THE EFFECT OF CREDIT MANAGEMENT POLICY ON THE PERFORMANCE OF LOAN PORTIFOLIO IN MICROFINANCE INSTITUTIONS

A CASE STUDY OF UGANDA FINANCE TRUST

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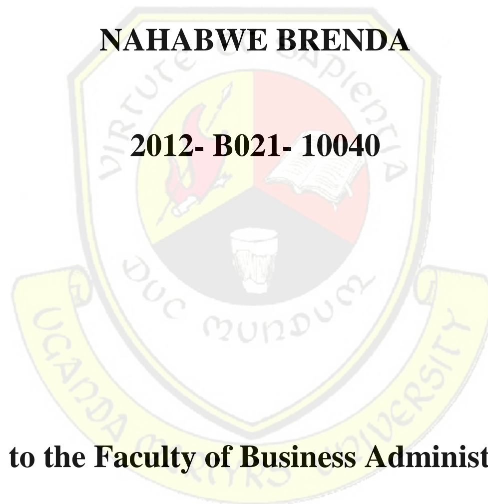

A Dissertation Submitted to the Faculty of Business Administration and Management in Partial Fulfillment of the Requirements for the Award of A Bachelors degree of Business Administration of Uganda Martyrs University Nkozi

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DEDICATION.

This academic work is dedicated to my dear parents Mr. and Mrs. Muhwezi who sewed the first seed of civilization into me and who by the Lord's grace have seen it grow to this level of education. I also dedicate it to my brothers and sisters Patience, Vincent, Fidel, Ivan, Ryan, Belinda, Brian for always giving me moral and financial support.

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Table of Contents

Approval I
Declaration..ii
Dedication..III
Acknowledgement IV
Table Of Contents V
List Of Tables VIII
List Of Figures IX
List Of Abbreviations X
Abstract XI

Chapter One: Introduction 1
1.0 Introduction 1
1.1 Background To The Study 1
1.2 Statement Of The Problem.. 4
1.3 Objectives Of The Study 5
1.3.1 General Objective Of The Study 5
1.3.2 Specific Objectives Of The Study 6
1.4 Research Questions 6
1.5 Scope Of The Study 6
1.5.1 Subject Scope 6
1.5.2 Geographical Scope 6
1.5.3 Time Scope 7
1.6 Significance Of The Study 7
1.7 Justification Of The Study 7
1.8 Definition Of Terms 8
1.9 Conceptual Framework 10
1.10 Conclusion 11

Chapter Two: Literature Review 12
2.0 Introduction 12

2.1 Credit Evaluation And Loan Portfolio Performance 12
2.2 Loan Approval And Loan Portfolio Performance 18
2.3 Funds Disbursement Process And On Loan Portfolio Performance 22

Chapter Three 26
Research Methodology .... ERROR! BOOKMARK NOT DEFINED.
3.0 Introduction 26
3.1 Research Design 26
3.2 Area Of The Study 26
3.3 Population Of Study 27
3.4 Sample Size And Sampling Techniques 27
3.4.1 Sample Size 27
3.4.2 Sampling Techniques. 28
3.5 Data Collection Methods And Instruments 28
3.5.1 Questionnaire 28
3.5.2 Interview Guide 29
3.6 Validity And Reliability 29
3.7 Data Analysis 29
3.7.1 Quantitative Data Analysis 29
3.7.2 Qualitative Data Analysis 30
3.8 Ethical Considerations 30
3.9 Limitations Of The Study 30

Chapter Four 31
Presentation And Interpretation Of The Findings ... ERROR! BOOKMARK NOT DEFINED.
4.0. Introduction 31
4.1 Socio-Demographic Characteristics Of The Respondents 31
4.1.1 Gender Of The Respondents 31
4.1.2 Education Qualification Of The Respondents 32
4.1.3 Marital Status Of The Respondents 33
4.1.4 Time Spent In Service At Uganda Finance Trust Bank 34

4.1.5 Age Group Of The Respondents 34
4.2 Credit Evaluation And Loan Portfolio Performance 36
4.3 Loan Approval Process And Loan Portfolio Performance 40
4.4 Funds Disbursement Process And It Requirements Has On Loan Portfolio Performance 44

Chapter Five 48
Summary, Conclusions And Recommendations .... ERROR! BOOKMARK NOT DEFINED.
5.0 Introduction 48
5.1 Summary Of The Findings 48
5.1.1 To Examine The Contribution Of Credit Evaluation On Loan Portfolio Performance 48
5.1.2 To Establish The Impact Of Approval Process On Loan Portfolio Performance 49
5.1.3 To Establish The Effect Of Funds Disbursement Process And It Requirements On Loan Portfolio Performance 50
5.2 Conclusions 50
5.3 Recommendations 51
5.4 Areas For Further Study 52

References 53
Appendix 1: Questionnaire For Bank Employees 56
Appendix 2: Interview Guide For Senior And Deputy Loans And Credit Officers 60
Appendix 3: Sample Size Determination 62

List of Tables

Table 3. 1: Sample size and selection 28

Table 4. 1: showing the Gender of the Respondents 31

Table 4. 2: Education qualification of the Respondents 32

Table 4. 3: Showing the Time that respondents had spent in Service at Uganda Finance Trust Bank 34

Table 4. 4: Credit Evaluation and Loan Portfolio Performance 36

Table 4. 5: Loan Approval Process on Loan Portfolio Performance 40

Table 4. 6: Funds Disbursement Process and It Requirements Has On Loan Portfolio Performance 44

List of Figures

Figure 1.1 :The conceptual Framework of the effect of Credit Management Policies on loan Portfolio Management 10

List of Abbreviations

AD:	Automated Disbursements
DISBM:	Disbursement Management
DV:	Dependent Variable
EFT:	Electronic Funds
FI:	Financial Institution
IV:	Independent Variable
LP:	Loan Portfolio
MDI:	micro deposit taking institution
MFI:	Microfinance institutions
SMEs:	Small and Medium Enterprises
SPSS:	Statistical Package for the Social Sciences
UFT:	Uganda Finance Trust

ABSTRACT

This study assessed the effect of credit management policy on loan portfolio performance of Uganda Finance Trust. The specific objectives of the study were: To examine the contribution of credit evaluation on loan portfolio performance, To establish the impact of approval process on loan portfolio performance and To establish the effect of funds disbursement process and it requirements on loan portfolio performance

The study adopted the case study design with quantitative and qualitative research techniques. A total sample size of 39 respondents from Uganda Finance Trust was used. Self-administered questionnaires and face to face interviews were used to collect data. Data was coded and later processed and analyzed. From the study it was revealed that, that Credit evaluation determines credit worthiness, it helps financial institutions in determining the loan size and has also enabled effective risk identification. It was further found out that credit evaluation can also help the institutions in determining the character of a potential debtor, it contributes a lot in assessment of the loan review function and achieving effective performance, it was discovered that approval process helps the officers in charge of the credit management system in rating responsibility, it can also enable financial institutions in managing their portfolios and also determines reliability of approval results. It was exposed that funds disbursement is important in the management of credit because they ensure that the bank has proper documentation, it ensures that money is not availed until all approvals and documentation requirements are met and more to that effective performance of the loan portfolio is assured if all conditions for disbursement are fulfilled.

Finally, it was recommended that all bank officers must be subjected to training because they may be more objective and experienced but they may be less sensitive to subtle changes in the borrower's condition, and their ratings changes may be less timely. It was also recommended that the Bank management should maintain loan approval process in order of effectively determine the ability of the borrower to pay back the loan.

CHAPTER ONE: INTRODUCTION

1.0 Introduction

Credit management is the executive responsibility of determining customers' credit ratings as part of the credit control function (Terry, 1995). Increased demand for high working capital and cash for expansion has made most institutions and enterprises having to resort to borrowing of funds from financial institutions like banks, microfinance institutions and other lending agencies like insurance companies and mortgages. On the contrary loan portfolio in Uganda finance Trust has greatly affected the entire performance of the organization through increased arrears rates, high costs in loan recovery, constant bad debts written off, and high costs of administering loans that result from small scale and weekly loan repayment. Therefore, this chapter introduced the background of the study, problem statement, objectives of the study i.e. the main objective and the specific objectives, research questions, scope of the study and the significance of the study.

1.1 Background to the study

Microfinance institutions (MFI) lending is normally guided by credit policies which are guidelines and procedures put in place to ensure smooth lending operations. Microfinance institutions lending if not properly assessed, involves the risk that the borrower will not be able or willing to honor their obligations (Feder& Just, 1980). In order to lend, these institutions accept deposits from the public against which they provide loans and other form of advances. Since they bear a cost for carrying these deposits, banks undertake lending activities in order to

generate revenue. The major sources of revenue comprise margins, interests, fees and commissions (Odongo, 2004).

A credit policy is the blue print used by a business in making its decision to extend credit to a customer. Thus, the main goal of a credit policy is to avoid extending credit to customers who are unable to pay their accounts. Credit policy for some larger businesses can be quite formal; involving specific documented guide lines, credit checks and customer credit applications, the policy for small businesses tends to be quite informal and lacks the items found in the formal credit policy of larger businesses. Many small business owners rely on their business instincts as their credit policy (Blair, 2002).

Hence, a credit policy that is too strict will turn away potential customers, reduce sales and finally lead to a decrease in the amount of cash inflows to the business. On the other hand, accredit policy that is too liberal will attract slow paying (even non-paying)customers ,increase in the business average collection period for accounts receivables ,and eventually lead to cash inflow problems in Uganda Finance Trust (UFT). A good credit policy should help management to attract and retain customers, without having negative impact on cash flow (Uganda Finance Trust Financial Report, 2010).

Loan portfolio refers to the total amount of money given out in different loan products, to the different types of borrowers. This may be comprised of salary loans, group guaranteed loans, individual loans and corporate loans (Puxty et al., 1991). It looks at the number of clients with loans and the total amount in loans (Wester, 1993). Survival of most financial institutions depends entirely on any successful lending program that revolves on funds and loan repayments made to them by the clients (Gregory, 1986). This therefore requires a restrictive credit control

system to be put in place so as to restrain from unnecessary lending thus, improving on profitability of Microfinance Institutions (Kakuru, 2000). Credit management is the executive responsibility of determining customer's credit ratings as part of the credit control function (Terry, 1995). Increased demand for high working capital and cash for expansion has made most institutions and enterprises having to resort to borrowing of fund from financial institutions like banks, microfinance institutions and other lending agencies like insurance companies and mortgages.

With loan portfolio, involves the loans that have been made or bought and are being held for repayment. Loan portfolios are the major asset of banks, thrifts, and other lending institutions. The value of a loan portfolio depends not only on the interest rates earned on the loans, but also on the quality or likelihood that interest and principal will be paid. Effective loan portfolio management begins with oversight of the risk in individual loans. Prudent risk selection is vital to maintaining favorable loan quality. Therefore, the historical emphasis on controlling the quality of individual loan approvals and managing the performance of loans continues to be essential. But better technology and information systems have opened the door to better management methods. A portfolio manager can now obtain early indications of increasing risk by taking a more comprehensive view of the loan portfolio (Blair, 2002).

Effective management of the loan portfolio and the credit function is fundamental to a financial institutions safety and soundness. Loan portfolio involves the process which risks that are inherent in the credit process are managed and controlled. Because review of the loan Portfolio (LP) process is so important, it is a primary supervisory activity. Assessing LP involves evaluating the steps MFI management takes to identify and control risk throughout the credit

process. The assessment focuses on what management does to identify issues before they become problems (Khashman, 2010).

Uganda Finance Trust is one of the active institutions in loan extension to the entire community. On the contrary loan portfolio in Uganda Finance Trust has greatly affected the entire performance of the organization through increased arrears rates, high costs in loan recovery, constant bad debts written off, and high costs of administering loans that result from small scale and weekly loan repayment (Microfinance Institutions in Uganda Report, 2013)

However, the quality of the trade accounts accepted the length of the credit period, the cash discount for an easy payment and the collection procedures have not been effective in loan recovery. This in turn becomes costly to the institution on top of affecting the volume of sales .Such decreases in the percentage of a loan recovery could be attributed to inappropriate credit policies that are not effective .therefore this instigates that there appears to be a problem in paying back the loans got from the microfinance institutions by their clients and this can be partly attributed to credit policy employed (Samuel M, 2010).

1.2 Statement of the problem

Uganda Finance Trust was established to improve the living standards of the local population which was initially a non-profit making organization. However it has been diverted to a micro deposit taking institution (MDI), which is a profit maximizing institution. Despite its objective of its existence, it is not maximizing profits as the intention was. This is evidenced by Uganda Finance Trust annual statistical reports (2006-2009) that show decline in percentage of loan recovery.

Table 1: Loan Disbursements and recovery in Uganda Finance Trust

Year	Loan Disbursed	Loan Recovered	Loan not Recovered	% of loan recovered
2006	1.98 billions	1.72 billions	260 millions	86.8%
2007	2.20 billions	1.65 billions	550 millions	75.0%
2008	2.33 billions	1.60 billions	730 millions	68.7%
2009	2.50 billions	1.58 billions	920 millions	63.2%

Source: Annual reports for Uganda Finance Trust 2006-2009

As evidenced from the table 1, the loans recovered has reduced from (86.8%) to (63.2) in a time period of 4 years. This has affected the profitability of the loans disbursed out. Therefore, the low loan portfolio performances in Uganda finance trust could be attributed to the credit policy employed. It's against these worrying statistics from Loan Disbursements and recovery in Uganda Finance Trust that this study was undertaken to ascertain the effect of credit policy on loan portfolio performance of Uganda finance trust.

1.3 Objectives of the Study

1.3.1 General Objective of the study

The general objective of the study was to establish the effect of credit management policy on loan portfolio performance of Uganda finance trust

1.3.2 Specific Objectives of the study

i. To examine the contribution of credit evaluation on loan portfolio performance
ii. To establish the impact of approval process on loan portfolio performance
iii. To establish the effect of funds disbursement process and it requirements on loan portfolio performance

1.4 Research Questions

i. What is the contribution of credit evaluation on loan portfolio performance?
ii. What is the impact of approval on loan portfolio performance?
iii. What effect the effect of funds disbursement process and it requirements on loan portfolio performance?

1.5 Scope of the study

1.5.1 Subject scope

The study focused on the contribution of credit evaluation on loan portfolio performance, the impact of approval process on loan portfolio performance, funds disbursement process and it requirements have on loan portfolio performance on loan portfolio performance.

1.5.2 Geographical Scope

The study covered the central branch offices of Uganda finance trust on Sure house, Bombo road, Kampala.

1.5.3 Time scope

The study covered the period between financial years 2009 -2014. There has been a lot credit management procedures and loans performance portfolio within this time period in the micro finance sector. Therefore, this time period had enough data and information concerning the topic under investigation.

1.6 Significance of the study

The study findings will help identify weaknesses in credit management policies of Uganda finance Trust .This will help management to find means of strengthening their operations and other necessary remedial actions.

The study will help to enhance the researcher's knowledge and understanding of the study variables

The study will add to the body of existing literature and provide a basis for future studies and reference for future researchers.

1.7 Justification of the study

i. This study generated data and information on credit management policy and how they affect loan portfolio performance. A lot has been written on the rapid and widespread diffusion of credit management policies in MFI as one of the most notable trends over the past years. However, credit management policies are surrounded with various problems regarding the way it is embraced which the previous studies had left out. The extent to which credit management policies affects the loan portfolios has however been left out by

most researchers and thus this study is justified in the sense that it highlighted the effect of credit management policies on loan portfolio in this case, using Uganda finance Trust as a case study. the contribution of on loan portfolio performance

1.8 Definition of Terms

Credit Management policy

Credit management 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.

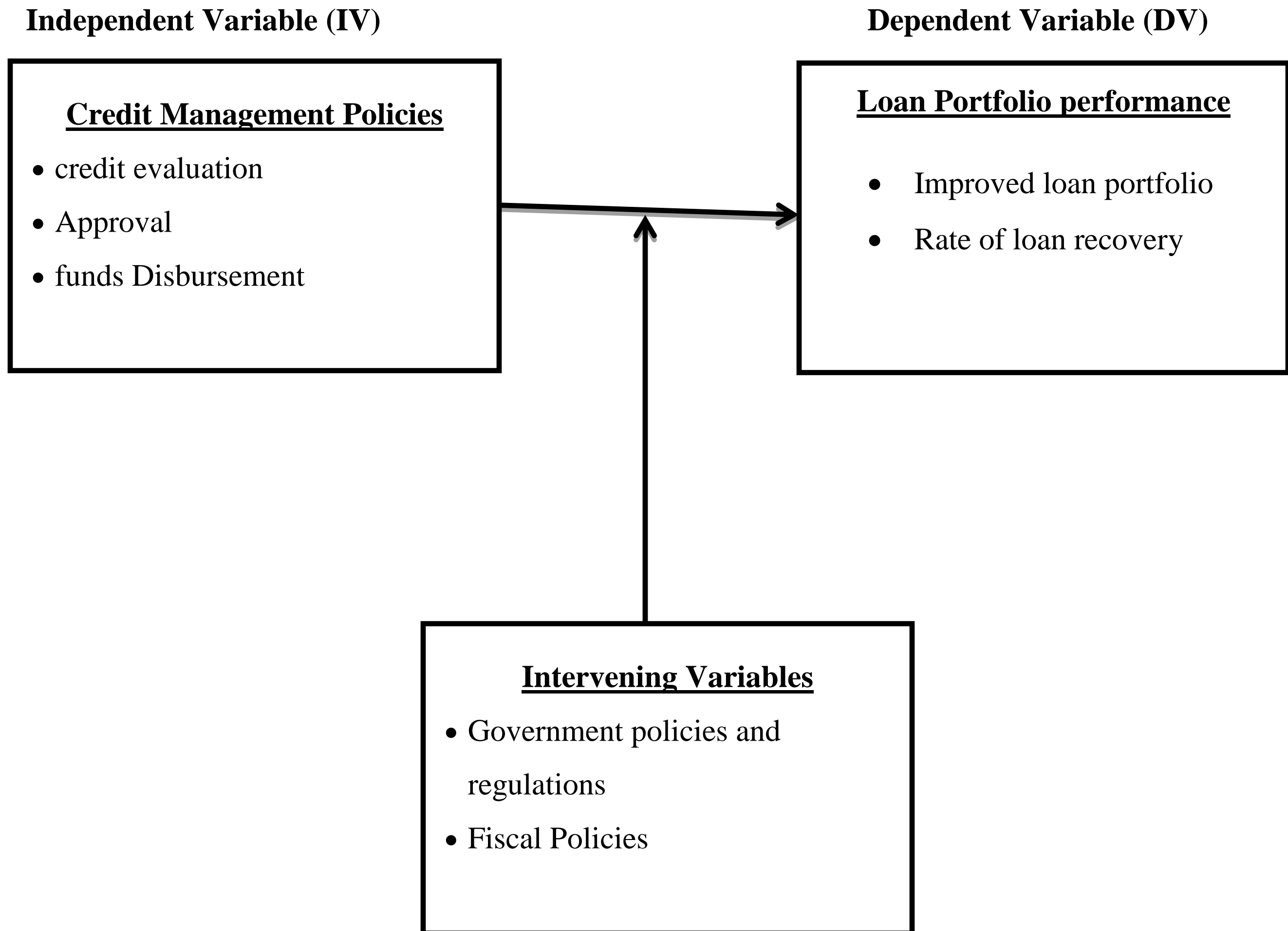
Loan portfolio performance

Loan portfolio performance refers to rate of profitability or rate of return of an investment in various loan products. Thus broadly, it looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments, security pledged against the borrowed funds, rate of arrears recovery and the number of loan products on the chain.

Loan portfolio refers to the total amount of money given out as loans indifferent loan products, to the different types of borrowers. These loan products may comprise of; Salary loans, Group guaranteed loans, Individual loans and corporate loans (Puxty et al., 1991).It looks at the number of clients with loans and the total amount in loans. (Wester, 1993)

1.9 Conceptual Framework

Figure 1.1:**The conceptual Framework of the effect of Credit Management Policies on loan Portfolio Management**



Source: Adopted and modified from by Blair, (2002).

The conceptual framework is a diagrammatic representation showing the relationship the study seeks to investigate between the key variables of the study in relation to the extraneous variables. In this study the conceptual framework shows the relationship between credit management policies as the independent variable and loan portfolio as the dependent variable. The conceptual

frame work is modified and developed basing on Blair, (2002). In the conceptual frame work, credit management policies are operationalized into credit evaluation, approval and funds disbursement which can increase the loan portfolio performance of the financial institution. On the other hand Government policies and regulations and fiscal policies are considered as the mediating or extraneous variables. The study thereby determines the effect of credit management policies on loan portfolio performance.

1.10 Conclusion

The above chapter provided information on the background of the study; the contribution of MFIs to the performance of SMEs in Uganda, the problem statement, the research objectives along with the research questions and the conceptual framework.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter deals with the review of the related literature on the study variables of credit management policy and the performance of loan portfolio in microfinance institutions. The review will then focus on the major themes of the study; to examine the contribution of credit evaluation on loan portfolio performance, to establish the impact of approval on loan portfolio performance, to establish the effect that funds disbursement process and it requirements have on loan portfolio performance

2.1Credit Evaluation and Loan Portfolio Performance

Credit evaluation is the process a business or an individual must go through to become eligible for a loan or to pay for goods and services over an extended period. It also refers to the process businesses or lenders undertake when evaluating a request for credit. Granting credit approval depends on the willingness of the creditor to lend money in the current economy and that same lender's assessment of the ability and willingness of the borrower to return the money or pay for the goods obtained plus interest in a timely fashion. Typically, small businesses must seek credit approval to obtain funds from lenders, investors, and vendors, and also grant credit approval to their customers (Siskos& Catherine (2000).

According to Anderson, (2000), the granting of credit depends on the confidence the lender has in the borrower's credit worthiness. Credit worthiness, which encompasses the borrower's ability and willingness to pay, is one of many factors defining a lender's credit policies. Creditors and lenders utilize a number of financial tools to evaluate the credit worthiness of a potential

borrower. When both lender and borrower are businesses, much of the evaluation relies on analyzing the borrower's balance sheet, cash flow statements, inventory turnover rates, debt structure, management performance, and market conditions. Creditors favor borrowers who generate net earnings in excess of debt obligations and any contingencies that may arise.

Credit evaluation helps banks in determining the loan size. Creditors prefer large loans because the administrative costs decrease proportionately to the size of the loan. However, legal and practical limitations recognize the need to spread the risk either by making a larger number of loans, or by having other lenders participate (Prince, 2004). Participating lenders must have adequate resources to entertain large loan applications. In addition, the borrower must have the capacity to ingest a large sum of money.

Effective risk identification starts with the evaluation of individual credits. Rating the risk of each loan in timely credit evaluations is fundamental to loan portfolio performance and management (Baron and Lynch, 1999). Some banks apply risk ratings to relationships, others prefer to rate each facility, and still others rate both relationships and facilities. These evaluations allow the prompt detection of changes in portfolio quality, enabling management to modify portfolio strategies and intensify the supervision of weaker credits in a timely manner.

Credit evaluation can also help the commercial institutions in determining the character of a potential debtor which is an important consideration used by lenders in loan grant. A thorough check of the lifestyle of the potential debtor can be undertaken on the part of the lender during the investigation. The character of a person applying for a loan is a big factor to the decision for loan approval. A person with a sound financial objective is likely to be granted a loan quickly

and more possibly than an individual who is in bad shape, not just on the financial facet, but also on other aspects.

Additionally, credit evaluation contributes a lot in determining credit worthiness. A history of trustworthiness, a moral character, and expectations of continued performance demonstrate a debtor's ability to pay. Creditors give more favorable terms to those with high credit ratings via lower point structures and interest costs (Warren, 1997)

Truett (1997) argued that credit evaluation contributes a lot in assessment of the loan review function. This also includes evaluation of its role in assuring the effectiveness of the loan portfolio management process. The loan review function should go beyond transactional testing to include evaluation of how well individual departments perform.

Because banks can evaluate the credit risk of individual loans using little technical support, credit evaluations are so important in helping them achieve effective performance. As part of the initial or ongoing credit analysis, the bank can alter financial variables and assess the impact. These results can then be rolled up to the portfolio level to assess the impact on portfolio credit quality (Mehta, 2000).

The credit score is also an important scoring system of an individual borrower. The score shows the worthiness of an individual borrower for a credit. Therefore, the better the credit score the better performance of loan portfolio. In the case, credit evaluation is a good process for determining credit score (Mehta, 2000). A credit score can be at its low. When these things happen to the individual’s credit background, it is unlikely for the client to earn the approval of the lender for a loan. However, if the cash flow is good, there is a possibility to be granted a loan.

Credit evaluation and approval involves the process a business or an individual must go through to become eligible for a loan or to pay for goods and services over an extended period. It also refers to the process businesses or lenders undertake when evaluating a request for credit. Granting credit approval depends on the willingness of the creditor to lend money in the current economy and that same lender's assessment of the ability and willingness of the borrower to return the money or pay for the goods obtained, plus interest, in a timely fashion. Typically, small businesses must seek credit approval to obtain funds from lenders, investors, and vendors, and also grant credit approval to their customers (Musoke, 2010).

Credit evaluations are not based on a single factor but upon how an applicant matches up to a set of lending criteria laid down by the lender. These lending criteria inherently reflect the risk attitudes and risk tolerance levels of the credit grantor concerned. In short, these criteria reflect how the lenders want to do business, their business policies, strategies, their risks propensity, etc. The risk attitudes, tolerance, business philosophy, policies and strategies however vary from one financier to the next (Khashman, 2010). What one financier finds unacceptable may as well be within another's tolerable limits. Ultimately, lenders will only assume risks that they find comfortable and acceptable within the limits set by their organizations.

When carrying out Li, (2012) the subjective judgemental approach of decision-making is an approach to evaluating the credit worthiness using different variables. This is commonly categorised as the 5 'C's of credit. Character, to lenders, this is the most important requisite and the most difficult to measure precisely. The financier needs to determine whether there is a willingness in the character to pay. Even if the character has the capacity to repay, his/her credit may still be declined if his willingness to pay is questionable. Empirical evidence has shown that

there are some characters of high means that will not pay their instalments simply because of their influence and high standing in society. The financial institution will then be faced with a dilemma of balancing the valuable relationship and at the same time recovering the loan. In such cases, bankers would be prudent not to market or approve the loan in the first place.

Capacity looks into the client's ability to pay and handle the proposed new level of debt. The client's income is evaluated firstly. Secondly, his net monthly flow and his ability to repay credit obligations as well as other expenses. Thirdly,the client's marketability or ability to change jobs. This is determined by past earnings, future earnings and past records of meeting obligations. The client's age must be above legal minority to be capable of entering into a contractual borrowing relationship with the financial institution (FI)(Liang,& Sun, 2012).

Conditions, this is will prompt the financier to examine whether the client's employment or business will withstand the vagaries of the economy, social, political and international environments, government regulations, competition or changes in the bank's policies. His future prospects may be bleak if his special skills are not in demand locally (Khashman, 2010).

Capital; this is a measure of the net value of a client's assets which form back up liquidity to meet his repayment. In a housing loan, the higher the client's margin contribution (his capital), the higher is his psychological commitment to pay the loan (Abdou, &Pointon, 2011).The client's capital is determined by his current level of liquid assets, current level of unsecured borrowings and his list of income sources, fixed expenses and contingent liabilities.

Collateral; As character is listed as the first and most important 'C', Collateral is listed as the last. This is so because, collateral is considered only as a cushion for the financier to rely on when the primary source (income) does not come in. A financier would prefer that a loan is

repaid rather than having to collect proceeds through auction of the collateral. Herein lies the test of a true banker (Zhang,& Mao, 2010). If the banker considers loans purely on the comfort of the collateral, he is not considered to be doing banking but pawn broking. Collateral is examined on its easy disposability and whether it is adequate as security.

2.2 Loan approval and Loan Portfolio Performance

Loan approval refers to the formal authorization to get a loan (usually from a bank). Approval process is also important on the success of loan portfolio performance. This is because it helps to determine who is accountable for the accuracy of loan ratings. The credit officer is a logical choice because he or she knows more about the credit than anyone else and should have access to timely financial information from the borrower (Scott, 1995).

Shleifer, &Vishny, (1992) argue that efficient approval process helps the officers in charge of the credit management system in rating responsibility which heightens his or her accountability for credit quality and has derivative benefits for loan approvals and account management. Some banks assign risk rating responsibility to a credit officer, loan review officer, or a more senior bank officer. While these officers may be more objective and experienced, they may be less sensitive to subtle changes in the borrower's condition, and their ratings changes may be less timely. Perhaps most important, making someone other than the account officer accountable may diminish his or her sense of responsibility for identifying and controlling credit risk.

Approval can also enable financial institutions in managing their portfolios. This is because before they approve, the bankers must understand not only the risk posed by each credit but also how the risks of individual loans and portfolios are interrelated. These interrelationships can multiply risk many times beyond what it would be if the risks were not related. Until recently, few banks used modern portfolio management concepts to control credit risk. Now, many banks view the loan portfolio in its segments and as a whole and consider the relationships among portfolio segments as well as among loans (Scott, Smith, 1995). These practices provide management with a more complete picture of the bank's credit risk profile and with more tools to analyze and control the risk.

Effective loan portfolio management considers how results are achieved to approve the loan, the likelihood those results will continue, and whether the institution is maximizing opportunities and providing the greatest benefit practicable to borrowers/members. A principal objective of the approval and examination process is to thoroughly understand and evaluate the loan portfolio management system that controls, and the factors that influence, performance of the loan portfolio.

Loan Approval process contributes a lot in the analysis of internal and external factors. This analysis considers factors that may impact the institution's loan portfolio. An analysis is completed to identify risks in the loan portfolio, threats to the loan portfolio, and opportunities that the institution may want to consider for enhanced profitability or growth. Once identified, the analysis determines the impact of those factors on the loan portfolio so that appropriate goals, objectives, and strategies can be established (Thorburn, 2000).

Many small businesses must rely on loans or other forms of credit to finance day-to-day purchases or long-term investments in facilities and equipment. Credit is one of the foundations of the many economies of countries, and small businesses often must obtain credit in order to compete. To establish credentials for any credit approval process, from short-term loans to equity funding, a small business needs to have a business plan and a good credit history. The company must be able to show that it can repay the loan at the established interest rate. It must also demonstrate that the outlook for its type of business supports planned future projects and the reasons for borrowing (Liang, & Sun, 2012).

An effective loan approval process establishes minimum requirements for the information and analysis upon which a credit decision is based. It provides guidance on the documents needed to

approve new credit, renew credit, increase credit to existing borrowers, and change terms in previously approved credits. It will also designate who has the authority to approve credit or changes in credit terms. Loan authorities should be commensurate with the experience of the lender/credit officer and take into consideration the type of credit, the amount of credit, and the level of risk involved (Scott, Smith, 1995).

When developing credit policies, small businesses must consider the cost involved in granting credit and the impact allowing credit purchases will have on cash flow. Before beginning to grant credit to customers, companies need to be sure that they can maintain enough working capital to pay operating expenses while carrying accounts receivable. If a small business does decide to grant credit, it should not merely adopt the policies that are typical of its industry. Blindly using the same credit policies as competitors does not offer a small business any advantage, and can even prove harmful if the company's situation is atypical. Instead, small businesses should develop a detailed credit policy that is compatible with their long-term goals (Norris, 2011).

People normally make every effort to obtain all pertinent documentation so unnecessary problems and delays may be avoided. Within 24 hours of application, the request of a credit report, an appraisal on the property, verifications of employment and funds to close, mortgage or landlord ratings and any other necessary supporting documentation (Khashman, 2010). In the case of awaiting documentation they normally receive the supporting documentation, check for any problems that might arise and request additional items we need. During this time, it is important to keep the applicant and the realtors informed as to the loan’s progress through weekly status reports. Once all the necessary documentation is in, the loan officer reviews our current programs to insure our clients the best rate and terms. The loan processor then puts the loan package together and submits it to the underwriter for approval

The loan approval process is the first step towards good portfolio quality. Then individual credits are underwritten with sound credit principles, the credit quality of the portfolio is much more likely to be sound (Khashman, 2010). Although good loans sometimes go bad, a loan that starts out bad is likely to stay that way. The foremost means to control loan quality is a solid loan approval process.

Every loan approval process should introduce sufficient controls to ensure acceptable credit quality at origination. The process should be compatible with the bank's credit culture, its risk profile, and the capabilities of its lenders. Further, the system for loan approvals needs to establish accountability (Scott, Smith, 1995)..

The primary goal of loan approval is quality (such authority might be invested in a senior credit officer or credit administrator) is also a method to introduce more objectivity to the loan approval process (Khashman, 2010). Whatever approach or combination of approaches a MFI uses, internal control mechanisms are necessary to ensure that the approval system produces sound credit decisions.

2.3 Funds Disbursement Process and On Loan Portfolio Performance

Disbursement process ensures that money is not availed until all approvals and documentation requirements are met. It also ensures that security and other required documentations are obtained before funds are disbursed. If disbursement control is weak, the whole integrity of the credit process can be weakened and abused (Msi, 1994 and Nsereko, 1995).

The disbursement process takes the payment data and transforms it into a disbursement instrument. Disbursements liquidate the payable and generate payments to the vendor. The Payment Request documents go into a disbursement queue, where the overnight batch process creates disbursement transactions and generates a warrant file that is sent to the Treasurer. The Treasurer generates payments and sends them to the vendor, then sends a file with the payment information back.

Funds disbursement documents include the Electronic Funds (EFT) and Automated Disbursements (AD) documents. The Treasurer oversees disbursing all payments. Both the EFT and AD disbursement documents are created in a nightly batch cycle of logical groups of payment documents to a single vendor and transmitted to Treasury in a disbursement file. The EFT documents generate EFTs and the AD documents create checks

Ensures proper documentation; Thus, documentations and disbursement are important in the management of credit because they ensure that the bank has proper documentation, collateral and guarantees. These are important in the advent of the clients' inability to pay because the bank would be properly secured and have legal recourse to ensure the settlement of debt (Msi, 1994). This would ultimately decrease the amount of bad debts the banks may have.

Funds disbursement normally follows if the credit officer has positively recommended the application. This stage is very important and critical because it is a critical stage in that it involves exchange of instruments and control. Effective performance of the loan portfolio is assured if all conditions for disbursement are fulfilled i.e. loan agreement, collateral, guarantors commitment, proper recording in the books of accounts etc (Khashman, 2010).

Establishment of goals and objectives; once the institution's disbursement analysis of its operating environment is complete, goals and objectives for the loan portfolio can be established easily. The board of directors should also establish strategies that are designed to accomplish their loan portfolio goals and objectives and to proactively position the loan portfolio to manage threats and maximize opportunities.

Enhances proper record keeping; In other words, loan disbursement should occur once all required documents have been signed and delivered to the bank. The loan documents comprise the bank's primary protection once the loan has been disbursed. If they are not in perfect order, there is potential for problems until the loan is repaid (Keisman, 1999).

Effective management of loan portfolio; Given the inherent risk of lending, including the statutory limitations on bank lending authority which result in additional risk from credit concentrations, it is essential that financial institutions use their proper disbursement process to effectively manage their loan portfolio in a safe and sound manner (Nsereko, 1995). Furthermore, a rapidly changing and competitive lending environment dictates that financial institutions manage their loan portfolios proactively

Growth and Market Share; Goals and objectives that address growth and market share are necessary for institutions to survive in the constantly changing and competitive financial services

industry unless they disburse their funds in an appropriate manner. The opportunities for growth or increased market share are identified through the institution's review of external and internal factors. The external review should include an analysis of key demographic data and trends to determine the existing and potential markets. Also, changes in legislation, regulations, technology, interest rates, and competition should be closely monitored as they often create opportunities for growth or market share (Keisman, 1999). In addition, strengths within the institution, such as fund disbursement experience and tenure of staff, lending expertise, cooperative organizational structure, and capital position, may provide opportunities for taking on additional growth or solidifying market share.

Disbursement' encompasses the act of paying out or disbursing money. Disbursements can include money paid out to run a business, spending cash, dividend payments, and/or the amounts that a lawyer might have to pay out on a person's behalf in connection with a transaction.

Cornett, & McGraw, (2006) explains that in most cases, when money is disbursed, it is a cash outflow. Cash flow is a measure of the cash inflow, revenue, and cash outflows, or disbursements. Ideally, there will be more money flowing in than flowing out. If cash flow is negative (in other words disbursements are higher than revenues), it can be an early warning of potential insolvency

In the Disbursement process, the Disbursement Request Table (DISRQ) and Disbursement Management table (DISBM) are used to manage pending payments that are to be disbursed. You can not only view pending payments, but also update payment information in the system. For example, the Commonwealth allows a Handling Code to be entered on all Payment Request documents, which determines how the payment will be handled. You can make changes to the

Handling Code, Scheduled Payment Date, disbursement category and other functions on the Disbursement Request Table (DISRQ) (Anderson, & Roger 2000). Furthermore, in most cases the loan applicant will be required to open an escrow account at an account with the organization (Cornett, & McGraw, 2006).

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter dealt with the methods and tools the researcher used in data collection and analysis. It describes the research design that was used by the researcher, data sources and collection tools, processing, analyzing and the challenges that the researcher faced.

3.1 Research Design

The researcher used a case study design. The researcher used questionnaires to obtain data from respondents in Uganda Finance Trust. These approaches were used to ensure generation of statistics as well as to capture in-depth information regarding credit management policy and the performance of loan portfolio in the institution

The study used a case study design approach considering both quantitative and qualitative approach using structured questionnaire, interviews, and document analysis. This is because a case study provides an in-depth study of the problem with limited time scale (Amin, 2005). The case study approach is perceived as the most preferable way of obtaining holistic, in-depth insights into the effect of credit management policies on the performance of loan portfolio in Uganda Finance Trust. Both primary and secondary data wascollected through interviews, and Questionnaires

3.2 Area of the study

The study was mainly be carried out at the offices of Uganda finance Trust Bank which is located on sure house, Bombo road, Kampala Central Uganda. This area is chosen because its

the main Branch and issues out a lot of loans in the clients and could have enough adequate information relevant to the topic under investigation.

3.3 Population of Study

According to Amin (2005), a population of the research study is the absolute cluster of elements or individuals which the researcher generalized while carrying on a research study. The study was conducted in Uganda Trust Bank. There are 43 employees in Uganda Trust Bank (UTB, Payroll report, 2014). The population of the study included the management especially those involved in the credit and loans departments and employees themselves. The study considered a total population of 43 respondents as follows, senior loans and credit Officers (4), Deputy Loans and credit Officers, Finance staff (4), other bank employees (35).

3.4 Sample size and Sampling techniques

3.4.1 Sample size

The researcher used a sample size of 39 respondents from the relevant departments at Uganda Finance Trust Bank**.** A total of 39 respondents were selected based on Krejcie and Morgan (1970) sampling guidelines using the probability simple random sampling method, and non-probability methods of purposive sampling criteria. Table 3.1 below shows the different population categories targeted, sample and sampling methods that will be used in the study.

Table 3.1: Sample size and selection

S/N	Category	Population	Sample size	Sampling Technique
1	senior loans and credit Officers	4	3	Purposive
2	Deputy Loans and credit Officers	4	3	Purposive
4	other bank employees	35	33	Simple random sampling
Total		**43**	**39**	

Source: Uganda Trust Bank Payroll, (2013)

3.4.2 Sampling techniques.

In this study, purposive sampling technique was used to select key respondents because it is best suited for selecting information rich cases for in depth study (Barifaijo, Basheka and Oonyu, 2010). Simple random sampling technique was used to collect information from bank employees because this technique has high generalizability of findings; hence it was suitable for a large study population (Sekaran and Bougie, 2010). The researcher sampled from each proportion of respondents, allocated a number to every member of the accessible population, placed the numbers in a container then picked numbers at random. The subjects corresponding to the numbers picked were included in the sample (Mugenda&Mugenda, 2003).

3.5 Data collection methods and instruments

3.5.1 Questionnaire

This is a formulated written set of questions that was used to obtain information about the study objectives from the study population (Amin, 2005). The questionnaire was used because respondents could read and write the answers, the respondents possess the information required to answer the questions and were willing to answer the questions honestly and it is less expensive

for data collection (Amin, 2005). The study used a close ended structured questionnaire divided into sections that represent the effect of credit management policies on loan portfolio performance. The respondents recorded their answers within closely defined alternatives. In this study the questionnaires was hand delivered to the respondents.

3.5.2 Interview Guide

Interviews are open questions often administered to key informants to give them wide latitude to talk about the subject. The researcher conducted oral interviews with credit/loan officers. The interviews provided an opportunity for the researcher to interact directly with the respondents.

3.6 Validity and Reliability

To ensure methodological reliability and validity, the researcher designed questionnaires, and interview guides in line with the objectives of the study. The researcher personally pretested the tools and collect information from the selected respondents while following the research ethics.

3.7 Data analysis

3.7.1 Quantitative data analysis

The data collected was edited, coded and later analyzed using Statistical Package for the Social Sciences (SPSS) computer program. Quantitative data was presented in form of descriptive statistics using frequencies and percentages and was presented using pie charts, graphs and tables.

3.7.2 Qualitative Data analysis

Qualitative data analysis involved identification and transcribing the qualitative findings into different themes (Mugenda and Mugenda, 1999). The themes were then edited, coded and arranged in different categories to generate useful conclusions and interpretations on the research objectives which were deduced for reporting in a narrative form.

3.8 Ethical considerations

This research was conducted with utmost level of integrity basing on information or data collected from respondents. The information collected did not have negative/bad impact on the company settings and the community as a whole. Data was kept with confidentiality

3.9 Limitations of the study

Non responses**;** the researcher experienced a problem of non-response from respondents who will be given the questionnaires to fill. However, the researcher assured the respondents that any information given was treated with maximum confidentiality.

Cost; the researcher also experienced a problem of limited finances with respect to this study. Costs regarding this limitation included transport, printing and photocopying of relevant materials. However, the researcher had to request for grants or borrow some money from relatives, friends and used it sparingly so as to overcome the cost constraint.

Time**;** the researcher experienced time constraint in data collection, analyzing of data and in the final presentation of the report. However, the researcher overcame this problem by ensuring that the time element is put into consideration and that all appointments agreed upon with respondents were fully met.

CHAPTER FOUR: PRESENTATION AND INTERPRETATION OF THE FINDINGS

4.0. Introduction

This chapter presents the findings of this study. It describes the characteristics of the respondents and presents the findings that were yielded from interactions the findings on the effect of credit management policy on the performance of loan portfolio in microfinance institutions. The study based on the study objectives and the following results were established.

4.1 Socio-demographic Characteristics of the Respondents

A total of 39 participants will be selected from relevant departments at Uganda Finance Trust Bank and they included senior loans and credit Officers, Deputy Loans and credit officers and other bank employees. Attention was put to the following bio-data information on these respondents

4.1.1 Gender of the Respondents

Table 4.1: **showing the Gender of the Respondents**

		Frequency (F)	Percent (%)	Valid Percent (%)	Cumulative Percent (%)
Valid	Male	17	43.6	43.6	43.6
	Female	22	56.4	56.4	100.0
	Total	**39**	**100.0**	**100.0**	

Source: Primary data

As presented in the table 4.1 above, the findings indicate that majority 56.4% of the respondents were females compared to the males who were 43.6% of the respondents. This signified that

there was some gender imbalance in the study as it is testified by the fact there were morefemales than males. This also aided the researcher to obtain indifferent data

4.1.2 Education qualification of the Respondents

Table 4.2: Education qualification of the Respondents

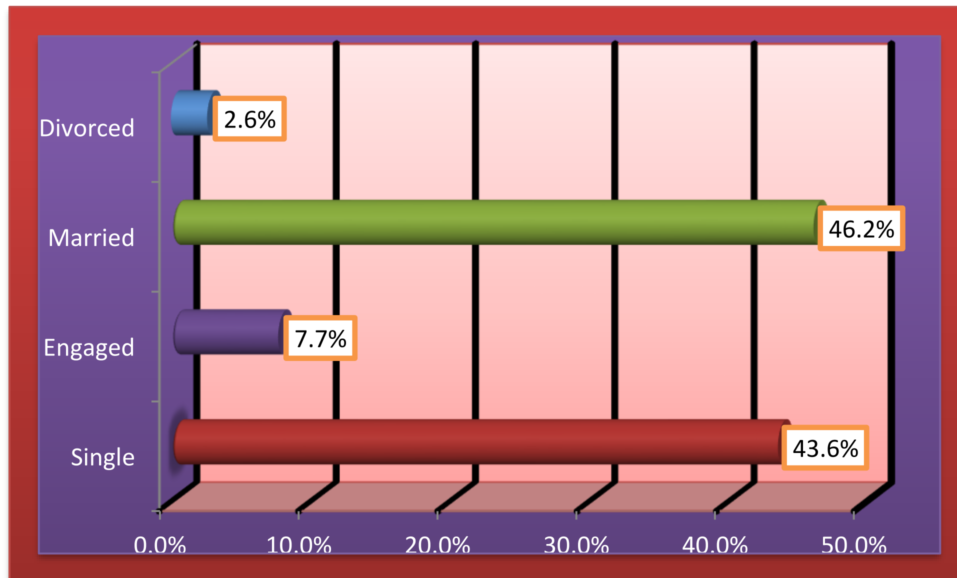
		Frequency (F)	Percent (%)	Valid Percent (%)	Cumulative Percent (%)
Valid	Diploma	21	53.8	53.8	53.8
	Degree	15	38.5	38.5	92.3
	Masters	3	7.7	7.7	100.0
	Total	**39**	**100.0**	**100.0**	

Source: Primary data

Results from table 4.2 above indicated that the majority (53.8%) of the respondents had attained diploma, (38.7%) had degrees while the minority (7.7%) of the respondents had a masters. From the above table, it was observed that all employees, senior officers and deputy loan officers were all educated and well equipped with improved skills and knowledge there by responding to the questionnaires relevantly. This helped to avoid unnecessary information from appearing in the questionnaires and simplified the process of compilation of the final report.

4.1.3 Marital status of the Respondents

Figure 4.1: **Showing the Marital status of the Respondents**



Source: Primary data

According to figure 4.1, it is presented that the majority (43.6%) of the respondents were single, these were followed by (46.2%) who were married, then (7.7%) of the respondents were engaged while the minority (2.6%) of the respondents had divorced. This enabled the researcher to prevail varying views from respondents with different status thus obtaining unbiased results.

4.1.4 Time Spent in Service at Uganda Finance Trust Bank

Table 4.3: Showing the Time that respondents had spent in Service at Uganda Finance Trust Bank

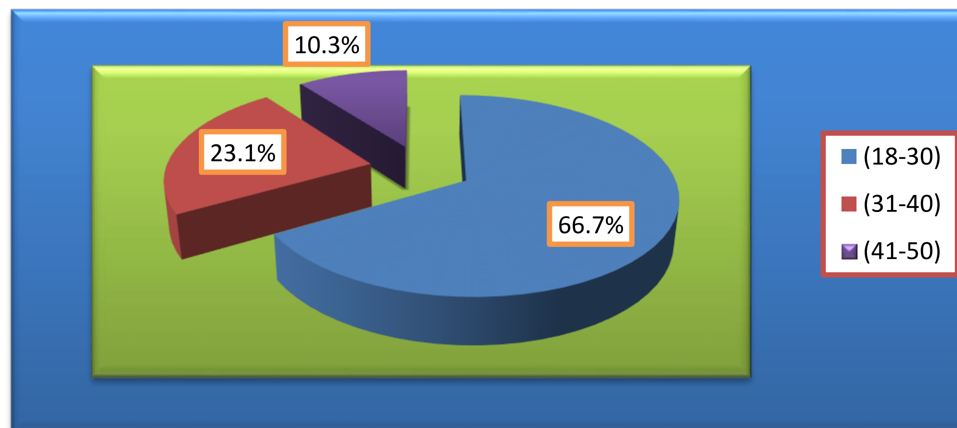
		Frequency (F)	Percent (%)	Valid Percent (%)	Cumulative Percent (%)
Valid	Less than 2 years	14	35.9	35.9	35.9
	2-10 years	23	59.0	59.0	94.9
	10-15 years	2	5.1	5.1	100.0
	Total	**39**	**100.0**	**100.0**	

Source: Primary data

According to table 4.3 above, the findings indicate that majority (59.0%) of the employees at Uganda Finance Trust Bank had worked there for 2 to 10 years, those were followed by (35.9%) who had been there for less than 2 years while the minority (5.1%) of the employees had worked there for 10-15 years. This attested that the employees had enough experience and had a bigger profile about the institution. These employees provided detailed information to the study

4.1.5 Age group of the Respondents

Figure 4.2: **Showing the Age group of the Respondents**



Source: Primary data

Results from figure 4.1 showed that the majority, (66.7%) of the respondents belonged to the age group of 18-30 years,` (23.1%) of the respondents were in the age group of 31-40 whereas the minority (10.3%) was in the age group of 41-50 years. From the study, it implied that majority of the employees were still at their youth stages which was related to the recruiting procedures for Uganda Finance Trust Bank.

4.2 Credit Evaluation and Loan Portfolio Performance

The first objective of the study was to examine the contribution of credit evaluation on loan portfolio performance. To accomplish this, the researcher examined the extent to which the respondents agree, neutral or disagree with the contribution of credit evaluation on loan portfolio performance. The findings are presented in table 4.4 below. The following abbreviations were used; strongly agree, (SA), agree (A), neutral (N), disagree (D) and strongly disagree (SD), Standard Deviation (STD)

Table 4.4: **Credit Evaluation and Loan Portfolio Performance**

Credit evaluation	SA		A		NS		D		SD		Mean	STD
	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)		
It determines credit worthiness	37	94.9	1	2.6	1	2.6	0	0.0	0	0.0	4.8718	0.65612
Credit evaluation helps financial institutions in determining the loan size	17	43.6	21	53.8	1	2.6	0	0.0	0	0.0	4.4103	0.54858
Enables effective risk identification	17	43.6	20	51.3	2	5.1	0	0.0	0	0.0	4.3846	0.59007
Credit evaluation can also help the institutions in determining the character of a potential debtor	19	48.7	17	43.6	2	5.1	0	0.0	0	0.0	4.4474	0.60168
credit evaluation contributes a lot in assessment of the loan review function	17	43.6	19	48.7	1	2.6	1	2.6	0	0.0	5.6667	8.13483
Contributes to achieving effective performance	14	35.9	20	51.3	4	10.3	1	2.6	0	0.0	4.2051	0.73196
Enhances the scoring system of an individual borrower	28	71.8	7	17.9	2	5.1	2	5.1	0	0.0	4.5641	0.82062

Source: Primary data

From the findings of the study, it was also presented that the majority (94.1%) of the respondents strongly agreed that credit evaluation determines credit worthiness, (2.6%) agreed whereas (2.6%) of the respondents were not sure whether credit evaluation determines credit worthiness. The mean score of 4.8718 and Standard Deviation of 0.65612represented the (94.9%) who agreed.

This was in agreement with Warren (1997) who stressed that credit evaluation contributes a lot in determining credit worthiness and explained credit worthiness as a moral character, and expectations of continued performance demonstrate a debtor's ability to pay.

In relation to the findings of the study, it was also presented that the majority (53.8%) of the respondents agreed that credit evaluation helps financial institutions in determining the loan size, (43.6%) agreed whereas the minority (2.6%) of the respondents were not sure whether credit evaluation helps financial institutions in determining the loan size. The mean score of 4.4103and Standard Deviation of 0.54858represented the (53.6%) who agreed.

This was in line with (Prince, 2004) pointed out that credit evaluation assist banks in determining the loan size and illustrated that creditors prefer large loans because the administrative costs decrease proportionately to the size of the loan

With consideration to the findings of the study, it was indicated that the majority (51.3%) of the respondents agreed that credit evaluation enables effective risk identification, (43.6%) agreed whereas the minority (5.1%) of the respondents were not sure whether credit evaluation enables effective risk identification. The mean score of 4.3846 and standard deviation of 0.59007 meant that the majority agreed.

This was in agreement with Baron and Lynch, (1999) who emphasized that effective risk identification starts with the evaluation of individual credits and mentioned that rating the risk of each loan in timely credit evaluations is fundamental to loan portfolio performance and management

In regards with the findings of the study, it was indicated that the majority (48.7%) of the respondents strongly agreed that credit evaluation helped the institutions in determining the character of a potential debtor, (43.6%) agreed whereas the minority (5.1%) of the respondents were not sure whether credit evaluation enables effective risk identification. The mean score of 4.4474and standard deviation of 0.60168 meant that the majority strongly agreed. This was in line with the findings of the interview where one of the respondents mentioned that:

"*Credit evaluation can also help the commercial institutions in determining the character of a potential debtor which is an important consideration used by lenders in loan grant*."

The findings of the study also showed that the majority (48.7%) of the respondents strongly agreed thatcredit evaluation contributes a lot in assessment of the loan review function, (43.6%) agreed, (2.6%) of the respondents were not sure whether thatcredit evaluation contributes a lot in assessment of the loan review function while (2.6%) of the respondents disagreed. The mean score of 5.6667and standard deviation of 0.13483 meant that the majority strongly agreed. This was supported with the findings of the interview where one of the respondents mentioned that:

"*Credit evaluation has played a role in assuring the effectiveness of the loan portfolio management process*"

It was also showed that the majority (51.3%) of the respondents strongly agreed thatcredit evaluation contributes to achieving effective performance, (35.9%) agreed, (10.3%) of the

respondents were not sure whethercredit evaluation contributes to achieving effective performance while the minority (2.6%) of the respondents disagreed. The mean score of 4.2051and standard deviation of 0.73196 represented (51.3%) who agreed.

This was in agreement with (Mehta, 2000) who mentioned that because banks can evaluate the credit risk of individual loans using little technical support, credit evaluations are so important in helping them acquire effective performance

It was also showed that the majority (71.8%) of the respondents strongly agreed that credit evaluation enhances the scoring system of an individual borrower, (17.9%) agreed, (5.1%) of the respondents were not sure whethercredit evaluation enhances the scoring system of an individual borrower while the minority (2.6%) of the respondents disagreed. The mean score of 4.5641and standard deviation of 0.82062 represented (71.8%) who agreed. This was supported with the findings of the interview where one of the respondents mentioned that:

"*The credit score is also an important scoring system of an individual borrower and the score shows the worthiness of an individual borrower for a credit. Therefore, the better the credit score the better performance of loan portfolio*"

4.3 Loan Approval Process and Loan Portfolio Performance

The Second objective of the study was to establish the impact of approval process on loan portfolio performance. To accomplish this, the researcher explored the extent to which the respondents agree, neutral or disagree with impact of approval process on loan portfolio performance. The findings are presented in table 4.5 below. The following abbreviations were used; strongly agree, (SA), agree (A), neutral (N), disagree (D) and strongly disagree (SD), Standard Deviation (STD)

Table 4.5: **Loan Approval Process on Loan Portfolio Performance**

Loan Approval	SA		A		NS		D		SD		Mean	STD
	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)		
Approval process helps the officers in charge of the credit management system in rating responsibility	30	76.9	9	23.1	0	0.0	0	0.0	0	0.0	4.7692	0.42683
Approval can also enable financial institutions in managing their portfolios	20	51.3	19	48.7	0	0.0	0	0.0	0	0.0	4.5128	0.50637
Determines reliability of approval results	15	38.5	23	59.0	0	0.0	0	0.0	0	0.0	5.4103	0.36073
Loan approval process contributes a lot in the analysis of internal and external risk factors	14	35.9	22	56.4	2	5.1	1	2.6	0	0.0	4.2564	0.67738
Approval determines the legibility and capability of the loan borrow	16	41.0	22	56.4	1	2.6	0	0.0	0	0.0	4.3590	0.62774
Approval minimizes the rate of loan loss since all the loans are approved after credit worthiness has been determined	15	38.5	22	56.4	2	5.1	0	0.0	0	0.0	4.3333	0.57735

Source: Primary data

The findings of the study also showed that the majority (76.9%) of the respondents strongly agreed that approval process helps the officers in charge of the credit management system in rating responsibility while the minority (23.1%) of the respondents agreed. The mean score of 4.7692and standard deviation of 0.42683 meant that the majority strongly agreed.

This was in agreement with Shleifer&Vishny (1992) who argued that efficient approval process assists the officers in charge of the credit management system in rating responsibility which heightens his or her accountability for credit quality and has derivative benefits for loan approvals

In relation to the findings of the study, it was indicated that the majority (51.3%) of the respondents strongly agreed thatloan approval process can also enable financial institutions in managing their portfolioswhile the minority (48.7%) of the respondents agreed. The mean score of 4.5128and standard deviation of 0.50637 meant that the majority strongly agreed. This was supported with the findings of the interview where one of the respondents mentioned that:

"*Before bankers approve, they must understand not only the risk posed by each credit but also how the risks of individual loans and portfolios are interrelated*"

With consideration to the findings of the study, it was presented that the majority (59.0%) of the respondents strongly agreed that loan approval process determines reliability of approval results while the minority (38.5%) of the respondents agreed. The mean score of 4.4103and standard deviation of 0.36073 represented the (59.0%) who strongly agreed.

This was in agreement with Oonyu (2010) who accentuated that effective loan portfolio management considers how results are achieved to approve the loan, the likelihood those results

will continue, and whether the institution is maximizing opportunities and providing the greatest benefit practicable to borrowers/members

Concerning the fact that that to the findings of the study, it was showed that the majority (56.4%) of the respondents strongly agreed that loan approval process contributes a lot in the analysis of internal and external risk factors, (35.9%) of the respondents agreed, (5.1%) were not sure whether loan approval process contributes a lot in the analysis of internal and external risk factors while the minority (2.6%) of the respondents disagreed. The mean score of 4.2564and standard deviation of 0.67738represented the (56.4%) who agreed.

This was in agreement with Thorburn, (2000) who stressed that analysis carried out on risks considers factors that may impact the institution's loan portfolio. He added that an analysis is completed to identify risks in the loan portfolio, threats to the loan portfolio, and opportunities

The findings of the study showed that the majority (56.4%) of the respondents agreed thatloan approval determines the legibility and capability of the loan borrow, (41.0%) strongly agreed while the minority (2.6%) of the respondents were not sure whether loan approval determines the legibility and capability of the loan borrow. The mean score of 4.3590 and standard deviation of 0.62774 meant that the majority s agreed. This was supported with the findings of the interview where one of the respondents pointed out that:

"*Bankers have been able to take thorough analysis of the level of capability of the borrower to repay back the loan taken*"

It was also indicated that the majority (56.4%) of the respondents agreed that approval minimizes the rate of loan loss since all the loans are approved after credit worthiness has been determined, (38.5%) strongly agreed while the minority (5.1%) of the respondents were not sure whether loan

approval determines the legibility and capability of the loan borrow. The mean score of 4.3333and standard deviation of 0.57735 meant that the majority s agreed. This was supported with the findings of the interview where one of the respondents noted that:

"*Rate of loss has been totally reduced because before one is issued a loan, an assessment of the likelihood that a borrower will default on their debt obligations is undertaken*"

4.4 Funds Disbursement Process and It Requirements Has On Loan Portfolio Performance

The third objective of the study was to establish the effect of funds disbursement process and its requirements on loan portfolio performance. To accomplish this, the researcher examined the extent to which the respondents agree, neutral or disagree with the funds disbursement process and its requirements on loan portfolio performance. The findings are presented in table 4.6 below. The following abbreviations were used; strongly agree, (SA), agree (A), neutral (N), disagree (D) and strongly disagree (SD), Standard Deviation (STD)

Table 4.6: Funds Disbursement Process and It Requirements Has On Loan Portfolio Performance

Funds disbursement	SA		A		NS		D		SD		Mean	STD
	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)		
Funds disbursement is important in the management of credit because they ensure that the bank has proper documentation	33	84.6	5	12.8	1	2.6	0	0.0	0	0.0	4.7949	0.57029
Disbursement process ensures that money is not availed until all approvals and documentation requirements are met	22	56.4	17	43.6	0	0.0	0	0.0	0	0.0	4.5641	0.50236
Effective performance of the loan portfolio is assured if all conditions for disbursement are fulfilled i.e. loan agreement, collateral, guarantors commitment, and proper recording	16	41.0	20	51.3	2	5.1	1	2.6	0	0.0	4.3077	0.69410
It can be used as a guideline when establishing goals and objectives	18	46.2	20	51.3	1	2.6	0	0.0	0	0.0	4.4103	0.63734
Loan disbursement enhances proper	13	33.3	24	61.5	2	5.1	0	0.0	0	0.0	4.2821	0.55954

record keeping												
It stimulates growth and Market Share	13	33.3	20	51.3	6	15.4	0	0.0	0	0.0	4.1795	0.68333
Funds disbursement is important in the management of credit because they ensure that the bank has proper documentation	22	56.4	16	41.0	1	2.6	0	0.0	0	0.0	4.5641	0.50236

Source: Primary data

The findings of the study showed that the majority (56.4%) of the respondents agreed thatfunds disbursement is important in the management of credit because they ensure that the bank has proper documentation, (12.8%) strongly agreed while the minority (2.6%) of the respondents were not sure. The mean score of 4.7949and standard deviation of 0.57029 meant that the majority strongly agreed.

This was in agreement with Yang (2000) who accentuated that documentations and disbursement are important in the management of credit because they ensure that the bank has proper documentation, collateral and guarantees

In relation to the findings of the study, it was indicated that the majority (56.4%) of the respondents strongly agreed thatdisbursement process ensures that money is not availed until all approvals and documentation requirements are met while the minority (43.6%) of the respondents agreed. The mean score of 4.5641and standard deviation of 0.50236 meant that the majority strongly agreed.

This was in line with Nsereko, 1995 who asserted that disbursement process ensures that security and other required documentations are obtained before funds are disbursed

In consideration to the findings of the study, it was indicated that the majority (56.4%) of the respondents strongly agreed thateffective performance of the loan portfolio is assured if all conditions for disbursement are fulfilled, (41.0%) agreed, (5.1%) were not sure whether effective performance of the loan portfolio is assured if all conditions for disbursement are fulfilled while the minority (2.6%) of the respondents disagreed. The mean score of 4.3077and standard deviation of 0.69410 meant that the majority strongly agreed. This was supported with the findings of the interview where one of the respondents marked that:

"*Funds disbursement normally follows if the credit officer has positively recommended the application and all conditions like loan agreement, collateral, guarantors commitment, proper recording in the books of accounts etc are met*"

In relation to the findings of the study, it was indicated that the majority (51.3%) of the respondents agreed thatfunds disbursement can be used as a guideline when establishing goals and objectives(46.2%) strongly agreed while the minority (2.6%) of the respondents were not sure. The mean score of 4.4103and standard deviation of 0.63734 meant that the majority agreed. This was supported with the findings of the interview where one of the respondents pointed out that:

"*Once the institution's disbursement analysis of its operating environment is complete, goals and objectives for the loan portfolio can be established easily*"

The findings of the study showed that the majority (51.3%) of the respondents agreed thatfunds disbursement stimulates growth and market Share, (33.3%) strongly agreed while the minority (15.4%) of the respondents were not sure. The mean score of 4.1795 and standard deviation of 0.68333 meant that the majority s agreed.

This was in line with Keisman (1999) who mentioned that goals and objectives that address growth and market share are necessary for institutions to survive in the constantly changing and competitive financial services industry unless they disburse their funds in an appropriate manner

Concerning the fact that funds disbursement is important in the management of credit because they ensure that the bank has proper documentation, the majority (56.4%) of the respondents agreed thatfunds disbursement stimulates growth and market Share, (41.0%) strongly agreed while the minority (2.6%) of the respondents were not sure. The mean score of 4.5641and standard deviation of 0.50236 represented the 56.4%) who agreed. This was supported with the findings of the interview where one of the respondents incremented that

"*Documentation is important in the advent of the clients' inability to pay because the bank would be properly secured and have legal recourse to ensure the settlement of debt*"

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter covers the summary of the findings and conclusions drawn from the study based on the findings presented in data analysis and the study objectives. The chapter also advances the recommendations, as well as identifying the areas for further studies.

5.1 Summary of the findings

5.1.1 To examine the contribution of credit evaluation on loan portfolio performance

The findings revealed that the majority agreed and strongly agreed that credit evaluation determines credit worthiness implying that it contributes a lot in determining a moral character, and expectations of continued performance demonstrate a debtor's ability to pay. It was further agreed on that credit evaluation helps financial institutions in determining the loan size and it enables effective risk identification implying that effective risk identification starts with the evaluation of individual credits and rating the risk of each loan in timely credit evaluations is fundamental to loan portfolio performance and management

The study findings also indicated that the majority of the respondents strongly agreed and agreed that credit evaluation helped the institutions in determining the character of a potential debtor, which meant that it helps the commercial institutions in determining the character of a potential debtor which is an important consideration used by lenders in loan grant. it was further agreed on that credit evaluation contributes a lot in assessment of the loan review function, it has played a role in assuring the effectiveness of the loan portfolio management process and contributes to

achieving effective performance. More to that the majority agreed that credit evaluation also enhances the scoring system of an individual borrower where by the score shows the worthiness of an individual borrower for a credit hence the better the credit score the better performance of loan portfolio

5.1.2 To establish the impact of approval process on loan portfolio performance

The study revealed that majority of the respondents agreed and strongly agreed that efficient approval process assists the officers in charge of the credit management system in rating responsibility and it also approval process helps the officers in charge of the credit management system in rating responsibility. It was also agreed on that majority of the respondents strongly agreed that loan approval process can also enable financial institutions in managing their portfolios implying that before bankers approve, they always understand not only the risk posed by each credit but also how the risks of individual loans and portfolios are interrelated.

The findings also indicated that the most respondents agreed and strongly agreed that loan approval process determines reliability of approval results implying that effective loan portfolio management considers how results are achieved to approve the loan, the likelihood those results will continue, and whether the institution is maximizing opportunities and providing the greatest benefit practicable to borrowers/members. It was further agreed on that loan approval process contributes a lot in the analysis of internal and external risk factors, determines the legibility and capability of the loan borrow which implied that bankers have been able to take thorough analysis of the level of capability of the borrower to repay back the loan taken and this has minimized the rate of loan loss since all the loans are approved after credit worthiness has been determined

5.1.3 To establish the effect of funds disbursement process and it requirements on loan portfolio performance

The study further revealed the majority of the respondents agreed and strongly agreed that funds disbursement is important in the management of credit because they ensure that the bank has proper documentation and collateral and guarantees. The majority also agreed that disbursement process ensures that money is not availed until all approvals and documentation requirements are met which implied that disbursement process ensures that security and other required documentations are obtained before funds are disbursed

The study of the findings also revealed that most of the respondents strongly agreed and agreed that effective performance of the loan portfolio is assured if all conditions for disbursement are fulfilled implying that funds disbursement normally follows if the credit officer has positively recommended the application and all conditions like loan agreement, collateral, guarantors commitment, proper recording in the books of accounts etc are met. it was further agreed on that funds disbursement can be used as a guideline when establishing goals and objectives and it stimulates growth and market, funds disbursement is important in the management of credit because they ensure that the bank has proper documentation implying that ddocumentation is important in the advent of the clients' inability to pay because the bank would be properly secured and have legal recourse to ensure the settlement of debt

5.2 Conclusions

In conclusion it was observed that Credit evaluation determines credit worthiness, it helps financial institutions in determining the loan size and has also enabled effective risk identification. It was further found out that credit evaluation can also help the institutions in

determining the character of a potential debtor, it contributes a lot in assessment of the loan review function and achieving effective performance and credit evaluation also enhances the scoring system of an individual borrower

From the study it was discovered that approval process helps the officers in charge of the credit management system in rating responsibility, it can also enable financial institutions in managing their portfolios and also determines reliability of approval results. It was further concluded that loan approval process contributes a lot in the analysis of internal and external risk factors, it determines the legibility and capability of the loan borrow and also minimizes the rate of loan loss since all the loans are approved after credit worthiness has been determined

From the study it was exposed that funds disbursement is important in the management of credit because they ensure that the bank has proper documentation, it ensures that money is not availed until all approvals and documentation requirements are met and more to that effective performance of the loan portfolio is assured if all conditions for disbursement are fulfilled. It was further found out that funds disbursement can be used as a guideline when establishing goals and objectives, it enhances proper record keeping and has also stimulated growth and Market Share

5.3 Recommendations

Based on this study, the researcher made the following recommendations;

All bank officers must be subjected to training because they may be more objective and experienced but they may be less sensitive to subtle changes in the borrower's condition, and their ratings changes may be less timely.

Banks should view the loan portfolio in its segments and as a whole and consider the relationships among portfolio segments as well as among loans

The Bank management should maintain loan approval process in order of effectively determine the ability of the borrower to pay back the loan.

The bank should put into consideration of some of the conditions for example loan agreement, collateral, guarantor's commitment, proper recording in the books of accounts in order to improve loan portfolio performance.

5.4 Areas for further study

More study and research should be made on the following areas and topics

The contribution of credit evaluation on loan risks control.

The impact of approval process on the loan repayment capability by the borrower

The effect of funds disbursement process and it requirements on loan loss control

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Appendix 1: Questionnaire for Bank Employees

I am a student of Uganda Martyrs University undertaking a Bachelor of Business administration. I am carrying out a research study on the topic: "**The Effect of Credit Management Policy on the Performance of Loan Portfolio in Microfinance Institutions"**

This questionnaire is therefore intended to seek information on the above subject matter. The information is purely for academic purposes and all the answers will be handled with utmost confidentiality

I therefore request that you kindly spare sometime and fill this questionnaire by ticking appropriate options and filling in the blank spaces where necessary. All information will be kept confidential and will never in any circumstance be personalized.

Thank you

SECTION A: BACKGROUND CHARACTERISTICS

1. Gender

(a) Male ☐ (b) Female ☐

2. Age Group

(a) 18-30 years ☐ (b) 31 -40 years ☐ (c) 41-50years ☐ (d)Above 50 years ☐

3. Education qualification

(a) Certificate ☐ (b) Diploma ☐ (c) Degree ☐ (d) others ☐

4. Marital Status

☐ ☐ ☐

(a) Single ☐ (b) Engaged (c) Married (d) Divorced ☐ (e) Widowed

5. How long have you been in service at this unit?

(a) Less than 2 years ☐ (b) 2 – 10 years ☐ (c) 10-15years ☐ (d) Above 15 years ☐

The following abbreviations are used in the tables. Tick appropriately in the space provided

SA = (Strongly Agree), **A** = (Agree), **N** = (Neutral), **D** = (Disagree)**SD** = (Strongly Disagree)

Section B: Credit Evaluation and Loan Portfolio Performance

6. The following statements signify the contribution of credit evaluation on loan portfolio performance in your bank?

	Credit evaluation	**SA**	**A**	**N**	**D**	**SD**
a	Credit evaluation determines credit worthiness					
c	Credit evaluation helps financial institutions in determining the loan size					
d	Credit evaluation enables effective risk identification					
e	Credit evaluation can also help the institutions in determining the character of a potential debtor					
f	Credit evaluation contributes a lot in assessment of the loan review function					
g	Credit evaluation contributes to achieving effective performance					

h	Credit evaluation enhances the scoring system of an individual borrower					

Section C: Loan Approval Process on Loan Portfolio Performance

7) To what extent do you agree with the following statements with regard to the impact of approval process on loan portfolio performance?

	Approval	**SA**	**A**	**N**	**D**	**SD**
A	Loan approval process helps the officers in charge of the credit management system in rating responsibility					
C	Loan approval can also enable financial institutions in managing their portfolios					
D	Loan approval determines reliability of approval results					
E	Loan approval process contributes a lot in the analysis of internal and external risk factors					
F	Loan approval determines the legibility and capability of the loan borrow					
G	Loan approval minimizes the rate of loan loss since all the loans are approved after credit worthiness has been determined					

Section D: Effect That Funds Disbursement Process And It Requirements Has On Loan Portfolio Performance

8) To what extent do you agree with the following statements with regard to funds disbursement process and it requirements and loan portfolio performance

	Funds Disbursement	**SA**	**A**	**N**	**D**	**SD**
A	Funds disbursement is important in the management of credit because they ensure that the bank has proper documentation					
C	Funds disbursement process ensures that money is not availed until all approvals and documentation requirements are met					
D	Effective performance of the loan portfolio is assured if all conditions for disbursement are fulfilled i.e. loan agreement, collateral, guarantors commitment, and proper recording					
E	Funds disbursement can be used as a guideline when establishing goals and objectives					
F	Loan disbursement enhances proper record keeping					
G	Funds disbursement stimulates growth and Market Share					

Thanks for your time

Appendix 2: Interview Guide for Senior and Deputy Loans and credit Officers

I am a student of Uganda Martyrs University and currently collecting data for compilation for my dissertation as a partial requirement for the award of Bachelor's Degree in Business Administration and Management of Uganda Martyrs University. I am here to conduct an interview for a maximum of 40 minutes. The interview I am conducting relates to effect of credit management policies on loan portfolio performance. You have been selected to share with us your experience and make this study successful. Information given will be treated with utmost confidentiality.

1. What are the various credit management policies used in your organization?

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2. What criterion do you follow when performing credit evaluation process?

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3. What is the contribution of credit evaluation on loan portfolio performance?

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4. In your view, to what extent has loan approval affected loan portfolio performance?

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5. When and how do you carry on the funds disbursement process?

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6. What effect does funds disbursement process and it requirements have on loan portfolio performance?

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7. What recommendations can you give with regards to this topic under investigation?

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THANKS FOR YOUR TIME

Appendix 3: Sample Size Determination

Note: “N” is population size and “S” is sample size.

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	***33***	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

Source: Krejcie, R. V., & Morgan, D.W. (1970)

Uganda
Martyrs
University

making a difference

Office of the Dean
Faculty of Business Administration and Management

Your ref.:
Our ref.:

Nkozi, 15th April, 2015

To Whom it may Concern

Dear Sir/Madam,

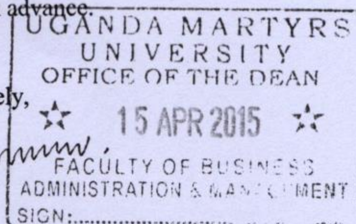
Re: Assistance for Research:

Greetings and best wishes from Uganda Martyrs University.

This is to introduce to you Nabbowe Brenda. 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.



Yours Sincerely,

Moses Kibrai
Dean

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