

**SUBSIDIZED LOANS AND THE PERFORMANCE OF BORROWERS:
A CASE STUDY OF GARASOYA SAVINGS AND
CREDIT CO-OPERATIVE IN BULIISA
DISTRICT**

BY

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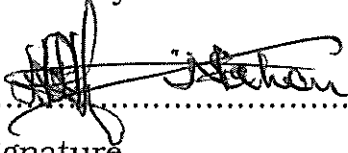
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**A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF BUSINESS
AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE AWARD OF A BACHELOR
OF COMMERCE OF KAMPALA
INTERNATIONAL
UNIVERSITY**

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Declaration

I **Kwesiga Nelson**, a student of Kampala International University, hereby declare that this work is my original work and the best of my knowledge and that it has never been presented by any other person or institution for any academic award in and outside Kampala International University.

A handwritten signature in black ink, appearing to read 'Kwesiga Nelson', written over a dotted line.


Signature

Date.....26/07/2011.....

Approval

This research proposal has been submitted for examination with my approval as a University Supervisor.

Mr. Kibuuka Muhammed

Signature.....

Date.....26th / 07 / 2021

Dedication

I dedicate this work to my parents, Mr. Kaliisa Nyamuhenda and Mrs. Juleina Kaliisa, brothers and sisters for helping me in the course of my education.

Acknowledgement

I feel indebted to many people for the help, advice and support in as far as my education is concerned. Special thanks go to my father, my mother and my wife for their continued support.

I also wish to thank the management and staff of Kampala International University for providing most of the information and advice. Special thanks go to my supervisor, **Mr. Kibuuka Muhammed**, for his guidance, positive criticism and support in the production of this work.

Lastly to all my friends, within or out of the university, and the entire community at large, who have, in one way or another helped me in my education.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter shows the background to the study, statement of the problem, purpose of the study, study objectives, research questions, scope and significance of this study.

1.1 Background to the study

Due to the political instability that characterized Uganda in the post-independence period, the level of economic activity was greatly affected, and the country's economy declined to become one of the poorest in the world. However, with the coming of the current government, relative peace and stability allowed economic activities to continue. Yet the government was not in position to provide the required capital for private entrepreneurs to start off. That is when the credit sector was liberalized to allow in private players.

The coming of private micro-credit institutions has closed the credit deficit gap that the government treasury could not handle, but also brought in the aspect of profiteering from money lending. The micro-credit institutions set high collateral requirement (in most cases land and houses) for someone to acquire their loans, with very high interest charges (in some cases up to 50%). Media reports of people losing their land or houses due to failure to repay their loans are common (Daily Monitor, 17th March 2009). The World Bank, in its 2009 human development report on Uganda, found out that due to the high collateral requirement, ignorance and high interest rates, micro-credit has in many

cases worsened the prevalence of poverty instead of reducing it (WB Human Development report – Uganda 2009).

In a bid to address this problem, the government came up with the initiative of low interest loans or subsidized loans through credit schemes commonly referred to as Savings and Credit Co-operatives (SACCOs). The performance of borrowers largely depends on the terms under which the loans are provided among other factors (www.microcapital.org/ug/minister-14-07-2006).

A borrower is any person who solicits for and acquires a loan after agreeing on a total repayment in a stipulated period of time. The loan may or may not carry a rate of interest. The performance of borrowers in this regards concerns how borrowers utilize the loans acquired, how their lives are impacted by the loans (either positively or negatively or both) and their capacity to pay back the loans without running out of business. In other words it's the measure of the usage of loans acquired by borrowers over time (Otero, 1998). The performance of borrowers is measured through their ability to make a return on the original monies loaned to them, pay back the loans and stay in business.

A loan is a financial transaction in which one party (the lender) agrees to give another party (the borrower) a certain amount of money with the expectation of total repayment. The specific terms of a loan are often spelled out in the form of a promissory note or other contract. The lender can ask for interest payments in addition to the original amount of the loan (principal). The borrower must agree to the repayment terms, including the amount owed, interest rate and due dates. Some lenders can also assign financial penalties for missed or late payments. (Otero, 1998)

In terms of small business finance, a loan is a sum of money advanced to a business that must be repaid with interest at some point in the future. The lender must bear the risk that the borrower may not repay the loan. The interest rate charged is the price for that risk. A loan is therefore money, classified as debt, for temporary use. A business that needs a loan has to apply through some lending organization. A lending organization might be a commercial bank, credit union, or other lending organization like a thrift institution or an alternative source of loans for businesses. Loans may also be guaranteed by the Small Business Administration which usually makes them easier to obtain. (Ledgerwood, 1997)

A subsidized loan is the amount of money borrowed or lent at less than the market interest rate or without any interest at all. Loan subsidies are in most cases backed by government securities and guarantees or sometimes come as a promotional campaign by banks and other credit institutions to attract more borrowers. Examples of subsidized loans include student loans, rural micro credit schemes, loans for disabled people and others. Subsidized loans are also characterized by longer payback periods, flexible or no security requirement and flexible terms of payment. (www.microcapital.org/ug-14-07-2006)

The liberalization of the credit sector in Uganda, and the subsequent withdrawal of government control over credit schemes has led to an outcry by many borrowers over unbearable interest rates demanded on loans. Many borrowers are imprisoned, others are forced to flee their homes, and others have had their properties confiscated by the credit institutions for failure to pay back the loans. It's from this outcry that the government initiated the low interest (subsidized) loans to enable people access cheap credit for business. However, there is need to

establish whether or not these subsidized loans have had an impact on the lives and businesses of the borrowers (Shaheen, 2000).

1.2 Statement of the Problem

The performance of micro-credit borrowers in developing countries has in recent years become a major rallying point in the fight against poverty. Ever since the release of the World Bank report (WB Human development report – 2007) on the effectiveness of micro-credit in alleviating poverty. The report earmarked the fact that in many developing countries, micro-credit provision has only served to increase poverty among the rural masses.

The government has come in to respond to the public outcry by providing low interest or subsidized loans to the people, with the aim of uplifting people out of poverty. People are required to organize themselves into micro credit groups commonly referred to as SACCOs (Savings and Credit Co-operatives) through which the government can channel funds. Though the money in these schemes has been slow in reaching the people, many of them have been able to receive these subsidized loans. Therefore there is need to carry out an analysis of performance of borrowers who have received the subsidized loans. That is what compelled the researcher to carry out this study.

1.3 Purpose of the study

The purpose of this study was to make an analysis of the impact of subsidized loans on the performance of borrowers.

1.4 Study objectives

The study aimed at achieving the following objectives;

- i. To determine the relationship between interest rates and the performance of borrowers in Garasoya SACCO.
- ii. To determine the relationship between the loan payback periods and the performance of borrowers' in Garasoya SACCO.
- iii. To determine the relationship between the conditions on loans (collateral security) and the performance of borrowers' in Garasoya SACCO.

1.5 Research Questions

The study attempted to find answers to the following questions;

1. What is the relationship between interest rates and the performance of borrowers in Garasoya SACCO?
2. What is the relationship between the loan payback periods and the performance of borrowers' in Garasoya SACCO?
3. What is the relationship between the conditions on loans (collateral security) and the performance of borrowers' in Garasoya SACCO?

1.6 Scope of the Study

The study was carried out in Garasoya Savings and Credit Co-operative (SACCO). This SACCO was chosen because it is one of the beneficiaries of subsidized loans, and therefore it would be in position to provide relevant information on the performance of borrowers with subsidized loans. It was also cheaper for the researcher in terms of accommodation and transport costs since that is where he comes from. Information from

members of Garasoya SACCO was used to draw an assessment of the performance of borrowers who are operating with subsidized loans.

Garasoya SACCO is found in Buliisa district in the western region of Uganda. It is bordered by the Democratic Republic of Congo (DRC) to the west, Masindi district to the north, Hoima district to the east and Kibaale district to the south. It's approximately 400 kilometers North West of Kampala city. The study covered the activities of Garasoya Savings and Credit Co-operative in the past three years. The study was carried out in 30 working days starting on the 21st of May 2011.

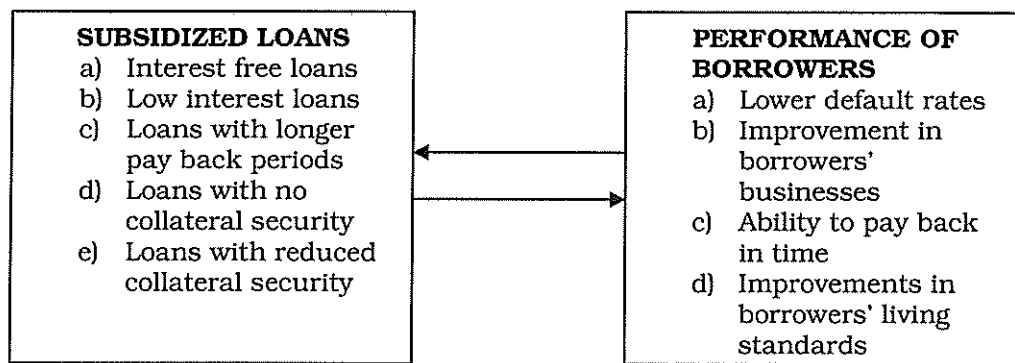
1.7 The Significance of the Study

After its successful completion, the findings of the study will be useful or important in many different ways and to many different persons or groups of people;

1. The findings of the study will help in providing answers on whether subsidized loans can reduce the borrower default rates.
2. The study will help policy makers in identifying the weaknesses/challenges that will be encountered in the course of ensuring subsidized loans.
3. The findings of the study will help in drawing remedies to the challenges of providing subsidized loans to the people.
4. The study will bring in new knowledge on how the subsidized loans impact on the performance of borrowers.
5. The findings of the study will help in analyzing the difference between subsidized and unsubsidized loans.

1.8 Conceptual framework

The study was carried out basing on the interrelations between the variables in the problem of study. It explored the connection between the independent, dependent and the intervening variables.



In this particular study, the independent variable, which is subsidized loans (interest free, low interest, longer pay back times, low or no collateral security), work hand in hand with the intervening or supporting variables such as economic stability and inflation rates to predict, control, determine and influence the dependent variable i.e. the performance of borrowers (lower default rates, ability to pay back in time, performance of borrowers' businesses).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the existing literature on the impact of subsidized loans and the performance of borrowers. It was based on the assessment of various scholars and researchers who have studied this problem before and analyze the activities, achievements and obstacles or challenges of subsidized loans and their effect on the performance of borrowers.

2.1 The concept of subsidized loans

The majority of the world's population is poor, subsisting on \$2-3 per day. Over 500 million of the world's poor are economically active. They earn their livelihoods by being self-employed or by working in micro-enterprises (very small businesses which may employ up to 5 people). These micro-entrepreneurs make a wide range of goods in small workshops; engage in small trading and retail activities; make pots, pans and furniture; or sell fruits and vegetables. (UNDP – 2000)

Yet these poor households often fail to secure the capital they need and miss opportunities for growth because they are not able to acquire the financial resources they need, i.e. loans or a safe place to hold savings. Over 80 per cent of all households in developing countries do not have the ability to acquire institutional banking services. (WB Human Development report, 2007).

This includes nearly all the poor people in the developing world. When there are no financial institutions to serve them, poor enterprises and

households rely largely on informal sources such as family, friends, suppliers or moneylenders for their financial needs. That is why it is very important to have subsidized loans available, because for these people, it is the difference between a meal and starvation, between life and death. (Ledgerwood, 1997). The main source of credit for many subsidized loans is agribusiness along the value chain including input suppliers, traders, processors and more importantly, the government for the case of Uganda. Moreover, the clients' own savings and credit from financial institutions continues to play a role in regenerating loan subsidization.

Providers of subsidized loans can be broadly categorized in the following ways;

The state; the government in Uganda is the main or foremost driver of the idea of subsidized loans. A micro state ministry was created to handle the provision of subsidized credit to people. People were encouraged to form credit co-operatives, commonly known as SACCOs (Savings and Credit Co-operatives). This is intended to intensify the fight against poverty among the population.

Value Chain Actors; these include exporters/wholesalers, processors, local traders and processors, producer groups, farmers, and input suppliers. They provide subsidized loans as a way of encouraging their customers to buy more inputs for the case of producer groups and input suppliers. For the traders or exporters/wholesalers, they provide subsidized loans to secure a continued flow of production of goods for their businesses.

Financial Institutions; these include banks (commercial, agricultural banks, state development banks), non bank financial institutions (NBFIs, commercial MFIs, other non-bank lenders, and leasing companies, not-

for-profit MFIs, which tend to work with poorer clients, credit unions and agricultural cooperatives.

Subsidized loans may be in form of interest free loans, low interest loans, loans with a longer pay back period, loans with no collateral security and loans with reduced or low collateral security requirement. All these loans are intended to uplift the financial conditions of low income earners. (Campion, 1999)

2.2 The concept of performance of borrowers

A borrower is any person who solicits for and acquires a loan after agreeing on a total repayment in a stipulated period of time. The loan may or may not carry a rate of interest. The performance of borrowers in this regards concerns how borrowers utilize the loans acquired, how their lives are impacted by the loans (either positively or negatively or both) and their capacity to pay back the loans without running out of business. In other words it's the measure of the usage of loans acquired by borrowers over time. The performance of borrowers is measured through their ability to make a return on the original monies loaned to them, pay back the loans and stay in business. (Otero, 1998)

The main reason why people seek micro-credit is the desire to engage in income generating activity so as to get their households out of poverty. The performance of borrowers can only be assessed by their ability to pay back the loans they have acquired plus the interest charged. If a borrower is able to fully pay back the loan including the interest it has accumulated, then the borrower can be described as performing well with the loan. (Ledgerwood, 1997)

Yet many borrowers businesses even fail to takeoff, and consequently they default on their loans. The performance of borrowers with micro-

credit loans is determined by various factors including (but not limited to); adequate information, rates of interest on loans, payback periods, conditions of collateral as well as saving schemes that are operated by the micro-credit enterprises on behalf of the borrowers. (Otero, 1998)

2.3 How subsidized loans affect the performance of borrowers

Access to subsidized loans provides the poor with the opportunity to accumulate assets, to reduce their vulnerability to shocks (such as illness or death in the household, crop failure, theft, dramatic price fluctuations, the payment of dowries) and to invest in income-generation activities. It also enables them to improve the quality of their lives through better education, health and housing. One of the most important roles of access to subsidized credit is that it enables the poor to diversify their incomes (WB Human Development report, 2007). Most poor households do not have one source of income or livelihood. Instead they pursue a mix of activities, depending on the season, prices, their health and other contingencies. This may include growing their own food, working for others, running small production or trading businesses, hunting and gathering, and accessing loans. (Rosenberg, 1998)

Subsidized credit organizations allow for the fact that micro-entrepreneurs have a variety of uses for funds, not only for the activity for which a loan is formally given but also for household operations and other family enterprises. It would be too risky for the poor, particularly the poorest of the poor, to invest all their income in a single activity. If the single activity or enterprise failed, the consequences of this would be much greater than if they had several sources of income. (Rosenberg, 1998)

Providers of subsidized loans recognize this and place relatively few restrictions on loan use. Most subsidized loan organizations do not monitor client loans to ensure that the loan is being used for its stated purpose because they recognize that it is part of the survival strategy of poor clients to make an ongoing stream of economic choices and decisions. The clients themselves know how best to manage their funds. (Rutherford, 1999)

For micro-enterprises, the most common constraint is the lack of access to working capital to grow their business. Low-income entrepreneurs want rapid and continued access to low cost (subsidized), and they are able, and willing to pay for these services from their profits. Most micro-entrepreneurs borrow small amounts for short-term working capital needs. The returns from their economic activities are normally sufficient to pay the relatively lower interest rates for subsidized loans and still make a profit. (Wright, 1999)

Subsidized loan borrowers value the opportunity to borrow and save with MFIs since they provide services that are cheaper than those that would normally be available to poor clients or that would be entirely unavailable to them. Micro-entrepreneurs have consistently demonstrated that they will pay the full interest cost to have continued access to financial services from MFIs. (Wright, 1999)

Such MFIs can only afford to provide subsidized loans. If the organization is to provide loans on an on-going basis, it must charge interest rates that allow it to cover its costs. These costs tend to be high because providing unsecured, small loans costs significantly more than loans in traditional banking. The costs to the institution include operating costs, the cost of obtaining the funds for loans, and the cost of

inflation. That is why it is very important to have subsidization on such loans. (USAID, 2002)

In this case, MFIs providing subsidized loans can rely on governments and donors as long-term sources of funding. Since the poor seek continued and reliable access to subsidized services and are able and willing to pay for it, it is advantageous to both the institution and the clients to charge interest rates that cover just the cost of the services, and eliminate the concept of very high profiteering. (Rutherford, 1999)

As such, subsidized loan institutions interested in serving women understand the specific needs of women clients and attract women as customers. Women often have fewer economic opportunities than men. Women also face cultural barriers that often restrict them to the home making it difficult for them to access finance services. (USAID, 2002)

Women have more traditional roles in the economy and may be less able to operate a business outside of their homes without a subsidized loan. Women also tend to have disproportionately large household obligations. Therefore, loan sizes need to be smaller and cheaper, given that women's businesses tend to be smaller than men's. They tend to focus on trade, services and light manufacturing. Women's businesses are often based in the home and frequently use family labour. (Rutherford, 1999).

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter deals with the research methodology to the study; discuss aspects of the geographical area in which the research was conducted, the research design, the study population, sampling techniques, the sample size, the study instruments, sources of data, data analysis methods, data process methods respectively.

3.1 Research Design

The research took the form of a case study, that because the whole world is affected by the problem of poverty and class variations when it comes to issue of income. And thus it's impossible to research at such a wide scope. Therefore, focus on one developing country, Uganda, and one SACCO (Garasoya in Bulisa district) dealing in subsidized credit would help make the problem researchable and at the same time provide information that could be treated as representative of the entire country.

The study was both qualitative and quantitative. The quantitative data was obtained using structured questionnaires from different categories of people such as advertising managers and customer care attendants, while the qualitative data was obtained from key informants, interviews and observations.

3.2 Study Population

Garasoya Savings and Credit Co-operative employs about 80 people directly and the beneficiaries are uncountable throughout its distribution

line. The target population in this study was comprised of credit managers, field supervision managers, accountants, customer care attendants, borrowers and others.

3.3 Sample size

Due to the time and financial limitations, the researcher was not able to get information from all the relevant people, that includes employees of Garasoya SACCO, its borrowers and their beneficiaries. Therefore a sample was drawn to represent the entire population. This sample consisted of 60 respondents, from Garasoya SACCO. They were chosen from among the credit managers, field supervision managers, accountants, customer care attendants and borrowers

3.4 Sampling Procedure

A total of 60 respondents were used as a sample for the study. These were selected from among the credit managers, field supervision managers, accountants, customer care attendants and borrowers of Garasoya SACCO. Snowball method of sampling was used in selecting the sample for the study. In this method, the researcher identified one respondent with relevant information, who led him to the other respondents who also had relevant information.

3.5 Methods/Tools of Data Collection

The main methods of data collection were questionnaires. Structured questionnaires for qualitative research. Also observation guidelines were prepared specifically to record first hand information during interview with the respondents.

3.6 Data control and Measurement

The data obtained was tested for authenticity by the researcher. This was done by carrying out additional search and applying other methods like observation and literature check. The information got from all these sources was put together and measured to determine its correctness and accuracy to ensure consistency of the data obtained.

3.7 Data Processing and Analysis

In analyzing the data, the quantitative data was edited, coded and tabulated manually by the researcher, while the qualitative data included key informative interviews and literature search.

3.8 Ethical procedures of Data analysis

The use of questionnaire and interview guides was applied by the researcher to the various respondents. The same questions were informally given to different people and the answers from these people were useful in minimizing chances of biasness.

The researcher also physically participated in literature search on the impact of subsidized loans on the performance of borrowers. With the use of guiding check lists the researcher recorded the correct impression that was provided by the first hand information.

For purposes of confidence building among the respondents, the researcher explained the reasons for carrying out the study and this is to analyze the performance of borrowers with subsidized loans. The researcher also guaranteed anonymity for respondents who wished to be protected from exposure.

3.9 Study Limitations

The study was limited by financial constraints and the time scale. It was not possible for the researcher to cover all the people working, borrowing or benefiting from Garasoya SACCO. Therefore he drew a sample, whose information would be used to represent the entire area of study.

Accessibility to confidential information which is necessary may not be easy. Therefore the researcher tried to assure the respondent that the information obtained would be treated with a high level of confidentiality.

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATION AND ANALYSIS

4.0 Introduction

This chapter is a presentation, interpretation and discussion of the data collected from the field. The objectives of the study were to identify the various forms of subsidized loans provided to borrowers, to assess how subsidized loans affect the performance of borrowers' businesses and to find out the challenges involved in providing subsidized loans to borrowers. The results are presented in tables and in form of frequency counts and percentages.

The present study intended to ascertain the relative importance of certain factors as they relate to subsidized loans and the performance of borrowers' businesses. Drawing on the various areas of research including among other studies on parental influence, and delinquency provided a framework the current study.

4.1 Demographic profiles of respondents

This presents the categorization of respondents on aspects such as age, sex or gender, in their respective frequencies and percentages. The study used a sample of 80 respondents from various departments of the ministry of education and its affiliate agencies. Table 4.1 below shows the background information of the respondents;

Table 4.1: Demographic information of the respondents

Background Information	Category	Frequency	Percentage
Gender	Male	44	55
	Female	36	45
	Total	80	100
Age	18 – 25	26	32.5
	26 – 35	22	27.5
	36 – 45	19	23.75
	46 – above	13	16.25
	Total	80	100
Highest education level	Degree	16	20
	Diploma	21	26.25
	Certificate	17	21.25
	Secondary school dropouts	12	15
	Primary school dropouts	5	6.25
	Others	9	11.25
	Total	80	100
Department	Field assessment	10	12.5
	Marketing	10	12.5
	Sensitization	13	16.25
	Enforcement	17	21.25
	Local leaders	8	10
	Borrowers	22	27.5
	Total	80	100

Source: Primary Data, 2011

For reasons unknown to the researcher, most of the respondents willing to take part in the study were male. For this reason, majority of the

respondents i.e. 44 (representing 55%) were males as compared to 36 females (representing 45%). The research drew the impression that more males are involved in the activities of Garasoya SACCO than females.

The age categorization of respondents was such that 26 respondents (32.5%) were aged between 18 – 25 years, 22 respondents were between 26 – 35 years, representing 27.5%, 19 respondents (23.75%) were between 36 – 45 years old and the remaining 13 (16.25%) of the respondents were aged 46 years and above. This implied that the people working and borrowing in Garasoya SACCO are of all age groups and that all of them are of legally mature working age.

Further investigations were made to evaluate highest education levels of respondents and findings revealed that 16 (20%) had attained Degree level, 21 (26.25%) had attained Diploma level, 17 (21.25) had attained Certificate level, 12 (15%) were secondary school dropouts, 5 (6.25%) were primary school dropouts. Those categorized as others were 9 (11.25%), and they comprised of those who did not attain any education at all and those who studied under Functional Adult Literacy Education

Concerning the departmental categorization of respondents, 10 respondents (representing 12.5%) were in field assessment, 10 (12.5%) other respondents were in marketing, 13 respondents (16.25%) were in sensitization department, 17 (21.25%) were in enforcement, 8 respondents (representing 10%) were local political leaders, while the remaining 22 respondents (27.5%) were borrowers.

4.2 Requirements for subsidized loan acquisition

Respondents were asked about the requirements that borrowers must meet in order to qualify for loan acquisition, and the findings on this are presented in Table 4.2 below.

Table 4.2: Requirements for subsidized loan acquisition

Requirements		Required	Not required	Total
Membership registration	Count	69	11	80
	%	86	14	100
A known permanent residence	Count	80	0	80
	%	100	0	100
Loan application showing loan amount	Count	73	7	80
	%	91	9	100
Credible and respectable referees	Count	78	2	80
	%	98	3	100
Collateral security	Count	67	13	80
	%	84	16	100

Source: Primary Data, 2011

From the findings indicated in Table 4.2, 69 respondents (86%) said membership registration is required before acquiring a loan, while 11 respondents (14%) said that membership is not required. This indicates that membership registration is an important requirement which must be fulfilled by the majority of the loan applicants.

The findings also show that all the 80 respondents (100%) said that they are required to have a known permanent residence in order to qualify for loan acquisition. None of the respondents said they are not required to

have a known permanent residence. This finding indicates that loans are given only to known residents since the physical address is required of everybody.

The findings also show 73 respondents (91%) say that they are required to submit a loan application showing the loan amount requested for. 7 respondents (9%) said they are not required to submit loan applications. This finding indicates that for purposes of assessment at Garasoya SACCO, it's important for intending borrowers to express in writing, their desire to borrow, and the amount they want to borrow.

The findings of the study also show that out of all the respondents involved in the study, 78 (98%) of them said that they are required to have credible and respectable referees, and only 2 (3%) said they are not required to have referees. This indicates that credible reference is one of the most important security aspects of the loan scheme at Garasoya SACCO.

The study also found out that 67 respondents (84%) said that they are required to have collateral security before they are given loans, as opposed to 13 respondents (16%) who said that they are not required to have collateral security. This implies that the loan scheme at Garasoya SACCO is secured with the guarantee of collateral.

4.3 Subsidized loans in Garasoya SACCO

Respondents were also asked about the categories of subsidized loans given to borrowers in Garasoya SACCO, and the borrowers preferences, the findings are presented in Table 4.3 below.

Table 4.3: Subsidized loans in Garasoya SACCO

Subsidized loans		Not at all	Very rarely	Less often	Often	Very often	Total	Mean
Interest free loans	Count	80	0	0	0	0	80	1.00
	%	100	0	0	0	0	100	
Low or reduced interest on loans	Count	0	6	0	31	43	80	4.39
	%	0	8	0	39	54	100	
Loans with longer pay back periods	Count	1	10	2	46	21	80	3.95
	%	1	13	3	58	26	100	
Loans with no collateral security requirement	Count	80	0	0	0	0	80	1.00
	%	100	0	0	0	0	100	
Loans with reduced collateral requirements	Count	2	8	1	37	32	80	4.11
	%	3	10	1	46	40	100	

Source: Primary Data, 2011

The findings of the study show that low or reduced interest loans are the most often given out with 43 respondents (54%) saying it's very often, and 31 respondents (39%) saying it's often. Only 6 respondents (8%) said its less often. With a mean of 4.39, this therefore implies that low or reduced interest loans are the most common type of loans given out at Garasoya SACCO.

The findings also show that 32 respondents (40%) say that very often, loans with reduced collateral requirement are given out, 37 (46%) say that its often, while 1 respondent (1%) says its less often, 8 respondents (10%) say its very rare and 2 respondents (3%) said that loans with reduced collateral requirement are not given out at all. This gives an overall mean of 4.11, which implies that loans with reduced collateral requirement are often given out at Garasoya SACCO.

The findings also show that on the loans with longer pay back periods, 21 respondents (26%) said these are given out very often, 46 respondents (58%) said its often, 2 respondents (3%) said its less often, 10 respondents (13%) said its very rare and 1 respondent (1%) said loans with longer pay back periods are not given out at all. With an overall mean of 3.95, the implication is that at Garasoya SACCO, loans with longer pay back periods are quite often given out to borrowers.

The findings of the study also indicate that all the 80 respondents (100%) concurred that interest free loans are not given out at all. This gives a mean of 1.00, implying that there are no interest free loans at Garasoya SACCO.

The findings of the study also indicate that all the 80 respondents (100%) concurred that loans with no collateral security requirement are not given out at all. This gives a mean of 1.00, implying that at Garasoya SACCO, every loan given out must have collateral security guaranteed upon it.

4.4 Performance of borrowers in Garasoya SACCO

The respondents who participated in this study were also asked to rate the performance of borrowers in terms of default rates, the performance of borrowers' businesses and their ability to pay back the loans in the agreed time. Their responses are presented in Table 4.4 below;

Table 4.4: Respondents' rating on borrowers' performance

borrowers' performance indicators		U	SD	D	A	SA	Total	Mean
Default rates	Count	11	14	1	36	18	80	3.45
	%	14	18	1	45	23	100	
Borrowers' business performance	Count	0	0	0	46	34	80	4.43
	%	0	0	0	58	43	100	
Ability to pay back in time	Count	3	5	0	46	26	80	4.09
	%	4	6	0	58	33	100	

Source: Primary Data, 2011

Legend

U – Undecided, **SD** – Strongly disagree, **D** – Disagree,

A – Agree, **SA** – Strongly agree

The findings also show that 34 respondents (43%) strongly agreed, and 46 (58%) agreed that borrowers' business performance was an indicator of the performance of borrowers. None of the respondents either disagreed or were undecided, giving a mean of 4.43. This implies that respondents view the performance of their businesses as a major indicator of their general performance as borrowers.

The findings also show that 26 respondents (33%) strongly agree, and 46 (58%) agree that the ability to pay back in time is an indicator of the performance of borrowers. 5 (6%) of the respondents strongly disagreed, and 3 (4%) were undecided. This gives a mean of 4.09, implying that its generally acknowledged that the ability to pay back in time is one of the indicators of the performance of borrowers at Garasoya SACCO.

From the findings of the study, 18 respondents (23%) strongly agreed and 36 (45%) agreed that default rates are an indicator of the performance of borrowers. 1 respondent (1%) disagreed, 14 (18%) strongly disagreed that default rates are an indicator of the performance of borrowers, while 11 (14%) were undecided about it. With a mean of 3.45, respondents' responses imply that default rates are indeed an indicator of borrowers' performance.

4.5 Relationship between interest rates and performance of borrowers in Garasoya SACCO

The first objective in this study was to determine the relationship between interest rates and the performance of borrowers in Garasoya SACCO. The researcher stated a null hypothesis that interest rates and performance of borrowers are not significantly correlated. To test this hypothesis, the Pearson's linear correlation coefficient was used and the results are shown in table 4.5 below;

Table 4.5: Correlation between interest rates and Borrowers'

		PERFORMANCE	INTEREST
PERFORMANCE	Pearson Correlation	1	-.278 *
	Sig. (2-tailed)		.012
	n	80	80
INTEREST	Pearson Correlation	-.278*	1
	Sig. (2-tailed)	.012	
	n	80	80

*. Correlation is significant at the 0.05 level (2-tailed).

Results in table 4.5 indicate that there is a significant relationship the rate of interest and performance of borrowers Garasoya SACCO ($r = -0.278$, sig. = 0.012). However, the results indicate that there is a negative relationship between the rate of interest and performance of borrowers and this is indicated by a negative r-value (-0.278). This means as the

interest rate is increased, the performance of borrowers reduces and vice versa. Basing on this, the null hypothesis is rejected and a conclusion is made that that interest rate significantly affects borrower's performance.

4.6 Relationship between the loan payback periods and performance of borrowers' in Garasoya SACCO

The second objective in this study was to determine the relationship between the loan payback periods and performance of borrowers' in Garasoya SACCO. The researcher stated a null hypothesis that the loan payback periods and performance of borrowers' are not significantly correlated. To test this hypothesis, the Pearson's linear correlation coefficient was used and the results are shown in table 4.6 below;

Table 4.6 Correlations between performance and period

		PERFORMANCE	PERIOD
PERFORMANCE	Pearson Correlation	1	-.204
	Sig. (2-tailed)		.070
	n	80	80
PERIOD	Pearson Correlation	-.204	1
	Sig. (2-tailed)	.070	
	n	80	80

Results in table 4.6 indicate that there is no significant relationship between the payback period and performance of borrowers in Garasoya SACCO ($r=-0.204$, sig. $=0.070$). However, the results indicate that there is a negative relationship between the payback period and performance of borrowers and this is indicated by a negative r-value (-0.204). This means as the payback period is increased, the performance of borrowers reduces and vice versa. Basing on this, the null hypothesis is accepted

and a conclusion is made that the payback period negatively affects borrower's performance, although the effect is not significant.

4.7 Relationship between the conditions on loans (collateral security) and the performance of borrowers' in Garasoya SACCO

The third objective in this study was to determine the relationship between the condition on loans and performance of borrowers' in Garasoya SACCO. The researcher stated a null hypothesis that the condition on loans and performance of borrowers' are not significantly correlated. To test this hypothesis, the Pearson's linear correlation coefficient was used and the results are shown in table 4.7 below;

Table 4.7 Correlations between conditions on loans and performance

	PERFORMANCE	CONDITION
PERFORMANCE Pearson Correlation	1	-.197
Sig. (2-tailed)		.080
n	80	80
CONDITION Pearson Correlation	-.197	1
Sig. (2-tailed)	.080	
n	80	80

Results in table 4.7 indicate that there is no significant relationship between the conditions on loans and performance of borrowers in Garasoya SACCO ($r = -0.197$ sig. $= 0.080$). However, the results indicate that there is a negative relationship between the conditions on loans and performance of borrowers and this is indicated by a negative r-value (-0.197). This means as the conditions on loans are increased, the performance of borrowers reduces and vice versa. So basing on this, the null hypothesis is accepted and a conclusion is made that the conditions on loans negatively affects borrower's performance, although the effect is not significant.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

Given the findings documented in the previous chapter, the initiative in this chapter is to develop analytical conclusions and advance policy recommendations necessary for various stakeholders, researchers and academicians who may in future base on this study to adopt mechanisms against the findings exposed in this research. Therefore, the chapter begins by making a summary of the findings of the study, then drawing logical conclusions based on empirical evidence already pointed out and thereafter advances the recommendations.

5.1 Summary of findings

The study intended to assess the impact of subsidized loans on the performance of borrowers in Garasoya Savings and Credit Co-operative (SACCO) loan scheme in Biiso Sub County, Buliisa district in western Uganda. It was based on three objectives i.e. to determine the relationship between interest rates and the performance of borrowers in Garasoya SACCO, to determine the relationship between the loan payback periods and the performance of borrowers' in Garasoya SACCO and to determine the relationship between the conditions on loans (collateral security) and the performance of borrowers' in Garasoya SACCO.

Analysis using frequency counts and percentages revealed that the study sample had 44 (55%) male respondents and 36 (45%) female respondents. The age analysis revealed that respondents aged between 18 – 25 years were 26 (32.5%), between 26 – 35 years were 22 (27.5%),

those between 36 – 45 years were 19 (23.75%) and those aged 46 years and above were 13 (16.25%). Concerning the highest education level, the analysis revealed that 16 respondents (20%) had acquired degrees, 21 (26.25%) had diplomas, 17 (21.25%) had certificates, 12 (15%) were secondary school dropouts, 5 (6.25%) were primary school dropouts and others were 9 (11.25%). On the departmental categorization, the analysis also revealed that 10 respondents (12.25%) were in field assessment, 10 (12.25%) were in marketing, 13 (16.25%) were in sensitization, 17 (21.25%) were in enforcement, 8 (10%) were in local leadership and the remaining 22 (27.5) were borrowers.

On the requirements for loan acquisition, the analysis revealed that 69 respondents (86%) said that membership registration was required, while 11 (14%) said it was not required. Also, all the 80 respondents (100%) said that a known permanent residence was required. 73 (91%) said that a loan application indicating the loan amount was required, and 7 (9%) said it was not required. On giving credible and respectable referees, 78 (98%) respondents said it was required and 2 (3%) said it was not required. In addition, 67 (84%) said that collateral security was required while 13 (16%) said it was not required.

On subsidized loans, analysis revealed that all the 80 respondents (100%) said that interest free loans were not given out at all (giving an overall mean index =1.00). 43 (54%) respondents said low or reduced interest loans were given out very often, 31 (39%) said it was often given out and 6 (8%) said it was very rarely given out (giving a mean index=4.39). Also, 21 (26%) said that loans with longer pay back periods were given out very often, 46 (58%) said they were given out often, 2 (3%) said they were given out less often, 10 (13%) said they were given out very rare and 1 (1%) said they were not given out at all (giving a mean index=3.95). Additionally, all the 80 respondents (100%) said that loans

with no collateral security requirement were not given out at all (giving a mean index=1.00). Also, 32 respondents (40%) said that loans with reduced collateral requirements were given out very often, 37 (46%) said they were given out often, 1 (1%) said it was less often, 8 (10%) said it was very rare and 2 (3%) said it was not given out at all (giving a mean index=4.11).

On the rating of the performance of borrowers, 18 (23%) respondents strongly agreed that default rates were an indicator of the performance of borrowers, 36 (45%) agreed, 1 (1%) disagreed, 14 (18%) strongly disagreed and 11 (14%) were undecided (mean index=3.45). In addition, 34 respondents (43%) strongly agreed that borrowers' business performance was an indicator of borrowers' general performance, 46 (58%) agreed, and none either disagreed or was undecided (mean index=4.43). Also, 26 respondents (33%) strongly agreed that the ability to pay back in time was an indicator of the performance of borrowers, 46 (58%) agreed, none disagreed, 5 (6%) strongly disagreed and 3 (4%) were undecided (mean index=4.09).

Analysis using Pearson's linear correlation Coefficient showed a negative relationship between the rate of interest and performance of borrowers and this is indicated by a negative r-value (-0.278). It also showed a negative relationship between the payback period and performance of borrowers and this is indicated by a negative r-value (-0.204). And also a negative relationship between the conditions on loans and performance of borrowers and this is indicated by a negative r-value (-0.197).

5.2 Conclusions

Based on the above findings, the following conclusions are made;

There are more male borrowers (44 Or 55%) as compared to their female counterparts (36 or 45%) in Garasoya SACCO loan scheme. The borrowers are aged 18 years and above, the legal adult age in Uganda. The academic levels ranged from complete illiterates to degree holders, showing that various academic groups are involved. Various departments were also involved i.e. field assessment, marketing, sensitization, enforcement, local leadership and borrowers themselves.

On the aspect of loan requirements, the researcher drew a conclusion that over all, the borrowers are required to fulfill certain requirements such as having membership registration, have a known permanent residence, submit a loan application showing the loan amount, present credible and respectable referees and have collateral security. However, the study found out that some borrowers are required to fulfill all the above requirements while others are not required to fulfill all of them.

On the aspect of the types of subsidized loans, the researcher concluded from the study findings that the respondents acknowledged that they receive three categories of subsidized loans; that is, loans with low or reduced interest, loans with longer pay back periods and loans with low or reduced collateral security requirement. There are no interest free or collateral free loans in Garasoya SACCO.

The performance of borrowers is rated through aspects of default rates, the performance of borrowers businesses and the ability to pay back in

time. Borrowers generally agree that these aspects are able to give a correct rating of the performance of borrowers.

There is a negative relationship between interest rates and performance of borrowers, indicated by a negative r-value (-0.278), i.e. the increase in interest rates results into a reduction in the performance of borrowers and vice versa. Interest rates play a major determining role on how well the borrowers perform with the loans they acquire from Garasoya SACCO.

From the findings, the researcher also concludes that there is a significantly negative relationship between the payback period and the performance of borrowers indicated by a negative r-value (-0.204). It was observed that lower loan payback periods also lowered the performance of borrowers.

The conditions for loan acquisition (collateral security) also hugely influence the borrowers' ability to acquire the desired loan amounts indicated by a negative r-value (-0.197). The higher the collateral security requirement, the lower the ability of borrowers to fulfill them and thus their performance is also affected if they cannot secure the desired loan amounts due to insufficient collateral security.

5.3 Recommendations

Based on the various findings uncovered in the study and the conclusions reached, the researcher made various recommendations, which he believes that if properly considered, they can guide all stakeholders in better understanding of the aspects of subsidized loans and the performance of borrowers in Garasoya SACCO loan scheme and the whole country in general;

Women should be encouraged to take more active participation in the loan scheme at Garasoya SACCO, since it was observed that the number of women was lower than that of men. Given the fact that women are the major household producers, their participation will significantly increase the improvement of lives in the community.

The loan acquisition requirements should be applied with uniformity to all prospective borrowers. The study found out that some respondents are required to fulfill certain requirements, while others are not. This breeds a feeling of favoritism, which may cause disharmony among those favored and those who are not; therefore there should be a uniform requirement for all borrowers.

Government should also make provisions for interest free and collateral free loans. The study found out that these loan categories are not available at Garasoya SACCO. Yet some prospective borrowers may not be in position to fulfill the collateral requirements or be in position to comfortably pay back the loans with interest.

There should be massive sensitization of borrowers on the proper use of the loan monies in order to ensure that the default rates are minimized. Borrower sensitization is also important in ensuring that the performance of the borrowers' businesses and the ability to pay back in time reflect a true state of the general performance of the borrowers. This helps in providing an accurate evaluation of the impact of the loan scheme on the lives of borrowers.

Since the funding of the loan scheme at Garasoya SACCO comes from government and is intended to improve the lives of the local people, the

government is encouraged to reduce the rate of interest charged on loans as much as possible in order to maximize the performance of borrowers.

The government should increase on the loan payback period from the current six months to twelve months. The grace periods in which the borrowers are required to start their loan repayment should also be increased from three months to at least six months. This gives the borrowers a longer period of time to establish their businesses before embarking on paying back the loans.

The government should look at the prospect of providing collateral free loans to those borrowers who are credit-worthy. The availability of collateral free loans will give the borrowers the flexibility of acquiring the loan amounts that they desire to effectively run their businesses. This will improve the performance of their businesses.

5.4 Areas for further research

In the view of limited scope and limitations of the study, the researcher found out that there are other areas that need more attention in addition to the relationships between interest rates, payback periods and conditions (collateral security) for loan acquisition. Further research should also be directed towards how the availability of subsidized micro credit loans impact on the standards of living in rural households.

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APPENDIX I

Questionnaire for selected Respondents

Dear Respondent,

My name is **Kwesiga Nelson**, am carrying out a research on the topic “Subsidized loans and the performance of borrowers”. I have chosen your organization as my case study and so I would like to request your assistance in all the possible ways. Your response will be treated with confidentiality and the information obtained from you will strictly be for educational purposes.

Thank you,

Please place a tick in the bracket () of the most appropriate answer and elaborate where necessary

Section A: Profile of respondents

1. Gender

- () Male
- () Female

2. Age

- () 18 – 25
- () 26 – 35
- () 36 - 45
- () 46 and above

3. Education level

- ☐ Degree
- ☐ Diploma
- ☐ Certificate
- ☐ Secondary school drop outs
- ☐ Primary school dropouts
- ☐ Others

4. Department

- ☐ Field assessment
- ☐ Marketing
- ☐ Sensitization
- ☐ Enforcement
- ☐ Local leaders
- ☐ Borrowers

Section B: Subsidized loans

4. What are the requirements for acquiring a subsidized loan, and are you able to meet these requirements?

No.	Requirement	Required	Not required
1.	Membership registration		
2.	A known permanent residence		
3.	Loan application showing loan amount		
4.	Credible and respectable referees		
5.	Collateral security		

5. How often do you give the following categories of subsidized loans?

Please respond following the key below;

5 - Very often

- 4 - Often
 3 - Less often
 2 - Very rarely
 1 - Not at all

	5	4	3	2	1
Interest free loans					
Low or reduced interest loans					
Loans with longer pay back periods					
Loans with no collateral security requirement					
Loans with reduced collateral requirements					

Section C: Performance of Borrowers

8. How do you rate the performance of borrowers in terms of the following aspects?

Please respond following the key below;

- 5 – Strongly agree
 4 - Agree
 3 - Disagree
 2 – Strongly disagree
 1 - Undecided

	5	4	3	2	1
Default rates					
Borrowers' business performance					
Ability to pay back in time					

APPENDIX II

Proposed budget for proposal and report writing

ITEM	QUANTITY	RATE	TOTAL COST
Ream of paper	3	12,000/=	36,000/=
Pens	5	400/=	2,000/=
Proposal Typing and Printing	2 copies	15,000/=	30,000/=
Transport	-	-	70,000/=
Research Assistants	6	20,000/=	120,000/=
Dissertation typing, printing and binding	4	40,000/=	160,000/=
Miscellaneous	-		50,000/=
TOTAL			468,000/=

APPENDIX III

Time Frame/Work plan

TIME FRAME FOR RESEARCH AND REPORT WRITING	
ACTIVITY	DURATION
Proposal writing	One week
Data collection	Four weeks
Data editing and coding	Two weeks
Data analysis and presentation	Two weeks
Report writing and compiling	Two weeks
TOTAL TIME PERIOD	TWELVE WEEKS