THE EFFECT OF LOAN RECOVERY ON THE PERFORMANCE OF MICROFINANCE INSTITUTIONS IN UGANDA
A CASE STUDY OF OPPORTUNITY BANK GAYAZA BRANCH

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A RESEARCH REPORT SUBMITTED TO THE FACULTY OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE BACHELORS OF BUSINESS ADMINISTRATION DEGREE OF KAMPALA INTERNATIONAL UNIVERSITY

JULY, 2016

DECLARATION

I, ..Namuyingo....Francis................., declare that this research report is my original work; as far as I am aware, it has never been submitted to any University or other institution of higher learning for the award of a degree or any other academic award.

Sign: ....NF............................... **Date:** 31:08:2016....

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APPROVAL

This research report has been submitted for examination with my approval as the internal supervisor at Kampala International University.

Sign: .... Date: 21/08/16

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SUPERVISOR

DEDICATION

I dedicate this report to my beloved mother Nalwadda Nevis, sister Muzimba Robinah, Nassanga, brother Talenga Wilson, Ssenyonjo Jonathan, Mr. Bogere Canary Williams, Nankunda Betty, who tirelessly put their prayers and courage to stand firm for financial, material, moral support throughout this three years course. Definitely, this beautiful heartfelt dedication is from the bottom of my heart.

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I also send my sincere gratitude to the respondents of Opportunity Bank, Gayaza Branch for giving me the opportunity to collect the required data for research and as well as for providing and enabling a suitable environment and useful information for this study.

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May the Almighty Lord everlastingly bless you all.

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LIST OF ACRONYMS

CVI	-	Content Validity Index
CR	-	Credit Risk
CRM	-	Credit Risk Management
Ltd	-	Limited
MFIs	-	Microfinance Institutions
(U)	-	Uganda

ABSTRACT

The main purpose of carrying out this study was to examine the effect of loan recovery on the performance of microfinance institutions in Uganda. The study based on the following objectives which aimed at examining the methods used in loan recovery by Microfinance institutions in Uganda, establish the degree of loan recovery towards the performance of microfinance institutions and find out the relationship loan recovery and performance Microfinance institutions (Opportunity Bank Uganda; Gayaza Branch).

The study was descriptive in nature where the researcher described the relationship between loan recovery and performance in form of highlighting on some of the desired attributes of financial services, products and analytical by looking for gaps that existed and suggested the possible remedies whereby, a total of 50 respondents were selected to participate in the study. The procedure design, was purposive sampling techniques. The technique was preferred because of the categories of respondents. After data processing, quantitative data analysis was carried out by the use of different methods such as single frequency tables, pie charts and graphs by the support of Microsoft Excel.

The major findings revealed that the majority of respondents said that loan security is mostly considered when addressing the challenges of loan recovery. This is because clients are supposed to surrender a security in order to obtain a loan from these financial institutions while there are other methods used in loan recovery for example credit rationing, loan syndication, credit worthiness, etc, therefore banks also set actions to be considered in loan recovery.

It was recommended that product package and delivery should be the one to keep Opportunity Uganda in this error of competition, despite other competitors in the district, which range from banks, MFIs and NGOs which are also offering financial services. Furthermore, microfinance institutions in the area will not be the only a solution for each and every problem in Nansana but a Combination of several players like government, NGOs, churches who put their hands together to achieve clients welfare. The researcher recommends that more research should be conducted to further findings of this study using other methodologies like the relationship between loan processing and the growth of MFIs as well as debt recovery and the profitability of borrowers.

extreme poverty come from microfinance programs that target female entrepreneurs. When women improve their circumstances, they also improve the lives of their children. By investing in nutrition and education, they help to create a better future for their children and their communities.

Despite the success of life transforming microfinance services, the World Bank says that the industry is not close to meeting the demand, five hundred million people living in the poverty could benefit form as small business and only one third of the World's population has access to any kind of bank account (Wright, 2000). Lack of access is particularly severe in Sub-Saharan Africa where the World Bank estimates that microfinance is reaching only small percentage of the economically active population.

In Sub-Saharan Africa's poorest countries, less than 10% of the population has an account with a financial institution in response, opportunity has committed to building scalable, sustainable and accessible banks throughout the developing world to provide loans, training savings and insurance, products tailored to the specific needs of each region (Takan, 2009).

Mahfuzur (2008) stated that as the microfinance industry continues to mature, there is a danger that it will drift towards a more secure client base. It is critical that Microfinance organizations continue to focus on those with the greatest needs. Those who have been displaced, those in rural areas, those whose raditional institutions consider unbankable, the most marginalized people, maintaining that focus, microfinance can help create a World in which the underserved have fair access to economic opportunities and the hope to move beyond poverty.

Opportunity Bank Uganda, is located opposite mirembe supermarket with its headquarters located at John Babiiha Avenue (Acacia Avenue) at Kololo Hill, is one of the first microfinance institutions to operate in Uganda. It has branches country wide including a branch in Wakiso District. However, long after its presence in the area, people living in areas where Opportunity Bank operates continue to be economically impoverished. Despite all the in broad sense these people are struggling with low levels of wages and low incomes (Opportunity Bank (U) Projects Report, 2008)

1.2 Statement of the problem

A series of impact studies conducted in Uganda in the past years (Kim et.al, 2007) have demonstrated that the provision of microfinance services contributes to reduced client vulnerability to economic risks, resolution strengthening linkage clients and their house holds to the Agricultural sector and enables clients to acquire valued skills.

Moreover, all observers agree that the success of microfinance institutions in Uganda is closely linked to a number of enabling contextual factors specific to the country, these factors include the way loan defaulters are managed and how loans are recovered. According to the New Vision of Monday 10th January, 2012, it was reported that (Jane Mugisha lost her plot of land to Opportunity Bank Uganda after she had failed to pay back her loan in time as per the terms and conditions of the bank. The Newspapers reported that the reasons for her loan's default were due to her poor loan management and recovery, since she lost her husband and used the loan for business in burial arrangement. Loan recovery in micro finance institutions is very big problem the fact that MFIs is depend on the recovery for its success and this research sustainability therefore seeks to find out the relationship between loan recovery and performance of financial institutions.

1.3 Purpose of the Study

1.3.1 General Objective

The study was aimed at examining the effect of loan recovery on the performance of microfinance institutions in Uganda.

1.3.2 Specific Objectives of the study

i) To examine the methods used in loan recovery by Microfinance institutions in Uganda.

ii) To establish the degree of loan recovery towards the performance of microfinance institutions.

iii) To find out the relationship between loan recovery and performance Microfinance institutions.

1.4 Research Questions

i) What are the different methods used in loan recovery by Microfinance institutions in Uganda?

ii) What is the Degree of loan recovery towards the performance of microfinance institutions?

iii) What is the relationship between loan recovery and performance Microfinance institutions?

1.5 Scope of the study

1.5.1 Subject Scope

The study based on the effects of loan recovery towards the performance Microfinance Institutions in Uganda. The study examined the methods used in loan recovery by Microfinance institutions in Uganda, established the degree of loan recovery towards the performance of microfinance institutions and the relationship loan recovery and performance Microfinance institutions.

1.5.2 Geographical scope

The study was conducted at Opportunity Bank, Gayaza Branch which is located opposite Mirembe Supermarket, along Gayaza Road. This was because the bank had many clients and the good image it has to the community.

1.5.3 Time scope

The study covered a period from April to June 2016 as per the institution. This period was chosen as the institution had registered poor loan recovery compared to other years.

1.6 Significance of the study

The study may be helpful to Opportunity Bank Uganda Ltd to the relationship between loan recovery and the performance of microfinance.

Secondly, it may be helpful to the policy makers to know the performance of the institutions, restricting the interest on loans in accordance to the rules and regulations of the Banks of Uganda.

It may also awaken Ugandans and the readers of this research how to go about lending and recovery of loans and under which conditions to attain those loans.

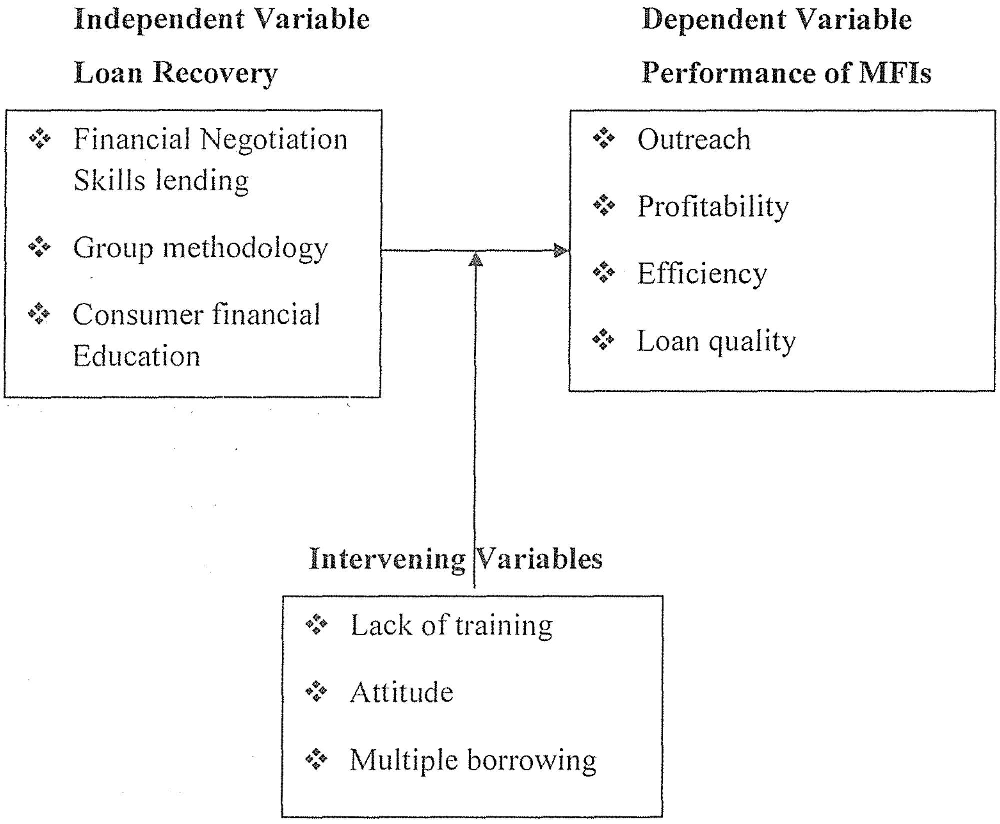
This study may add to the already existing information in the world of academics, in particular universities and colleges. It was also hoped that this study may serve as a basis for future research.

Finally, the study may enlighten the readers about Opportunity Bank Uganda, Gayaza Branch and how its operations on loans are handled.

1.7 Conceptual frame work

A conceptual frame work refers to a group of concepts that are organized in providing focus. Rationale and the tools for the interpretation of the information. It is illustrated as below

Figure 1.1: Conceptual Framework



Source: *Adopted from Honohan, (2008)*

From the conceptual frame work, loan recovery is the independent variable and is measured in terms of; financial negotiation skills, group lending methodology and consumer financial education. The dependent variable performance of microfinance institutions was operationalized in terms of, out reach, profitability, efficiency, loan quality and financial structure. Furthermore, the model showed the intervening variables like, lack of training attitude, multiple borrowing and insurance. Finally it showed that, if MFIs do not employ proper recovery methods, in the performance in their bank may negatively be affected.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents existing literature on the effects of loan recovery on the performance of MFIs. The section still is organized as follows; the first sub section covers methods used in loan recovery, the second one covers the degree of loan recovery towards the performance of MFIs and relationship between loan recovery and performance of MFIs as reviewed by different scholars.

2.1 Methods used in loan recovery by Microfinance institutions in Uganda

Barth, (2004) explained that microfinance clients are usually too poor to offer any property as collateral, micro-lenders use alternative methods to encourage repayment. The most common methods are: (1) threatening not offer loans in the future to clients who default and (2) using peer pressure mechanisms to ensure that borrowers repay. Group lending in this study will be used to mean a loan extension approach where loans are given to a group of people say five in number rather than individuals. On the other hand, loan recovery will be used to mean the rates at which extended loans are repaid. This will be measured in percentage terms (Binns, 2006)

According to Shankar, (2006), identify ways to implement these methods more effectively. MFIs have recently deployed a new strategy in its individual loan program for loan recovery that involves sending written notifications to defaulters. This strategy makes use of both the promise that good payers can receive additional loans from MFIs in the future and the pressure that loan recipients face from their loan guarantors.

As Chowdhury (2002) emphasizes that favourable credit terms such as adequate loan amounts, affordable interest rates and flexible repayment schedules help Rural Enterprise keep enough finances to run their working capital activities, it helps them improve their profitability because they will always have an opportunity cost of reinvesting their proceeds in order to generate more revenues something that increases on their return on capital employed. In return, their (SME) net profit margin will raise something that lifts the capital size APEC (2003).

Since the borrowers are not required to put up collateral, the creation of joint liability is relied on to induce sanctions that help to discipline borrowers. The sanctions may be fairly subtle, induced by peer pressure from fellow villagers rather than by the direct actions of the programs. The sanctions may involve, for example, the loss of an errant borrower's reputation in the community, social isolation, restrictions on access to inputs necessary for business, or, in rare cases, the use of physical force.

Loans that constitute a large proportion of the assets in most MFIs' portfolios are relatively illiquid and exhibit the highest CR (Koch and MacDonald, 2000). The theory of asymmetric information argues that it may be impossible to distinguish good borrowers from bad borrowers (Auronen, 2003), which may result in adverse selection and moral hazards problems. Adverse selection and moral hazards have led to substantial accumulation of non-performing accounts in MFIs (Bofondi and Gobbi, 2003). The very existence of MFIs is often interpreted in terms of its superior ability to overcome three basic problems of information asymmetry, namely ex ante, interim and ex post (Uyemura and Deventer, 1993). The management of CR in banking industry follows the process of risk identification, measurement, assessment, monitoring and control. It involves identification of potential risk factors, estimate their consequences, monitor activities exposed to the identified risk factors and put in place control measures to prevent or reduce the undesirable effects. This process is applied within the strategic and operational framework of the MFI.

Considerations that form the basis for sound CRM system include: policy and strategies (guidelines) that clearly outline the scope and allocation of a MFI credit facilities and the manner in which a credit portfolio is managed, i.e. how loans are originated, appraised, supervised and collected (Greuning and Bratanovic, 2003). Screening borrowers is an activity that has widely been recommended by, among others, Derban et al (2005). The recommendation has been widely put to use in the banking sector in the form of credit assessment. According to the asymmetric information theory, a collection of reliable information from prospective borrowers becomes critical in accomplishing effective screening.

To encourage repayment, borrowers should provide collateral and/or co-signers. Credit officers should have close long-term relationships with clients. Group lending models have found considerable success in serving clients that are just starting very small businesses (typically with no employees but themselves). But the programs tend to impose limits on wealthier borrowers. As a result, both BancoSol and the Grameen Bank have abandoned group lending for their wealthier and most-established borrowers, and this turn toward individual (lender-borrower) contracts represents the leading edge of a growing split within the microfinance movement (Gohary, 2006).

In the study, clients are randomly assigned to two groups. Two thirds of the clients receive written notifications if they fall in default (treatment group), while the rest of the clients do not receive any additional written notifications (control group). Within the treatment group, clients receive letters with either ''gain'' or ''loss'' frames, telling the client either that rectifying his credit standing will allow him access to credit in the future or telling him that his continued default will keep him from accessing loans in the future and threatening legal action. Additionally, in some cases both the sponsor and the client receive a letter, while in other cases only the client does (Pearl et.al, 2007)

Consistent with Talan Andrew, (2009) eluded that be part of a solidarity group, the potential client needs to fulfill the following conditions.

i) Must be willing to be part of a solidarity group and offer moral guarantee for each other,
ii) Should have at least one economic activity in the household
iii) No two members in one group can be from the same family or household

iv) Can not have existing (outstanding) loans from other microfinance institutions, programs, banks or money lenders.

2.2 The degree of loan recovery towards the performance of MFIs

Loans that constitute a large proportion of the assets in most MFIs' portfolios are relatively illiquid and exhibit the highest credit (Koch and MacDonald, 2000). The theory of asymmetric information argues that it may be impossible to distinguish good borrowers from bad borrowers (Auronn, 2003), which may result in adverse selection and hazards problems. Adverse selection and moral hazards have led to substantial accumulation of non-performing accounts in MFIs (Bofondi and Gobbi, 2003). The very existence of MFIs is often interpreted in terms of its superior ability to overcome three basic problems of information asymmetry, namely ex ante, interim and ex post (Uyemura and Deventer, 1993). The management of credit in banking industry follows the process of risk identification, measurement, assessment, monitoring and control. It involves identification of potential risk factors, estimate their consequences, monitor activities exposed to the identified risk factors and put in place control measures to prevent or reduce the undesirable effects. This process is applied within the strategic and operational frame work of the MFI.

Several risk adjusted performance measures have been proposed (Kealhofer, 2003). The measures, however, focus on risk-return trade-off, i.e. measuring the risk inherent in each activity or product and charge it accordingly for the capital required to support it. This does not solve the issue of recovering loanable amount. Effective system that ensures repayment of loans by borrowers is critical in dealing with asymmetric information problems and in reducing the level of loan losses, thus the long term success of any banking organization. Effective credit risk management involves establishing an appropriate credit environment, operating under a sound credit granting process, maintaining an appropriate credit administration that involves monitoring process as well as adequate controls over credit (Greuning and Bratanovic, 2003). It requires top management to ensure that there are proper and clear guidelines in managing credit, i.e. all guidelines are properly communicated throughout the organization, and that everybody involved in credit risk management understand them.

Considerations that form the basis for sound credit risk management system include, policy and strategies (guidelines) that clearly outline the scope and allocation of a MFI credit facilities and the manner in which a credit portfolio is managed, i.e. how loans are originated, appraised, supervised and collected (Greuning and Bratanovic, 2003). Screening borrowers is an activity that has widely been put to use in the banking sector in the form of credit assessment. According to the asymmetric information theory, a collection of reliable information from prospective borrowers becomes critical in accomplishing effective screening.

One major challenge of using qualitative models is their subjective nature. However, borrowers attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold. This technique is termed as ''credit scoring'' (Hefferman, 1996). The technique cannot only minimize processing costs but also reduce subjective judgments and possible biases. The rating systems if meaningful should signal changes in expected level of loan loss. Chijoriga (1997) concluded that quantitative models make it possible to, among others, numerically establish which factors are important in explaining default risk, evaluate the relative degree of importance of the factors, improve the pricing of default risk, be more able to screen out bad loan applicants and be in a better position to calculate nay reserve needed to meet expected future loan losses.

Clear established process for approving new credits and extending the existing credits has been observed to be very important while managing CR (Heffernan, 1996). Further, monitoring of borrowers is very important as current and potential exposures change with the passage of time and the movements in the underlying variables and also very important in dealing with moral hazard problem (Derban et al, 2005) monitoring involves, among others, frequent contact with borrowers, creating an environment that the bank can be seen as a solver of problems and trusted adviser, develop the culture of being supportive to borrowers whenever they are recognized to be in difficulties and are striving to deal with the situation, monitoring the flow of borrowers' reports as well as an on site visit updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time the credit was granted.

Tools like covenants, collateral, credit rationing, loan securitization and loan syndication have been used by banks in developing the world in controlling credit losses. It has also been observed that high – quality credit risk management (CRM) staffs are critical to ensure that the depth knowledge and judgment needed is always available, thus successfully managing the credit risk MFIs. Donaldson (1994) observed that computers are use in credit analysis, monitoring and control, as they make it easy to keep track on trend of credits within the portfolio. Marphatia and Tiwari (2004) argued that risk management is primary about people – how they think and how they interact with one another. Group lending is just a tool; in the wrong hands it is useless. This stresses further the critical importance of qualified staff in managing credit risk.

To encourage repayment, borrowers should provide collateral and /or co-signers. Credit officers should have close long-term relationships with clients. Group lending models have found considerable success in serving clients that are just starting very small businesses (typically with no employees but themselves) but the programs tend to impose limits on wealthier borrowers. As a result, both BancoSol and the Grameen Bank have abandoned group lending for their wealthier and most – established borrowers, and this turn toward individual (lender – borrower) contracts represents the leading edge of a growing split within the microfinance movement (Gohary, 2006)

2.3 Relationship between loan recovery and performance of MFIs

Various studies have indicated that group lending has a direct impact on loan recovery in microfinance institutions. These writers contend that a high repayment rate is a result of sound practices. There are now so many institutions with either group or individual technologies with very high repayment rates (98% - 100%) that it has become an art that can be taught and mastered. Two major factors are involved:

- Appropriate loan terms including size, installments, grace periods, purpose and time of disbursement, which are foremost importance, and
- Sound practices of loan enforcement, insisting on timely repayment.

According to Ledger wood (2002), most micro-lending models contain a sequential loan feature. Loan amounts start small and have a short repayment term. Upon successful repayment of the initial loan, the borrower can apply for additional loans, frequently with longer terms and increasingly flexible features. By developing a reliable track record, borrowers earn their way into expanded.

Marphatia, (2008) contended that MFIs look for more funding from private investors and donors, it becomes imperative for MFIs to monitor and measure their performance and the best way to achieve this is by using performance indicators. It was also important for management, for management cannot be efficient without performance measurement, for it helps to tell managers were they are why they are there and how to get where they want to be.

Shankar, H (2006), concluded that the indicators of performance can be divided into two, the social and economic indicators, to measure performance on the dual aspect of the mission of the MFIs. The economic indicators can further be sub-divided into five parts as indicated in the conceptual frame work. The social indicator measures the impact of MFI products on the community livelihood in poverty eradication. It was made clear that if these indicators are to be useful to the end users, then trends analysis and benchmarks have to be put into consideration. Trends are useful for comparison of performance of the institution over time, and benchmarks, for comparison of the performance of the institution to that of the standards set by the industry (Bratanovic, 2003)

Clear established process for approving new credits and extending the existing credits has been observed to be very important while managing CR (Heffernan, 1996). Further, monitoring of borrowers is very important as current and potential exposures change with both the passage of time and the movements in the underlying variables and also very important in dealing with moral hazard problem (Derban et al., 2005). Monitoring involves, among others, frequent contact with borrowers, creating an environment that the bank can be seen as a solver of problems and trusted adviser; develop the culture of being supportive to borrowers whenever they are recognized to be in difficulties and are striving to deal with the situation; monitoring the flow of borrower's business through the MFI's account; regular review of the borrower's reports as well as an on-site visit; updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time the credit was granted.

One major challenge of using qualitative models is their subjective nature. However, borrowers attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold. This technique is termed as "credit scoring" (Heffernan, 1996). The technique cannot only minimize processing costs but also reduce subjective judgments and possible biases. The rating systems if meaningful should signal changes in expected level of loan loss. Chijoriga (1997) concluded that quantitative models make it possible to, among others, numerically establish which factors are important in explaining default risk, evaluate the relative degree of importance of the factors, improve the pricing of default risk, be more able to screen out bad loan applicants and be in a better position to calculate any reserve needed to meet expected future loan losses.

2.4 Summary of Literature

As the term microfinance is used to refer to the provision of profitability micro finance services such as small savings and loans to economically active poor people by sustainable financial institutions (Bruntland, 2007). These services are provided by competing institutions at the local level. Performance has continued to be an important aspect in the loan recovery of microfinance institutions. They determine the structure of microfinance institution's performance since its operations are based on granting loans to its customers making a benefit on interest rates. Several researchers and scholars have come-up with various conclusions regarding the existing effect of loan recovery and performance of MFIs, this tends to be in the same direction. However the area continues to be a researchable zone for current researcher. This is because most research is done on a case study basis, besides different institutions have different policies of credit management.

CHAPTER THREE

METHODLOGY

3.0 Introduction

This chapter highlights how the researcher carried out the study. It gave detailed steps of how the research is going to be done. This includes research design, study population, sampling procedure design and size, data collection sources, methods and instruments, ethical consideration, data processing and analysis and anticipated limitations in the study.

3.1 Research Design

The study was descriptive, where the researcher described the relationship between loan recovery and performance in form of highlighting on some of the desired attributes of financial services, products and analytical by looking for gaps that existed and suggested the possible remedies. This took more appropriate design due to the nature of the study topic since it involved seeking opinions of individuals in order to get an in-depth assessment of the problem at hand.

3.2 Study population

The study was assumed to consist of 60 numbers of respondents at Opportunity Bank Ltd, Gayaza Branch. This included board members, technical staff as well as clients.

3.3 Sampling Procedure Design and Size

3.3.1 Sampling Design

Sample design is used with reference to a given frame as the set of rules or specifications for the drawing of a sample in an unequivocal manner (Oxford Dictionary, 2003). The sample design provided information on the target and final sample sizes. The sample design included both probability and non-probability sampling, specifically, under the probability; the researcher used simple random sampling because it gave equal chances for respondents to participate in the study and results could be generalized to a larger population. Under the non-probability design, the researcher employed the purposive sampling where the respondents were selected basing on experience, position held and knowledge on how loan recovery enhanced the performance of Microfinance institutions.

3.3.2 Sampling Procedure

The following sampling procedures were used to select the sample from the field; Purposive sampling. In this method, the researcher targeted specific persons in management of MFIs who were believed to have the knowledge and information on the issues studied. Simple random sampling. The researcher used simple random sampling to select the respondents. According to Mugenda and Mugenda (1999), simple random sampling is advantageous because it is free of bias since all respondents have equal chances of being selected. The researcher applied this technique to avoid biasness and give an equal chance to all respondents a chance to participate.

3.3.3 Sample size

According to Gay (1992), a good sample is one that is representative of the population from which it is selected. Likewise, Mugenda and Mugenda (2003) noted that, it's impossible to study the whole target population and therefore the researcher had to decide on a sampled population. The sample size of the study was selected using Morgan and Krejcie, 1970. A sample size of 57 respondents was considered from the total population of 60 respondents.

Table 3.1: Sample Size

Category	**Population**	**Sample Size**
Board members	5	5
Technical Staff	30	28
Clients	25	24
Total	**60**	**57**

Source: *Survey Data*

3.4 Data collection sources, Methods and instructions

3.4.1 Data Collection Sources

Data was obtained from both primary and secondary sources.

Primary Source: the researcher went to the field and obtained data as regards the topic of study. This was through administering face to face interviews, questionnaires as well as observation.

Secondary Source: the researcher obtained necessary information from Opportunity Bank, several libraries such Institute of Bankers library among others, text books, Magazines, Microfinance study modules and work books were used.

3.4.2 Data Collection Method

Observation method. This is a method of data collection where the researcher's main tool is her eyes in collecting data. The researcher went to Opportunity Bank and observed events that were taking place and recorded relevant characteristics of her own interest. This method was advantageous because it enabled the researcher to study the behaviors of respondents and the area environment.

3.4.3 Data Collection instruments.

Questionnaires; close and open ended questions were administered by the researcher in the collection of necessary data for presentation. Questionnaires were distributed to respondents who were chosen purposively according to their responsibilities, that was board members, technical staff and clients.

Face – to – face interviews. Interviews were used in order to obtain more important information that had been missed out in the questionnaires and this helped the researcher to interact with different people on the ground. This approach gave the researcher a chance to observe and judge the facts on spot.

3.5 Data Quality Control

The researcher described and justified the procedure used to control variance. A valid instrument was measured using a Content Validity Index (CVI) then repeated items of an instrument were calculated and average computed for results. To ensure reliability of the instrument, the study was piloted in the institution. This ensured consistence and dependability of research instruments and the ability to gather data in correspondence with the objectives. Reliability of data was collected and tested using some accounting programs like Microsoft Excel.

3.6 Data processing and Analysis

3.6.1 Data Processing

The researcher focused on the data from various scholars in the research process. Data was processed first through editing, checking for accuracy, consistency, legibility and comprehensiveness and tn, data was coded for further analysis.

3.6.2 Data Analysis

After data processing, quantitative data analysis was carried out by the use of different methods such as single frequency tables, pie charts and graphs by the support of Microsoft Excel. This was because, data presentation required clear portrayal of the trends in the findings that was presented and the listed methods above clearly fulfilled that purpose.

3.7 Limitations of the study

Time constraints: the time allowed to the researcher to gather information was not enough considering the fact that some respondents did not prioritize the study most times because they had not understood the importance much as it was quite dependent on them not mentioning the willingness of the respondent to participate. The time required in order to have realistic information was not avoidable. This was solved by giving enough time to the researcher to make sure that the research gets complete in short time.

Financial constraints: the financial resources were anticipated to be insufficient to meet all the cost like computerizing the research work communication with the supervisor and the necessary movement when gathering the required data. The researcher had to seek financial support from relatives and friends.

Limited literature on the subject: The researcher faced a problem of limited literature specific to the subject under study. The available data in books was old and out dated. Access to new material on internet was costly and at times not specific and or applicable since they were designed locally. This was solved by searching on the new literature in other public libraries.

Power shortages: The researcher faced a problem of power shortages due to the fact that power especially electricity was always on and off due to the suppliers who were out extensions to different areas, so the researcher was not in position to access some data from the computers because machines couldn't start without power. The researcher requested for the generator to be put on during the time of conducing research.

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents findings of the study with the major aim of answering the research questions and interpretation of the findings in light of the research objectives. The findings are organized according to the research objectives which were to examine the methods used in loan recovery by Microfinance institutions in Uganda, establish the degree of loan recovery towards the performance of microfinance institutions and find out the relationship between loan recovery and performance of Microfinance institutions.

4.1 Response Rate

Table 4.1: Response Rate

Categories of Respondents	Questionnaires Administered	Questionnaires Returned	% Response Rate
Board members	5	5	9%
Technical Staff	28	24	42%
Clients	24	21	37%
Non-response		7	
Total	57	**50**	88%

Source: *Primary Data 2016*

Out of a total population of 60, 57 were selected as the actual sample, for the study using Morgan and Krejcie 1970 table of minimum sample size as the target population. However, of the 57 respondents, only 50 questionnaires were returned showing a response rate of about 88%. This indicating a positive response meaning the sample was not affected.

4.2 Profile of respondents (Employees)

In order to explain how the institution as mentioned above on how to established the effect of loan recovery on the performance of Microfinance institutions in Uganda.

The characteristics in this section considered the following which were; gender, age bracket, marital status, highest academic qualification attained and duties undertaken in opportunity bank.

4.2.1 Findings on Gender of Employees and Clients

The study was interested in knowing the gender distribution of (client and employees) as presented in the table below.

Table 4.2: Gender of Employees

EMPLOYEES		
Gender	**Frequency**	**Percentage (%)**
Male	10	36
Female	18	64
Total	**28**	**100**

Source: *Primary Data*

The above table shows that 36% of the employees were male and 64%were females. This implied that there are more female clients than males, this may as a result of reluctant men who are not focused; don't take care of their families' entire home budget and who believe in bigger loans there by leaving micro credit to women.

This is why women are eager and willing to carry out small businesses in order to sustain their families (children) beside the information in the above table shows that while Opportunity Uganda Gayaza Branch, mostly employs female staff than male. This is attributed to the fact that women are trustworthy, dependable, great customer care, and more so, married wives can accept the small salaries offered by microfinance institutions, as opposed to men. As for the young girls, they can survive on the small salaries as some still receive great favors from their parents and boy friends.

Table 4.3: Gender of respondents.

CLIENTS		
Gender	**Frequency**	**Percentage (%)**
Male	9	41
Female	13	59
Total	**22**	**100**

Source: *Primary Data*

The above table shows that 41% of clients were male and 59% were females. This implied that there are more female clients than males, this may as a result of reluctant men who are not focused, don't take care of their families' entire home budget and who believe in bigger loans there by leaving micro credit to women.

4.2.2 Findings on Age group of Employees and Clients

The study aimed at discovering the age group of respondents (client and employees). These are presented in the table below

Table 4.4: Age group of Employees

EMPLOYEES		
Age Group	**Frequency**	**Percentage (%)**
18 – 25 Yrs	-	-
26 – 35 Yrs	7	25
35 – 45 Yrs	16	57
46 and Above	5	18
Total	**28**	**100**

Source: *Primary Data*

The findings in the table 4.3 above show that 25% of respondents were between 26 – 35years, 57% were between 35 – 45 years and finally 18% were above 46 years of age. This implies that the highest percentage of employees, lied between 35 – 45 years and the lowest percentage was above 46 years. This revealed that Opportunity Uganda employs more youth especially the marketers and the loans officers are university graduates who have just finished school, as they reflected the highest percentage while on clients' side it doesn't matter how old a client is, as long as they are economically active, law abiding citizens, who can be able to save and borrow with microfinance institutions, much of the study findings reveal that the majority lie between 35 – 45 years.

Findings on Age group of Clients

The study aimed at discovering the age group of respondents (clients) these are presented in the table below

Table 4.5 Age group of Clients

CLIENTS		
Age group	**Frequency**	**Percentage**
18 – 25 yrs	3	14
26 – 35 yrs	8	36
35 – 45 yrs	9	41
46 and above	2	9
Total	**22**	**100**

Source: *Primary Data*

The findings in the table above show that out of 22 clients, who were given the questionnaires, 14% were between 18 – 25 yrs of age, 36% were between 26 – 35yrs, 41% were between 35 – 45yrs and 09% were above 46 years. This implies that the highest percentage on client's side was between 26 – 35 years while the lowest percentage was 46 years and above.

4.2.3 Findings on marital status

The study aimed at discovering the marital status of respondents (client and employees). These are presented in the table below

Table 4.6: Marital Status of Employees

EMPLOYEES		
Marital Status	**Frequency**	**Percentage (%)**
Single	15	54
Married	11	39
Divorced	2	7
Widowed	-	-
Total	**28**	**100**

Source: *Primary Data*

The findings in this table 4.6 shows that 54% of the employees were singles, 39%of the employees were married and 7% were divorced and none had lost a loved one. This implies that the majority of the respondents were singles compared to those who are married, divorced and widowed, make a big number. The reasons may be the levels of unemployment, acquiring and developing of entrepreneurship skills especially by the young graduates, credit crunch especially, most of who are jobless ending up leaving their partners to take care of themselves, while for the divorced, they want to prove a point that they can still survive and make it on their own.

Findings on Marital Status of Clients

Table 4.7: Marital Status of Clients

CLIENTS		
Marital Status	**Frequency**	**Percentage**
Single	5	23
Married	12	54
Divorced	2	9
Widowed 3	14	9
Total	**22**	**100**

Source: *Primary Data*

The findings in this table show that 23% of the clients were single, 54% were married, 9% were divorced and 14% were widowed. This implies that the majority of the clients were singles compared to those who are married, divorced and widowed, make a big number. The reasons may be the levels of unemployment, acquiring and developing of entrepreneurship skills especially by the young graduates.

4.2.4 Findings on Education Qualifications

Table 4.8: Education Qualifications

EMPLOYEES		
Education Qualification	**Frequency**	**Percentage (%)**
Certificate	2	7
Diploma	8	29
Degree	14	50
Masters	4	14
Total	**28**	**100**

Source: *Primary Data*

Table 4.8 above revealed that the majority of employees were well educated due to the presentation in the table above, 50% of them attained degrees, 29% attained diplomas, 14% hold master's degree and 7% attained certificate.

This implies that it doesn't need a degree or a diploma holder to start up a small business, but courage and hard work with some bit of entrepreneurship skills, as most degree holders prefer working in offices. While most of the employees are supposed to have acquired enough education because there are some duties that need skills and knowledge which is very difficult to acquire at a minimum of secondary level.

Findings on education Qualifications of Employees

Table 4.9: Education Qualifications of Employees

CLIENTS		
Qualifications	**Frequency**	**Percentage**
Certificate	9	41
Diploma	13	59
Degree	-	-
Masters	-	-
Total	**22**	**100**

Source: *Primary Data*

Table 4.9 above revealed that the majority of clients did not attain minimum education where by 41% attained UACE Certificate, 59% were Diploma holders. This implies that it doesn't need a degree or a diploma holder to start up a small business, but courage and hard work with some bit of entrepreneurship skills, as most degree holders prefer working in offices.

4.2.5 Employees Department of work of Employees

Table 4.10: Department of work of Employees

EMPLOYEES		
Department of work	**Frequency**	**Percentage (%)**
Human Resource	5	18
Acct/Finance	9	32
Marketing	2	7
Loan	12	43
Total	**28**	**100**

Source: *Primary Data*

The findings in the above table shows that 18% said that are working under human resource department, 32% working under accounts/finance, 7% were under marketing and 43% said they were working under loans department. This implies that most emphasis was put on loan management as well as accounting and finance, the services they offer to the clients and ways of recovering their funds.

4.2.6 Findings on Duties carried out by employees in Opportunity Bank

Table 4.11: Duties carried out in Opportunity Bank

EMPLOYEES		
Duties carried out	**Frequency**	**Percentage (%)**
Loan officer	6	21
Loan technical officer	9	32
Credit manager	3	11
Loan controller	10	36
Total	**28**	**100**

Source: *Primary Data*

The findings show that 6 respondents with 21% said that are loan officers, 9 respondents with 32% were loan technical officers, 3 respondents with 11% were credit managers and 10 respondents with 36% were loan controllers.

This implies that majority of respondents were loans controllers while the minority were credit managers. This revealed that the most emphasis was put on the way how loans are recovered, as one of the intention of carrying out the study to know how the methods used in loan recovery, therefore loans controller expressed the techniques used in loan recovery. For example confiscation as a way of recovery their loans from clients.

4.3 The methods used in loan Recovery by MFI in Uganda

4.3.1 The findings on the level of agreement regarding the practices that are employed in loan recovery.

Table 4.12: Use of collateral Security

EMPLOYEES		
Duties carried out	**Frequency**	**Percentage (%)**
Strongly agree	2	7
Agree	17	61
Not sure	4	15
Disagree	5	17
Total	**28**	**100**

Source: *Primary Data*

The findings in the table 4.12 above shows that 2 respondents representing 7% strongly agreed that use of collateral security of one of the level agreement regarding the practices that are employed in loan recovery, 17 respondents with 61% also agreed, 4 respondents with 15% were not sure whether the use of collateral security of one of the level of agreement regarding the practices that are employed in loan recovery and 5 respondents with 17% disagreed. This implies that terms and conditions are reached when processing a loan but for the case of a financial institution, a security is supposed to be surrendered in order to assure the bank that funds will be paid within a specified period of time.

Table 4.13: Good relationship with customers.

EMPLOYEES		
Good relationship with customers.	**Frequency**	**Percentage (%)**
Strongly agree	14	50
Agree	8	28
Not sure	2	7
Disagree	4	15
Total	**28**	**100**

Source: *Primary Data*

Table 4.13 presented that 14 respondents with 50% strongly agreed that good relationship with customers is one of the best practices of agreement that are employed in loan recovery, 8 respondents with 28% also agreed, 2 respondents with 7% were not sure whether good relationship with customers is one of the best practices of agreement that are employed in loan recovery and 4 respondents with 15% disagreed that good relationship with customers is not one of the best practices of agreement that are employed in loan recovery.

This implies that keeping good relationship with customers keep the organization in existence for very long period of time and the customer becomes royal to the organization.

Jeremy Reimer, (2006) also added that customers are the lifeblood of a business, so building a strong relationship with them is imperative to the success of almost any company. Through good times and bad, a solid relationship with your customer base will help ensure that your business continues to flourish. That's why many of today's most successful companies are being built around outstanding customer service. Developing strong relationships can take time and dedication, so employing the right customer relations strategies is crucial. Here are five steps towards establishing better customer relations for your business.

Table 4.14: Weekly payments

EMPLOYEES		
Weekly payments	**Frequency**	**Percentage (%)**
Strongly agree	21	75
Agree	3	10
Not sure	4	15
Disagree	-	-
Total	**28**	**100**

Source: *Primary Data*

The findings revealed that 75%of respondents strongly agreed that the level of agreement regarding the practices that are employed in loan recovery is determined by weekly payments, 10% also agreed, 15%were not sure whether that the level of agreement regarding the practices that are employed in loan recovery is determined by weekly payments and no one was negative about the statement.

This implies that the majority of respondents confirmed that weekly payments are the best practice employed in loan recovery. It was also revealed by the respondents that financial institutions under individual lending, loan officers bear principle responsibility for loan decisions; they screen and monitor their clients as well as come up with mechanisms of enforcing weekly repayment.

Table 4.15: Using insurance scheme

EMPLOYEES		
Using insurance scheme	**Frequency**	**Percentage (%)**
Strongly agree	4	15
Agree	6	21
Not sure	8	28
Disagree	10	36
Total	**28**	**100**

Source: *Primary Data*

Table 4.15 above shows that 4 respondents with 15% strongly agreed that using insurance scheme is used as the level of agreement regarding the practices that are employed in loan recovery, 6 with 21% also agreed, but 8 respondents with 28% were not sure whether using insurance scheme is used as the level of agreement regarding the practices that are employed in loan recovery or not and 10 respondents with 36% disagreed on the statement.

This implies that, the majority of respondents did not agree whether using insurance scheme as the level of agreement regarding the practices that are employed in loan recovery, because some times financial institutions fail to fulfill their obligations. But it is understandable that this method can attract clients as the most appropriate tool of loan recovery.

4.3.2 The charges of Opportunity Bank in term of loan servicing

Table 4.16: Charges of Opportunity Bank in term of loan servicing

CLIENTS		
Charges	**Frequency**	**Percentage**
Very expensive	12	48%
Friendly	9	36%
Average	4	16%
Total	**25**	**100**

Source: *Primary Data*

Table 4.16 indicates that 48% said that the charges of opportunity bank in term of loan servicing is very expensive, 36% said that the charges of opportunity bank in term of loan servicing is friendly and 16% said that charges of opportunity bank in term of loan servicing is average.

This implies that the charge of opportunity bank is very expensive as reflected in table 4.16 above. This means that pride charges high interest rates, but still this does not stop their clients to access financial services from their institutions. Because these are rates which are set by the Central Bank and they are charges by all microfinance institutions in the country. Therefore this has made clients to stick with Pride microfinance

4.3.3 Findings on the most effective lending model in Opportunity Bank.

Table 4.17: The most effective lending model in bank

CLIENTS		
Factors	**Frequency**	**Percentage**
Guarantee of loan by co-signer	9	41
Screening borrowers by character ref	11	50
Fitting loan size to business need	2	9
Total	**22**	**100**

Source: *Primary Data*

The findings shows that 9 respondents with 41% said that the most effective lending model in Opportunity Bank is guarantee of loan by co-signer, 11 respondents with 50% said that 50%it is screening borrowers by business need. This implies that the highest 50% that opportunity Banks' most effective lending model is screening borrowers by character of references in order to get their money back while the lowest was 9% who said that the model is fitting loan size to business need. This revealed that Opportunity Bank's mostly employ method as a way of recovering their loans.

4.3.3 Other practices employed for loan recovery

Table 4.18: Other practices employed for loan recovery

EMPLOYEES		
Other practices	**Frequency**	**Percentage (%)**
Fine	11	39
Regular visit	14	50
Legal action	3	11
Total	**28**	**100**

Source: *Primary Data*

From the table above, 39% said that the most appropriate practices employed for loan recovery is giving fines, 50%said that the practice employed is regular visit to the clients, and 11% said that the appropriate practice for loan recovery is taking legal action. This implies that, the most appropriate tool that can be used by Opportunity Bank is giving fines to the clients whereas regular visits and legal actions are also supposed to be put into consideration for the importance of early loan recovery.

4.3.4 The most appropriate tool of loan recovery

Table 4.19: Tools for loan recovery

CLIENTS		
Response	**Frequency**	**Percentage**
Training	7	32
Reward	2	9
Loan security	13	5
Total	**22**	**100**

Source: *Primary Data*

The table above revealed that 32% said that the most appropriate tool of loan recovery is training, 9% said that the most appropriate tool is rewarding the clients, 59% said that the appropriate tool for loan recovery is ensuring loan security. This implies that, the most appropriate tool that can be employed by opportunity banks trains their clients as an importance of early loan recovery, as well as loan security, so that if the client fails to fulfill his/her obligation, the security rendered to he organization can therefore be confiscated.

4.3.5 Findings on outreach of MFIs is generally slow because of poor loan recovery.

Table 4.20: Outreach of MFIs is generally slow because of poor loan recovery

EMPLOYEES		
Response	**Frequency**	**Percentage**
Strongly disagree	19	68
Agree	4	15
Strongly agree	2	7
Not sure	3	10
Total	**28**	**100**

Source: *Primary Data*

Respondents in table 4.20 above who were asked on whether outreach of MFIs is generally slow because of poor loan recovery, the majority of 68% disagreed that the outreach of MFIS is not generally slow because of poor loan recovery and the minority 7% strongly agree that outreach of MFIs is generally slow because of poor loan recovery. The findings revealed financial institutions react towards loan defaulters and it was proved that they take on immediate measures and actions, incase there is client who dodges payment either weekly or monthly.

4.3.6 Findings on service that attracted clients to choose Opportunity Bank.

Table 4.21: Services offered by the Institution.

CLIENTS		
Services Offered	**Frequency**	**Percentage**
Savings	6	27
Credit /Loans	13	59
Insurance	3	14
Total	**22**	**100**

Source: *Primary Data*

The findings in the above table revealed that 36% of the employees said that Opportunity Uganda offers savings to its clients, 53% of the employees said that Opportunity Uganda Offers credit/loans services to its clients, and 11% of the employees said that the institution offers insurance services to its clients. This implies that Opportunity Uganda mostly offers credit/loans services to its clients as opposed its insurance and saving services.

This means the majority of the clients go for loan products as compared to savings products. This justifies that the institution always mobilize funds from external sources not from savings of its clients and that is why the institution is well known in offering loans to clients. This further justifies the high interest rate of the microfinance institutions as compared to the commercial banks. However, the findings also indicate that the institution offers products, like insurance, training and advisory services which are not considered by most of the clients.

4.4 The degree of loan recovery towards the performance of MFIs

4.4.1 Findings on whether Opportunity Bank gives a grace period

Table 4.22: Opportunity Bank gives grace period.

EMPLOYEES		
Response	**Frequency**	**Percentage**
Agree	6	21
Strongly Agreed	19	68
Not sure	3	11
Total	**28**	**100**

Source: *Primary Data*

Table 4.22 presents that 6 respondents with 21% agreed that Opportunity Bank given a grace period of one month to borrowers to clear there loans, 19 respondents with 68% strongly agreed and 3 respondents with 11% were not sure whether opportunity grants grace period of one month to its clients. This implies that the highest percentage strongly agreed that opportunity bank offers its clients which loans, but they are given a specified period in order to pay back their loans.

4.4.2 Client rate earning

The study established the earning of clients, this is indicated in the findings as presented in the table below.

Table 4.23: Rate of client earning.

CLIENTS		
Earnings	**Frequency**	**Percentage**
Significant	5	30
Insignificant	9	53
No idea	3	17
Total	**22**	**100**

Source: *Primary Data*

The findings revealed that 30% of the employees said that the rate of earning clients is significant, 53% said that it is insignificant and 17% had no idea whether rate of earning is okay. This implies that the rate of clients' earning is rated in different ways due the type of business/duties carried out. For the case of small business, it could be insignificant because there is a lot of competition which contributes a lot in the low earnings while those in large businesses experience short comings like in the course of operating their businesses which cause a lot of problems paying back.

Further more, the above findings indicate that though clients have had a chance of obtaining financial support from microfinance institutions, the returns may not be very favourable due to the environmental factors as clients may not be smoothly servicing their loans. This renders such assistance meaningless.

4.4.3 Findings on lending undertaken to ensure effective loan recovery

The respondents concurred that there a lending undertaken to ensure effective loan recovery, below are discussion presented in the table.

Table 4.24: lending undertaken to ensure effective loan recovery.

EMPLOYEE		
Products	**Frequency**	**Percentage**
Co-guarantor ship	9	32
Individual member assessment screening	11	39
Repayment installments	3	11
External guarantor	5	18
Total	**28**	**100**

Source: *Primary Data*

The findings revealed that 32% of the employee said that co-guarantorship is the lending undertaken to ensure effective loan recovery, 39% said that it is individual member assessment screening, 11% said that the repayment in installment is the most effective way of loan recovery and 18% said they use external guarantor ensures effective loan recovery.

4.4.4 Period given to clear loans

Table 4.25: Period given to clear loans.

CLIENTS		
Loan Clearance	**Frequency**	**Percentage**
6 months	15	68
1 year	7	32
Total	**22**	**100**

Source: *Primary Data*

The research findings observed that68% of the respondents said that they are given 6 months to pay back the loan while 32% said that they are given a full year to pay back the loans. This implies that the most favourable period given to the respondents is 6 months; this period can help the client to budget the amount of funds given, so that by the time they elapse, the client would have made enough to boost the business and the interest will not have become much for a client to pay back together with the principle. One year for loan period is a good strategy to allow clients payback without inconveniencing them financially, since more businesses are seasonal. So this checks out loan default rate for clients

4.4.5 Opportunity Uganda and other Institutions

Table 4.26: Opportunity Uganda and other Institutions

EMPLOYEES		
Relationship	**Frequency**	**Percentage**
Very good	4	14
Good	17	61
No idea	7	25
Total	**28**	**100**

Source: *Primary Data*

The findings shows that 14% of the employees said that Opportunity Uganda is nothing but good institution compared to others 61% still responded positively that opportunity Uganda is very good and 25% had no idea. This revealed that there are some other microfinance institutions which offer the same services like Opportunity Uganda but there is a big difference in between whereby the rate of services offered by Opportunity Uganda is a bit higher than those other institutions for example, the grace period given is affordable, the amount of funds they forward to clients, etc.

4.4.6 Period of Accessing the Loan.

Table 2.27: the period taken when accessing the loan

CLIENTS		
Loan Accessibility	**Frequency**	**Percentage**
2 Weeks	19	86
3 Weeks	3	14
Total	**22**	**100**

Source: *Primary Data*

The study revealed that out of the 22 respondents reached by questionnaire 86% of the clients said that it takes 2 weeks to acquire a loan from microfinance institutions while 14% of the clients said that it takes 3 weeks to acquire a loan from the institution.

This implies that the majority of clients are able to access loans within only 2 weeks from microfinance institutions, but some times it exceeds 2 weeks as revealed with 14% of the clients. This is as a result of stiff competition for clients with commercial banks, credit institutions, MDIs, and some NGOs which credit.

Accessing the loan in a period of 2 weeks was used to attract customers and a sign of customer care to the clients hence a good marketing strategy for opportunity Uganda. Consequently, enabling clients to meet their financial needs within a short period of time and thus improved welfare.

4.4.7 Loan recovery models a considerable success when starting small business

Table 4.28: Loan recovery models a considerable success when starting small business

EMPLOYEES		
Relationship	**Frequency**	**Percentage**
Strongly agree	14	50
Disagree	3	11
Not sure	11	39
Total	**28**	**100**

Source: *Primary Data*

The study noted that out of the 28 employees reached by questionnaire, 50% strongly agreed that loan recovery models are considered a success in the survival of clients when starting small businesses, 11% disagreed and 39% were not sure whether loan recovery models are considered a success in the survival of clients when starting small businesses. It was revealed by the clients that there are many services offered by the institutions which have favoured them towards setting business and the accessibility to loans is very favourable. It was again revealed that as the institutions offers training services to its clients; they have benefited a lot from training because they have learnt a lot of skill relating to, how to manage their loans, proper methods of carrying out businesses, how to invest, and in what kind of businesses they should invest.

4.4.8 Opportunity Bank asses' characters of borrowers before giving loans.

Table 4.29: Opportunity Bank assess characters of borrowers before giving loans

EMPLOYEES		
Response	**Frequency**	**Percentage**
Agree	5	18
Strongly Agree	17	61
Not sure	6	21
Total	**28**	**100**

Table 4.29 above revealed that 18% of the employee agreed that Opportunity Bank assess characters of borrowers before giving loans, strongly agreed and 21% were not sure whether Opportunity Bank assess characters of borrowers before giving loans or not. This implies that the bank first assesses the characters of borrowers before offering them loan services for example; the bank has to know client's salary range, what type of business he/she is carrying in order to grant them financial services.

4.4.9 Requirements for obtaining a loan from MFIs.

The study sought to establish the requirements for obtaining a loan from Microfinance Institutions. The findings were as presented below.

Table 4.30: requirements for obtaining a loan from MFIs

EMPLOYEES		
Requirements	**Frequency**	**Percentage**
Guarantorship	12	43
Security	14	50
3 alternatives	2	7
Total	**28**	**100**

Source: *Primary Data*

The study noted that, out of the 28 employees 43% said that it requires a guarantorship in order to obtain a loan from MFIs, still 50% said that it requires a security to obtain a loan an 7% of the employees said that it requires at least 3 conditions to obtain a loan.

This implied that all the requirements are very crucial in obtaining a loan; this is because if the clients fail to forward a security, a guarantor or to hold an account, this can mean poor loan appraisal and can result into poor loan recovery that eventually leads to default and a very big percentage of portfolio at risk. Therefore the above conditions are required in order to mitigate bad loans. Having alternative requirement was favourable since it checks out poor loan appraisal process and bad loans.

4.5 The relationship loan recovery and performance of Microfinance Institutions

4.5.1 Findings on the relationship between loan recovery and performance of MFI

The study sought to discover whether there is a relationship between loan recovery and the performance of Microfinance institutions, the following is the response from the respondents as indicated in the table below.

Table 4.31: Relationship between loan recovery performances of MFI

EMPLOYEES		
Response	**Frequency**	**Percentage**
Yes	24	86
No	4	14
Total	**28**	**100**

Source: *Primary Data*

Participants were asked on whether there is a relationship between loan recovery and performance of MFIs, 86% responded positively that there is a relationship loan recovery and performance of Microfinance Institution while 14% responded negatively that there is no relationship between the two variables. The findings implies that in a true sense, loan recovery is greatly related to microfinance because MFI offers loan services to its clients and it is their obligation to carry out processes of recovering their funds from clients yet MFIs deploy a strategy towards its clients on loan recovery that involves sending written notifications in case of defaulting. This strategy makes use of both the promise that good payers can receive additional loans from MFIs in the future and the pressure that loan recipients face from their loan guarantors, hence a relationship.

The study revealed a good relationship between clients and the institution which shows clients welfare and improvement on the standards of living. It was again revealed that the objective of credit management is to minimize costs of credit extension while maximizing benefits of credit. Since the concept of profitability looks at minimizing the cost as much as possible, then its true that microfinance institution is related to client's welfare. Besides that, the level of effectiveness o credit management practices determines the extent of costs associated with credit extension.

Still the field findings revealed that most micro financial institution banks use their credit management practices to create lasting relationship with their clients. Credit management of micro financial institution can be a source of commercial loan, which range from transactions costs which minimize the level of profits of collection costs, legal costs etc.

If no, employees revealed that in Uganda, mortgage financing and guarantees are considered to be associated with higher default rate, whereas mortgage on land associated with better results. According to the employees, such link might exist when the borrower knows that the bank has a problem in obtaining repossessions. Two microfinance institutions, (Finance Trust Uganda Limited, Pride micro Finance) indicated that some types collateral might have an impact on the mindset of the borrower in clearing the bank dues.

It was pointed out that some securities involved a greater loss of prestige and social status bringing about social pressure to ensure repayments. The country's' survey have shown the banks generally to have little experience in using collateral substitutes in limited to micro finance Institutions.

4.5.2 Findings on major challenges got when accessing loans

Table 4.32: Major Challenges got when accessing loans

CLIENTS		
Challenges	**Frequency**	**Percentage**
Lack of collateral security	10	45
High interest rates	5	23
Lack of guarantorship	7	32
Total	**22**	**100**

Source: *Primary Data*

A remarkable finding revealed that there are challenges got when accessing loans whereby 45% said there is lack of collateral security, 23% said that there is high interest rates which affects clients and 32% said the challenge is lack of guarantorship. This implies that the majority of respondents said that lack of collateral security limit them from accessing financial services from banks. This happens because the form of registered properties like valued land title, motor vehicle logbook, and valid agreements are not easily considered by the clients.

4.5.3 Findings on the major complaints from clients

Table 4.33: The major complaints from clients.

EMPLOYEES		
Complaints	**Frequency**	**Percentage**
Defaulting	18	64
Shift	10	36
Total	**28**	**100**

Source: *Primary Data*

The study findings reveal that, an overwhelming percent of 64% said that the major complaint from clients is defaulting while 36% said the major challenge is shifting in products. This implies that defaulting is the major compliant from clients whereby at time of accessing funds, some of the machines at bank (ATM) become faulty and this deny clients a chance of getting their funds.

4.5.4 Findings on measure put in place to address the challenges of loan recovery

Table 4.34: measure put in place to address the challenges of loan recovery.

CLIENTS		
Measures	**Frequency**	**Percentage**
Loan Security	13	59
Credit rationing	5	23
Loan syndication	4	18
Total	**22**	**100**

Source: *Primary Data*

The findings in table 4.34 above shows that 13 respondents with 59 said that one of the measures put in place to address the challenges of loan recovery is loan security, 5 respondents with 23% said that credit rationing is put in place to address the challenges of loan recovery and 4 respondents with 18% said that loan syndication is put in place to address the challenges of loan recovery.

The findings reveled that the majority of respondents said that loan security is mostly considered when addressing the challenges of loan recovery. This is because clients are supposed to surrender a security in order to obtain a loan from these financial institutions while there are other methods used in loan recovery for example credit rationing, loan syndication, credit worthiness, etc. therefore banks also set actions to be considered in loan recovery

4.5.5 Findings on services offered by banks to clients.

Table 4.35: Services Offered by banks to clients.

Response	**Frequency**	**Percentage %**
Savings	24	85
Money transfer	-	-
Training	-	-
Insurance services	4	15
Total	**28**	**100**

Source: *Primary Data*

Table 4.35 revealed that the majority respondents 85% strongly agreed that banks offer savings to clients while 15% said that insurance services are offered as services to their clients. This implies that MFIs mostly offers savings to its clients as already seen in table 4.21 about with the majority vote of 85%. Bit in addition to that, insurance services are also attached savings in case a client dies his /her next of keen can access the money as well as in case there is property lose for example, when the Park Yard Market caught fire, all those in Opportunity bank had to forward police letters in order to be paid in terms of insurance. Therefore, the most attractive products/services are savings and insurance as revealed in the table above.

4.5.6 Finding on benefits of clients from loan products.

Table 4.36: Benefits of clients from loan products.

Benefits	Frequency	Percentage
Education	7	32
Business expansion	12	54
Home development	3	14
Total	**22**	**100**

Source: *Primary Data*

The findings in table 4.36 shows that 54% of the respondents said that business expansion is one of the most benefits they get as a result of loan products, 32 said that they invest their loan products in educating their children while 14% said that they develop their homes as a result of loan products. This revealed that respondents have been able to realize all their dreams as a result of financial services from the bank. This has helped them to develop their home paying their children school fees as well as injecting in their businesses as reflected in table 4.34 above.

Brooks (2006) access to MFIs that allow business proprietors to take advantage of economic opportunities. MFI's clients have overwhelmingly demonstrated the reliable sources of credit provide a fundamental basis of planning and expanding business activities. Santa Rayonge (2007) also argued that MFIs were designed by the government of Uganda to offer credit facilities. In order to fight poverty and identity challenges in the way of progress for the improved economy.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of major findings which helps to answer the study questions, conclusions which help to achieve the study objectives and recommendations in order to bridge the gaps identified during the study.

5.2 Summary of Major Findings

5.2.1 The methods used in loan recovery by Microfinance institutions in Uganda

The findings revealed that Opportunity Uganda mostly offers loans to its clients as they attract more client compared to other services like insurance and savings among others. Besides, the few clients who have sought advice in business matters commend opportunity Uganda for the wonderful training attained in business management.

Personal development loans, school fees loans and commercial loans have proved to be very relevance loan products to clients. The biggest number of clients as revealed by the findings, have taken advantage of them. This implies that there is a likelihood that there is betterment in the economic wellbeing.

On the contrary, however, clients rating of earning by employees of Opportunity Uganda indicated that though they are able to access loans, they have merger earnings which may be due to the environmental forces. They may be serving loans from hardship. This may undermine the relevance of them MFIs services/products.

5.2.2 The degree of loan recovery towards the performance of microfinance institutions

The researcher discovered that there is lot of improvement which has been done to the economic welfare of clients due to the developments made by clients. For example, some clients have managed to improve their businesses others have personally developed by the means of acquiring land and building houses, therefore MFI have favoured clients to enjoy their lives. This may be attributed to the loan size offered to clients, the short period to access the loan and the favourable repayment period allowed of one year.

The findings indicated that the clients mostly consider 2.5 millions as the most applicable loan size because it is seen as enough money to start up a business and the most favourable period given to them to pay back is one year. This period is sufficient to have them utilize the funds given and by the time the 12 months elapse, they have already collected that money to be paid back. It was also discovered that only two weeks are enough to access a loan from microfinance institutions.

The findings discovered that the bank first assesses the characters of borrowers before offering them loan services for example; the bank has to know client's salary range, what type of business he/she is carrying in order to grant them financial services.

The finding revealed that the most favourable period given to the respondents is 6 months, this period can help the client to budget the amount of funds given, so that by the time they elapse, the client would have made enough to boost the business and the interest will not have become much for a client to pay back together with the principle. One year for loan period is a good strategy to allow clients payback without inconveniencing them financially, since more businesses are seasonal. So this checks out loan default rate for clients.

5.2.3 The relationship loan recovery and performance Microfinance institutions.

The findings revealed that there is a relationship between the two variables. These institutions are set to help the people in different areas for example providing services like, school fees loan, funeral loans, personal development loans, etc whereas the clients are also waiting for any kind of assistance from the loaning institution.

The study revealed a good relationship between clients and the institution which shows clients welfare and improvement on the standards of living. It was again revealed that the objective of credit management is to minimize costs of credit extension while maximizing benefits of credit. Since the concept of profitability looks at minimizing the costs as much as possible, then it's true that microfinance institution is related to client's welfare. Besides that, the level of effectiveness of credit management practices determines the extent of costs associated with credit extension.

The field findings revealed that most micro financial institution banks use their credit management practices to create lasting relationship with their clients. Credit management of micro financial institution can be a source of commercial loan, which range from transactions costs which minimize the level of profits of collection costs, legal costs etc.

5.3 Conclusion

The findings concluded that Opportunity Uganda has process that involves the review of a clients character in terms of meeting personal financial obligations, clients capital adequacy by looking at assets and liabilities, capacity to pay back by looking at cash flow, clients operating environment whereby urban and pri-urban non-conflict areas are preferred, and the clients willingness and ability to offer security which must be adequate to cover the loan in case of default. The institution has to forward trained loans officers follow up procedures by phone calls, regular visitation to their businesses, reminding the guarantors of their responsibilities on such loans, re-organizing the best customers and finally punitive measures, to the defaulters like through fines, suing in courts and confiscating and attachment of the property used as collateral security. Therefore, failure to achieve a desired financial performance targets and increasing portfolio at risk, the management of Opportunity Uganda will be largely responsible and the shareholders would demand for justifications and then the general economic welfare, being of the clients will be experienced and therefore, the government will spend less on people in providing the basics and instead will concentrate on priority areas like security, infrastructure and foreign policy for economic integration to enjoy a bigger markets.

5.4 Recommendations

From the research findings, and in relation to the research topic, "the impact of Microfinance institutions to the welfare of the clients, the following was recommended: -

That attention should put at developing products which are demand driven not supply driven, as these will generate more revenue for a sustainable Opportunity Uganda.

Product package and delivery will be the one to keep Opportunity Uganda in this error of competition, despite other competitors in the district, which range from banks, MFIs and NGOs which are also offering financial services.

Consumer financial education and consumer protection is necessary for the clients of Opportunity Uganda to appreciate different financial services offered, and to know the duties as well as obligations before accessing credit facilities and that loans are not the only a solution to the non performing businesses, or unsuccessful individuals but also to be advised on technical matters like recordkeeping, budgeting, simple business plans, management and governance issues.

That the microfinance institutions in the district will not be the only a solution for each and every problem in Nansana but a Combination of several players like government, NGOs, churches who put their hands together to achieve clients welfare.

The management of Opportunity Uganda should base employee appraisals on factors like quantity and quality of work performed. Further more appraisals systems help to identify marginal employees as well as point up areas for improvement and possible training and development.

The management of Opportunity Uganda should consider market research which is a systematic effort to obtain that information which guides the resources of a business most accurately towards the profitable fulfillment of consumer demand. The scope of market research enables management to shape its product to fit demand and to target its marketing plan accurately. But market research must be up to date and the response to its findings must be rapid.

5.5 Area for Further Study

The researcher recommends that more research should be conducted to further findings of this study using other methodologies.

- More focus should be put on establishing the relationship between loan processing and the growth of MFIs.
- Relationship between debt recovery and the profitability of borrowers.

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APPENDIX I

RESEARCH QUESTIONNAIRE FOR EMPLOYEES

Dear Respondent,

I am a student of Kampala International University offering a Bachelor of Business Administration course. This questionnaire is designed to collect information aimed at evaluating '' ***The Effect of Loan Recovery on the performance of Microfinance Institutions in Uganda''***. The information obtained will be strictly for academic purposes and it will be treated with utmost confidentiality. I kindly request you to fill and tick this questionnaire with the most appropriate answer.

Some questions require ticking the appropriate response while others questions requires filling in the blank space provided.

Thank you very much for your time and co-operation.

SECTION A: BIO – DATA INFORMATION.

1. Gender

   a) Male ☐ b) Female ☐

2. Indicate your age bracket

   a) 18 – 25yrs ☐ b) 26 – 35yrs ☐

   c) 35 – 45yrs ☐ d) 46 and above ☐

3. What is your Marital Status?

   a) Single ☐ b) Married ☐

   c) Divorced ☐ d) Widowed ☐

4. Highest academic qualifications attained

   a) Certificate ☐ b) Diploma ☐

   c) Degree ☐ d) Masters ☐

e) Others – Please specify

....

....

5. Under what department do you work in (Opportunity Bank, Gayaza Branch)?

a) Human Resource ☐ b) Acct & Finance ☐

c) Marketing ☐ d) Loans Dept' ☐

e). If any other, please specify:..

....

6. Specifically what are your duties in Opportunity Bank, Gayaza Branch?

a) Loan Officer ☐ b) Loan technical ☐

c) Credit manger ☐ d) Loan controller ☐

SECTION B:

THE METHODS USED I LOAN RECOVERY BY MICROFINANCE INSTITUTIONS IN UGANDA.

7. Indicate your level of agreement on the following statements regarding the practices that are employed in loan recovery.

Statement	Strongly Agree	Agree	Disagree	Strongly Disagree	Not sure
Use of collateral security					
Use of savings					
Good relationships with customers					
Weekly payments					
Using insurance scheme					
Monthly payments.					

8. What practices are employed for loan recovery?

a) Promotion ☐ b). Fine ☐

c) Regular visit ☐ d). Legal Action ☐

e) Group Deregistration ☐

9. The out reach of MFIs is generally slow because of poor loan recovery.

a) Strongly Agree ☐ b) Agree ☐
c) Disagree ☐ d) Strongly disagree ☐
e) Not sure ☐

10. Which one is the most appropriate tool of loan recovery used by microfinance Institutions?

a) Training ☐ b) Reward ☐
c) Loan security ☐ d) Graduation ☐

SECTION C:

THE DEGREE OF LOAN RECOVERY TOWARDS THE PERFORMANCE OF MICROFINACE INSTITUTIONS.

11. Does Opportunity Bank gives a grace period of one month to borrowers.

a) Strongly Agree ☐ b) Agree ☐
c) Disagree ☐ d) Strongly disagree ☐
e) Not sure ☐

12. Does Opportunity Bank assesses characters of borrowers before giving them loans.

a) Strongly Agree ☐ b) Agree ☐
c) Disagree ☐ d) Strongly disagree ☐
e) Not sure ☐

13. Does Opportunity Bank first assess the credit worthy of individual borrowers before giving them loans.

a) Strongly Agree ☐ b) Agree ☐
c) Disagree ☐ d) Strongly disagree ☐
e) Not sure ☐

14. How is lending undertaken to ensure effective loan recovery?

a) Co – guarantorship [ ]

b) Individual member assessment screening [ ]

c) Repayment installment [ ]

d) External guarantor. [ ]

15. What are the requirements for one to obtain a loan from your institution?

a) Account holder [ ] b). Savings [ ]

c) Guarantorship [ ] d). Capacity [ ]

e) Security [ ] f). At least three of them [ ]

SECTION D: THE RELATIONSHIP LOAN RECOVERY AND PERFORMANCE MICROFINANCE INSTITUTIONS.

16.(i). Is there a relationship between loan recovery and performance of microfinance institutions?

a) Yes [ ] b) No. [ ]

(ii). If Yes, give reasons

....

....

(iii) If No, Why?

....

....

17. To what extent does poor loan recovery affect microfinance institutions?

a) Greater extent [ ] b) No effect [ ]

b) Lesser extent [ ] d) Not sure [ ]

18. What major complaints do you get from your clients in service delivery?

a) Defaulting [ ] b) Shift [ ]

c) If any other, (please specify.)

....

....

19. Apart from giving out loans, what other services do you offer to the Clients?

a)	Savings	[ ]	b)	Money transfer	[ ]
c)	Training	[ ]	d)	Insurance services.	[ ]

Thank you very much for your cooperation, May God Bless you.

END

APPENDIX II

RESEARCH QUESTIONNAIRE FOR CLIENTS

Dear Respondent,

I am a student of Kampala International University offering a Bachelor of Business Administration course. This questionnaire is designed to collect information aimed at evaluating '' ***The Effect of Loan Recovery on the performance of Microfinance Institutions in Uganda''***. The information obtained will be strictly for academic purposes and it will be treated with utmost confidentiality. I kindly request you to fill and tick this questionnaire with the most appropriate answer.

Some questions require ticking the appropriate response while others questions requires filling in the blank space provided.

Thank you very much for your time and co-operation.

SECTION A: BIO – DATA INFORMATION.

1. Gender

   a) Male ☐ b) Female ☐

2. Indicate your age bracket

   a) 18 – 25yrs ☐ b) 26 – 35yrs ☐

   c) 35 – 45yrs ☐ d) 46 and above ☐

3. What is your Marital Status?

   a) Single ☐ b) Married ☐

   c) Divorced ☐ d) Widowed ☐

4. Level of Education.

   a) Certificate ☐ b) Diploma ☐

   c) Degree ☐ d) Masters ☐

   e) Others Please specify...

   ....

APPENDIX III

Sample Size Determination Table (Morgan And Krejcie, 1970)

Population size	sample size	**Population size**	sample size	**Population size**	sample size
10	10	**220**	140	**1200**	291
15	14	**230**	144	**1300**	297
20	19	**240**	148	**1400**	302
25	24	**250**	152	**1500**	306
30	28	**260**	155	**1600**	310
35	32	**270**	159	**1700**	313
40	36	**280**	162	**1800**	317
45	40	**290**	165	**1900**	320
50	44	**300**	169	**2000**	322
55	48	**320**	175	**2200**	327
60	52	**340**	181	**2400**	331
65	56	**360**	186	**2600**	335
70	59	**380**	191	**2800**	338
75	63	**400**	196	**3000**	341
80	66	**420**	201	**3500**	346
85	70	**440**	205	**4000**	351
90	73	**460**	210	**4500**	354
95	76	**480**	214	**5000**	357
100	80	**500**	217	**6000**	361
110	86	**550**	226	**7000**	364
120	92	**600**	234	**8000**	367
130	97	**650**	242	**9000**	368
140	103	**700**	248	**10000**	370
150	108	**750**	254	**15000**	375
160	113	**800**	260	**20000**	377
170	118	**850**	265	**30000**	379
180	123	**900**	269	**40000**	380
190	127	**950**	274	**50000**	381
200	132	**1000**	278	**75000**	382
210	136	**1100**	280	**100000**	384

Source: *Morgan and Krejcie (1970)*

APPENDIX IV

BUDGET FOR THE STUDY

ITEM	UNIT COST	TOTAL
Meals And Accommodation	14 days 5,000/= @day	70,000/=
Stationery	3 reams 20,000/= @	60,000/=
Internet Costs		30,000/=
Pens	12 @500/=	6,000/=
Communication/Telephone	14 days 7,000 @ day	98,000/=
Transport	14 days 10,000 @ day	140,000/=
TOTAL COST		**404,000/=**