to ensure that their clients pay back in time. However to some extent these policies and procedures have not been efficiently managed that is why there are some default cases.

On the loan recovery procedures employed, majority of the respondents agreed that the set procedures of loan recovery employed by HOFOKAM are efficient enough and have aided in loan recovery. But these procedures have not been well followed this has resulted into loan defaults in HOFOKAM.

5.2 Conclusions

Basing on the summary of findings, the researcher concluded that credit management is efficient in recovering the loans. However the respondents indicated that the losses in form of loan defaults showed, was as a result of failure of the credit officers of HOFOKAM to exploit the procedures required before and after disbursement. However if these procedures of loan recovery where to be strictly followed then maximum loan repayment/ recovery will be achieved in a long run.

5.3 Recommendations

The study findings yielded the following recommendations in view of credit management and loan recovery in microfinance institutions in Uganda.

The management of MFIs should endeavor that the set procedures of loan recovery employed by HOFOKAM are efficient enough to aid loan recovery. This will improve or reduce loan default rates in HOFOKAM.

MFI should endeavor to lengthen the repayment period. This would enable them meet their financial obligations in time.

Management of MFIs should be duty bound to lower the interest rates charged on the loans secured. The current interest rates charges are high this turns MFIs to be like money lenders yet they serve low income earners who are engaged in low profitability ventures. It is advisable that the product portfolio be increased and interest lowered in order to achieve their goals.

5.4 Suggestions for Further Research

The researcher recommends further research in the following areas.

The role of credit documentation on loan recovery in microfinance institution Uganda

The effects of MFIs on funding medium scale and small scale business in Uganda

The effects of technological monitoring on MFIs funding

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Appendix 1.

QUESTIONNAIRE TO THE RESPONDENTS FROM LOANS OFFICIALS OF HOFOKAM (KASESE BRANCH)

Dear respondent,

This is a questionnaire on credit management and loan recovery administered to the loans officials and clients of HOFOKAM (Kasese Branch).It is presented by Bwambale Ronald Guniha a student of Bachelor of Business Administration and Management from Uganda Martyrs university thus feel free to give responses to the best of your knowledge about these variables as, the information is purely for academic purposes and the information provided will be treated with utmost confidentiality.

TICK THE SELECTED ALTERNATIVES AND TICK AS TO WHERE YOU STRONGLY AGREE (SA), AGREE (A) NOT SURE (NS), DISAGREE (D) OR STRONGLY DISAGREE (SD) WITH THE STATEMENT/QUESTION.

PART 1: BACKGROUND INFORMATION

1. Sex

(a).Male ☐ (b) Female ☐

2. Your age bracket

(a) 18-26 years ☐ b) 26-34 years ☐ c) 34-42 years ☐

d) 42-50 years ☐ e)Above 50 years ☐

3. Education level

a) University level ☐ b) Diploma level ☐ c) Secondary level ☐

d) Primary level ☐

4. For how long have you been with HOFOKAM?

a) Less than a year ☐ 1-3 years ☐ c) 3-5 years ☐

d) Above 5 years ☐

5. Which sector does HOFOKAM usually offer loans to?

a) Business ☐ b) Agriculture ☐ c) Housing ☐

d) Service ☐

6. What type of loan does HOFOKAM offer?

a) Salary loans ☐ b) Business loans ☐ School fees loans ☐ d) Others ☐

PART II: CREDIT MANAGEMENT OF HOFOKAM

NO.	QUESTION	SA	A	NS	D	SD
1	HOFOKAM has got a standard procedure for credit client screening before advancing the loan					
2.	Relevant credit information (past behavior on the loan borrowed. loan borrowing experience and projects established using borrowed money) is first obtained from the loan client before disbursement					
3	The company normally extends loans on liberal terms to the extent of the whole amount required by the client.					
4	The company first gives short-term loans to test the credit worthiness of the clients					
5	There is security required before advancing the loan amount					
6	Loan follow up and monitoring is normally done to check the viability of the clients loan project					
7	Loans are offered for a long period of time e.g. over 1 year.					

PART III: LOAN RECOVERY OF HOFOKAM

NO.	QUESTION	SA	A	NS	D	SD
1	There are established procedures to collect the principle amount and interest due from the loan clients					
2	Loan clients normally pay their debts on the due date i.e. they don’t exceed the date of repayment.					
3	Clients fail to pay their debts due to failure in their loan projects					
4	Clients fail to pay outstanding balance due to high interest rate attached.					
5	There are times instituted due to failure to pay the principle amount and the accrued interest in time					
6	In your view, do you agree that the loan recovery system is efficient as it prompts loan repayments in time?					

PART 1V: RELATIONSHIP BETWEEN CREDIT MANAGEMENT AND LOAN RECOVERY OF HOFOKAM

NO.	QUESTION	SA	A	NS	D	SD
1	The procedures for loan disbursements are liberal that whoever wants the loan is given and pays at the time he/she feels like.					
2	There are clients who have failed to repay their amounts and have written off.					
3	The company invests much money in loans collection but it benefits for the company because loans are recovered in time.					
4	The credit management system of HOFOKAM is so inefficient to enhance loans collection, but it benefits for the company because loans are recovered in time.					
5	Loan disbursement without security is most likely to result into default of payment by the client.					
6	The credit management policy of HOFOKAM enhances loan recovery without involving much financial costs.					
7	Without the credit management currently in place, the levels of default would be so high.					

THANK YOU VERY MUCH FOR YOUR TIME

Appendix 2.

KREJICE AND MORGAN SAMPLING TABLE

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size

"S" is sample size.

From : Krejcie, Robert V., Morgan, Daryle W., "Determining Sample Size for Research Activities", Educational and Psychological Measurement, 1970.

APPENDEX iii: Introduction Latter

Uganda Martyrs University

making a difference

Office of the Dean
Faculty of Business Administration and Management

Your ref.:
Our ref.:

Nkozi, 10th December, 2014

Attention Loan Officers. This student has been accepted to conduct his research from [illegible] Kasese Branch. Please assist him and provide him all the information he need. [signature] 6/1/15.

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 [illegible] RONALD [illegible] 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 dissertation 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.

UGANDA MARTYRS UNIVERSITY
OFFICE OF THE DEAN
10 DEC 2014
FACULTY OF BUSINESS ADMINISTRATION & MANAGEMENT
SIGN:

Yours Sincerely,

Moses Kibrai
Dean

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