CREDIT POLICY AND LOAN RECOVERY IN MICROFINANCE INSTITUTIONS IN UGANDA: A CASE STUDY OF PRIDE MICROFINANCE KISORO DISTRICT BRANCH

BY

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A RESEARCH DISSERTATION SUBMITTED TO COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR'S DEGREE IN BUSINESS ADMINISTATION OF KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

I Uwihirwe Immaculee hereby declare that the work presented in this dissertation entitled "CREDIT POLICY AND LOAN RECOVERY IN MICROFINANCE INSTITUTIONS IN UGANDA": is my original work and has never been presented to any other University or Institution of higher learning for any academic qualification or otherwise.

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Date...9th Dec. 2013**...........**

APPROVAL

This is to certify that, this research dissertation entitled "CREDIT POLICY AND LOAN RECOVERY IN MICROFINANCE INSTITUTIONS IN UGANDA" has been prepared under my supervision and submitted to the college of Economics and Management with my approval.

Signed ....

MR. OWINO SAMSON

(SUPERVISOR)

Date 18th/12/2013

DEDICATION

I dedicate this research dissertation to My Brother Nshutinzima Eric and my Grandfather Mahuku Antoine for Financial support, Mental support, and care given to since my childhood.

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Above all, I lift up Almighty God for the gift of life, health and strength to endeavor all through childhood to this level.

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LIST OF ACROYNMS

MFIs - Microfinance Institutions

SPSS - Statistical Package for the Social Scientists.

ABSTRACT

The study was set to establish the impact of credit policy on loan recovery in microfinance institutions in uganda using a case study of pride microfinance Kisoro district branch. The research used a sample size 59 from population of 70 respondents. The research objectives of the study were: To establish the existing credit policies in Pride microfinance Kisoro, to examine how loans are recovered in Pride microfinance Kisoro and to establish the relationship between credit policy and loans recovery of Pride microfinance Kisoro while research questions were: What are the existing credit policies in Pride microfinance Kisoro?, How are loans recovered in Pride microfinance Kisoro? and What is the relationship between credit policy and loan recovery in Pride microfinance Kisoro?. The findings of the study revealed that the branch manager cited that the growing rate of deficit is as a result of inadequate application of the tools of credit policy management thus locking it into an increasing portfolio of non-performing assets. This clearly showed that credit systems were only designed on paper and lacked proper implementation, findings indicated that loan default increased steadily in 2008 to 2010 (38%-51%) of nonperforming assets respectively out of (62%-49%) of performing assets, besides weekly deposit are made to avoid the default and further revealed that there is a strong positive relationship between credit policy and loan recovery represented by a correlation of 0.722 implying that the more efforts put on credit policy, the higher the loan recovery made concluding that the two variables are significantly related. The researcher concluded that credit officers carried out close monitoring and loan management. However, clients' said that credit officers lacked customer care skills; they were arrogant and uncooperative during execution of their duties, clients reported embezzlement of funds by loan officers. And the recommendations included to make clients appreciate the credit policies and recovery procedures. Pride microfinance has to educate the clients and also listen to their grievances, the interest rate should be reduced from 36% per year at least 24% like other lending institutions and the loan amount or size should at least be increased from 700,000-10,000,000 million depending on the financial need and capacity to repay

CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

This chapter looks at the background of study, problem statement, and the purpose of the study, research objectives, research questions, scope of the study, the significance of the study and the conceptual framework of the study.

1.1 Back ground of study.

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

Pride microfinance employee benefits Uganda was established in 2008. The company is a local microfinance institution (MFI) and a subsidiary of international organization financial services limited (Pride micro finance or The Group). It's a lending MFI in 10 African countries. The group offers ethical and innovative financial services to formally employed hut under-banked and underserved employees with a range of products like personal loans, short term loans, education loans, home loans to mention but few.

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

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

Loan recovery (operational definition) refers to process and the rate at which the clients pay back the principal plus interest amount extended to them in form of loans, it is determined by repayment rate, portfolio quality ratios, profitability ratios, productivity and efficiency ratios and scale of depth of outreach. According to Ssewagudde (2000) credit policy provides parameters, defines procedures and directives that have been carefully formulated, administered from top and well understood at all institution's levels. Pride microfinance undergoes a set of three procedures of evaluating credit applicants to establish whether or not loans should be granted, these are credit information, credit investigation and analysis in a bid to maintain proper credit standards, avoid excess risk and evaluate business opportunity (ies).

According to Michael Malan the managing director of comp scan credit reference bureau (CRB) loan recovery is important in enabling lending institutions to clear their balance sheets in order to increase collection efforts to ease preparation of financial reports (The New Vision 15th September 2010)

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

Pride micro finance institution use credit policy as a marketing tool for expanding loan disbursement, maintain the market share, retain old customers and create new customers by weaning them away from highly competitive situation or recessionary economic conditions.

Pride micro finance loan recovery since 2008 to 2010 has not been all that success, in 2008 N.P.A were 0.38% to 0.62% P.A, 2009 N.P.A were 0.44% to 0.56% P.A yet in 2010 N.P.A were 0.5 1% to 0.49% P.A. the manager in her 2010 annual report stated that this is because several borrowers were simultaneously failing to meet their loan obligations of interest and principal and as a result non performing asset ratio increased as illustrated in table 1.1. Credit policy management remains the biggest challenge in Pride micro finance MFI Kisoro, the manager estimated a substantial amounts tied up in trade debtors to be N.P current assets ranging from 5,130,236 to 6,651,664 between 2008 and 2010.

According to Mugisa (1995) bad quality loans (assets) not only erode the institution's ability to recycle its financial resources but also threaten their survival and deprive the economy of a continuous flow of capital.

Table 1: Performing and non performing asset ratio of Pride microfinance

Institution	Asset class	2008	2009	2010
Blue microfinance	P.A	62%	56%	49%
	NPA	38%	44%	51%
	TOTAL	100%	100%	100%

Source: Extracted from Pride microfinance loan portfolio kisoro branch,2013

The researcher was prompted to carry out an investigation on the appropriateness and effectiveness of credit policy management put in place and also investigates the cause of the steady rise in default risk.

1.2 Statement of Problem

Like any other financial institution, Pride microfinance has credit policies as a way of administering loans. The policies have objectives of maximizing profits to the benefit of the shareholders as well. Since 2008, the institution faced hardships in loan recovery, portfolio at risk as shown in table 1.1 shifted from 0.38% to 0.51% in 2010 despite all the efforts of attaching assets to secure loans, building up equality loan portfolios and keeping the rate of deficit under control. The branch manager cited that Pride microfinance problem is as a result of inadequate application of the tools of credit policy management (Pride microfinance branch managers' annual report 2010 by Gloria Kizanye) looking it into a large and increasing proportion of nonperforming loans. According to Mugisa (1995) bad quality assets (loans) not only erode the institution's ability to recycle its financial resources but also threaten their survival and deprive the economy of a continuous flow of capital.

1.3 Purpose of Study

The purpose of the study was to investigate the relationship between credit policy and loans recovery in Pride micro finance institution

1.4 Objective of the Study

1) To establish the existing credit policies in Pride microfinance Kisoro.

2) To examine how loans are recovered in Pride microfinance Kisoro.

3) To establish the relationship between credit policy and loans recovery of Pride microfinance Kisoro.

1.5 Research Questions

1) What are the existing credit policies in Pride microfinance Kisoro?

2) How are loans recovered in Pride microfinance Kisoro?

3) What is the relationship between credit policy and loan recovery in Pride microfinance Kisoro?

1.6 Scope of the Study

1.6.1 Geographical scope.

The research was carried out at Pride microfinance, Kisoro.

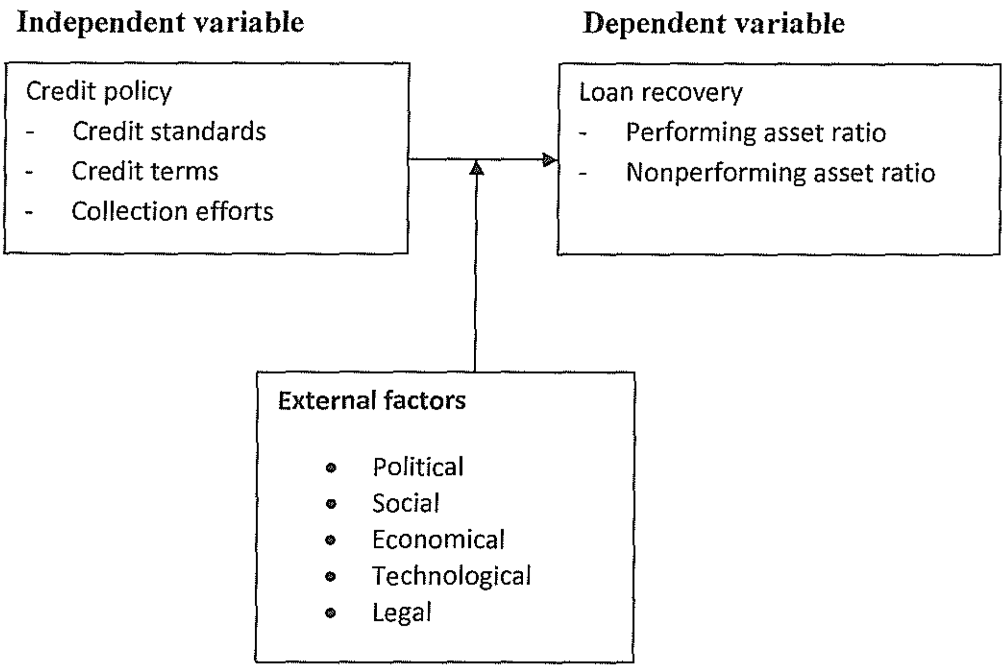
1.6.2 Content scope.

The research covered the existing credit policies in Pride microfinance Kisoro, examine how loans are recovered in Pride microfinance Kisoro and establish the relationship between credit policy and loans recovery of Pride microfinance Kisoro

1.6.3 Time Scope

The research covered the details of credit policies and loan recovery between 2010 and 2013.

1.7 The conceptual framework



Source: Developed by researcher from several literature reviews, 2013

The conceptual frame work above shows the relationship that exists between the variables and highlights the indicators for credit policy and loan recovery measurement. However, this can be influenced by the social forces, economic forces and government policies. Social forces in this regard may include, the nature of society that is to say if they are educated and ready to understand the credit policy, then even making on the loan recovery of micro finance institutions is easy. The economic factors in this regard include cost of using low then people could easily use it the success of micro finance institutions. However, the situation is different if the cost of operation is high and people in the society are not well educated on how to use acquired loans. This is because when the service is not fully utilized hence not improving on the performance of micro finance institutions since loans are not acquired or paid back.

1.8 Significance of the Study

For academicians, the findings of this research will provide empirical evidence and added new knowledge to the existing banking literature in the understanding of the impact of the complex relationship between credit policy and loan recovery.

Finally, the study will help micro finance institution to assess and review the efficiency and effectiveness of credit policy and loan recovery as well as marketing and promotion methods in order to attain the objectives in the promotion and marketing of the new banking service

The research is to benefit Kampala International University, as it would be added on to its existing literature in the library

The research will highlight the areas of credit policy that may need to be modified.
The study will help the researcher to better understand credit policy setting in relation to loan recovery.

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

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter concerns a review of major existing literature on credit policy and loan recovery. It is done mainly from the survey already conducted in the field of credit policy and loan recovery in micro finance institutions in Uganda.

2.1 Concepts of Micro Finance Institutions

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

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

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

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

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

2.2 Credit Policy.

A credit policy is an institutional method for analyzing credit requests and its decision criteria for accepting or rejecting applications (Girma 1996).

Credit policy is important in the management of accounts receivables. A firm has time flexibility of shaping credit policy within the confines of its practices. It is therefore a means of reducing high default risk implying that the firm should be discretionary in granting loans (Pandey, 1995). Policies save time by ensuring that the same issue is not discussed over and over again each time a decision is to be made. This ensures that decisions are consistent and fair and that people in the same circumstance get treated in the same manner (Khandkar and Khan, 1998)

According to Mc Naughton (1996), credit policy provides a frame work for the entire management practices.

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

2.3 Loan recovery.

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

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

2.4 Indicators of credit policy.

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

2.4.1 Credit Standards

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

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

- Social collateral group members can guarantee the loan members known the character of each client; if they doubt the character then the client is likely to default.
- Saving habit involves analyzing how consistent the client is in realizing own funds, saving promotes loan sustainability of the enterprise once the loan is paid.
- Other sources of income. Other source should be identified so as to enable him serve the loan in time. This helps micro finance institutions not to only limit loans to short term projects such qualities have an impact on the repayment commitment of the borrowers it should be noted that there should be a firm evidence of this information that point to the borrowers character (Katende, 1998).

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

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

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

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

2.4.2 Credit Terms

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

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

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

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

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

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

2.4.3 Collection Efforts

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

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

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

2.5 Indicators of Loan Recovery.

The following are the measures used to determine loan recovery.

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

Profitability ratio measures on micro finance institutions net income in relation to the structure of its balance sheet. This helps investors and managers determine whether they are earning an adequate return on funds invested in the microfinance institutions. Productivity and efficiency ratios provide the information about the rate at which micro finance institutions generate revenue to cover their expenses. Productivity ratio focuses on the productivity officers because they are primary generators of revenue. The ratio includes;

- Number of active borrowers per credit officer (performing assets).
- Total amount disbursed in the period per credit officer.
- Portfolio outstanding per credit officer (Non performing assets)

Efficiency ratios measure the cost of providing loans to generate revenue; these are referred to as operating costs and should include neither financing costs nor loan loss provisions.

Scale and depth of outreach, Microfinance institutions collect data on their clients base both the scale of their activities (number of clients served with types of instruments) and the depth of outreach (type of client reached and their level of poverty).

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

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

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

- Poor client's assessment procedures, clients are given loans without assessing the character, capacity and collateral of the borrower.
- Low loan supervision, clients need to be supervised on how to utilize the loan advanced to them.
- Low incentive to save, Uganda has a very low domestic saving to gross domestic product (GDP) of 6-8% (Bureau of labor statistics 2010).

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

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

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

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

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

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

- Poor physical infrastructure, particularly roads and communication facilities that make contact between lenders and borrowers very difficult (Musinguzi, 1999).

- Multiple borrowing most clients borrow from several micro finance institutions beyond capacity to pay. Consequently plunging those institutions into loans (the new vision Monday, July 11 2005).

2.7 Relationships between credit policy and loan recovery

2.7.1 Credit standards and loan recovery

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

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

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

2.7.2 Credit terms and loan recovery

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

2.7.3 Collection efforts and loan recovery

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

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

CHAPTER THREE
METHODOLOGY

3.0 Introduction

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

3.1 Research Design

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

3.2 Research Population

The survey population comprised of 70 respondents of whom both were staff and clients to Pride microfinance institution in Kisoro.

3.3 Sampling procedure

3.3.1 Simple random sampling.

The researcher used this method in order to avoid bias in the process of selecting the respondents from the group of possible respondents for the number needed for this study.

3.3.2 Systematic random sampling

The researcher used this method in order to avoid bias as well as to get detailed and reliable information. In this process the respondents were chosen randomly.

3.4 Sample size

From the targeted population of 70 employees, a sample was derived using Sloven's formula as calculated below.

$$n= \frac{N}{1+n(e)^2}$$

Where n= unknown sample size, N= population of the study, e= level of significance which is 0.05 in social sciences.

$$n= \frac{70}{1+70(0.05)2}$$

$$n= \frac{70}{1+70\ (0.0025)}$$

$$n= \frac{70}{1+0.2}$$

$$n= \frac{70}{1.175}$$

= 59 respondents

3.5.0 Research Instruments

3.5.1 Observation

The researcher used participant observation whereby researcher attempted fully in the lives and activities of subjects. The data collected through observation that was highly reliable because the behavior was observed and defined in sufficient detail.

3.5.2 Questionnaire

The researcher used questionnaire methods to collect primary data where by the questionnaires were distributed to various respondents within the targeted population so as to get greater depth of response and they were easy to administer.

3.5.3 Interviews

The researcher also used interview method to collect data where by structured interview was used that is face to face questions were asked to respondents. This was because the researcher wanted to be more exhaustive during his research.

3.5.4 Documentary Review

This method involved reading documents related to credit management and loan recovery. It was advantageous because it enabled the researcher to get the first hand information through critical examination of recorded information.

3.6 Source of Data

Data was both primary and secondary.

3.6.1 Primary source

Data collected by the use of questionnaires. These was designed using likert scale and they were distributed to staff and clients in order to get their views about the Pride microfinance framework. Interviews and observation were also be employed by the researcher to get more information.

3.6.2 Secondary Source

This source comprised of a review of textbooks, journals, Newspaper articles, internet and earlier researches on the problem.

3.7 Data collection methods

The major techniques used to collect data from the respondents were the use of semi- structured questionnaires which were largely closed-ended questionnaires. This was done with the help of researcher's or a chosen person's guide to cater for persons who were in hurry or those who may not understand what exactly the question meant and those that the researcher thought should provide more information than questionnaires asked for.

3.8 Data processing and analysis

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

3.8.1 Editing

This intended to detect and eliminate errors that occur. Only relevant, correct and crucial information was identified and used to draw conclusion.

3.8.2 Tabulation

Some data was presented in tables to enable analysis and identification of relationship between variables.

3.8.3 Analysis

The findings of the research were written down and worked out, edited and analyzed using comparison and percentage approaches with the help of SPSS computer program to draw conclusions and recommendations. This helped the researcher to determine the extent of relationship between variables that is credit policy and loan recovery in light of research objectives and literature review.

CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter, data is presented, analyzed and interpreted according to research questions. Findings are presented in statistical tables and percentages. Responses from the respondents were analyzed and the results are presented in this chapter.

4.2 Demographic characteristics of the respondents.

4.2.1 Showing sex of the respondents

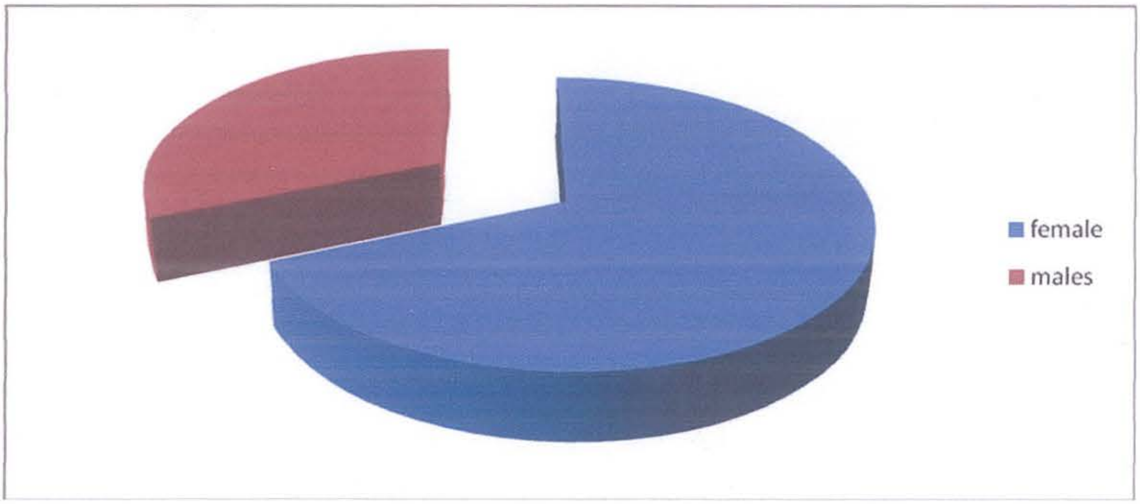
The table below shows the sex of the respondents.

Table 2: Showing Sex of the respondents

Gender	Frequency	Percent
Female	40	68.6
Male	19	31.4
Total	**59**	**100.0**

Source: Primary data, 2013

Figure 1: A pie-Chart showing sex of the respondents



The table above indicates that majority of respondents (68.6%) were females while minorities (31.4%) were males. This implies that the study involved more females than males. Which might be due to women emancipation and involvement in ventures that originally involved men? The composition of both female staff members and female clients was higher than that of males. When questioned about this unfair distribution, the branch manager explained that females tend to be honest in their dealings with clients and so efficient service delivery and those female customers were more than their male counterparts because women have been highly marginalized in the society and so they have embraced microfinance as a way of elevating themselves from poverty. When one male was asked to comment on the same issue, he said that "there is a poor perception among men that microfinance is basically a government program to benefit women only, hence, they have tended to ignore it".

4.2.2 Marital status of the respondents'

Marital status of the respondents was another interest of the researcher in the sense that it explains the extent of one's responsibility, therefore it was investigated and the following table shows the response.

Table 3: Showing Marital status of the respondents

Marital status	**Frequency**	**Percent**
Married	18	31.4
Single	27	45.7
Divorced	14	22.9
Total	**59**	**100.0**

Source: Primary data, 2013

Figure 2: A pie-Chart showing Marital status of the respondents

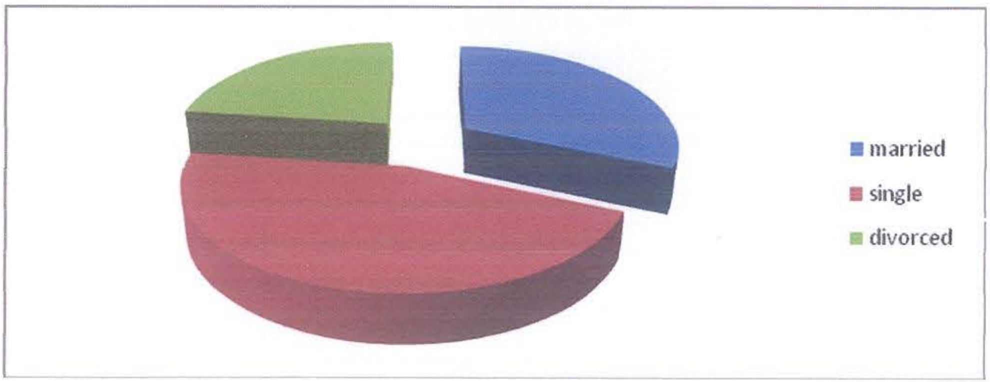
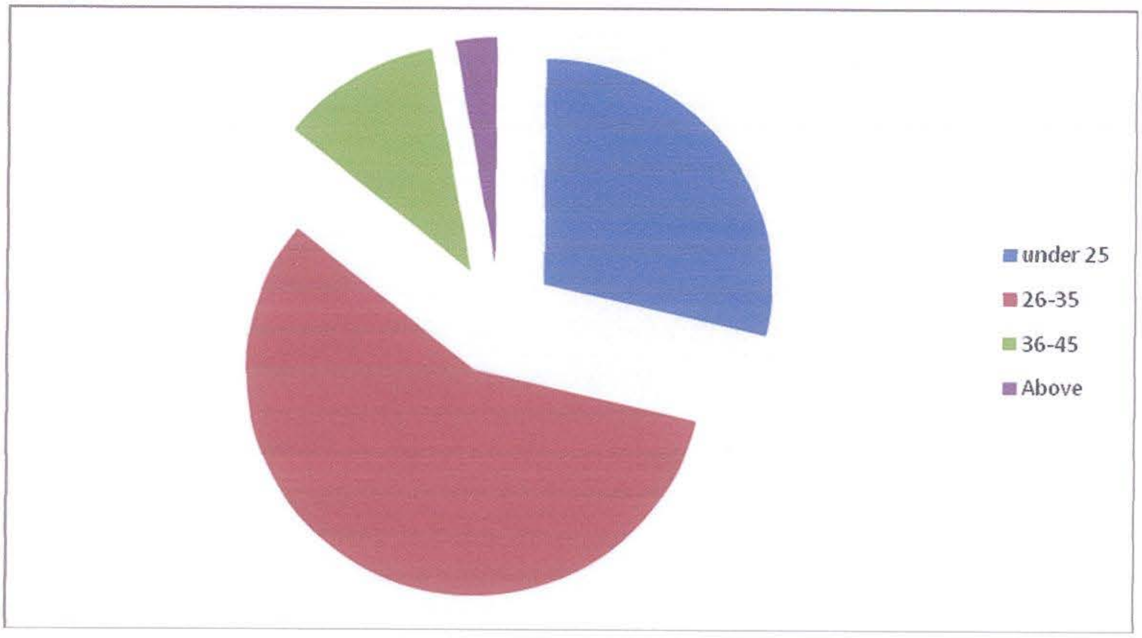


Figure 3: A pie-Chart showing Age of the respondents



In accordance with the table above, 57.1% of the respondents were in the 26-35 age groups which were the majority. 28.6% were under 25years, 11.4% between 36 and 45 years while 2.9%which is the minority is above 46 years. This indicates that most of the clients are already married, established and mature to organize and borrow money for income generating projects. Below 25 years, they are not economically and physically active.

4.2.4 Education levels of the respondents

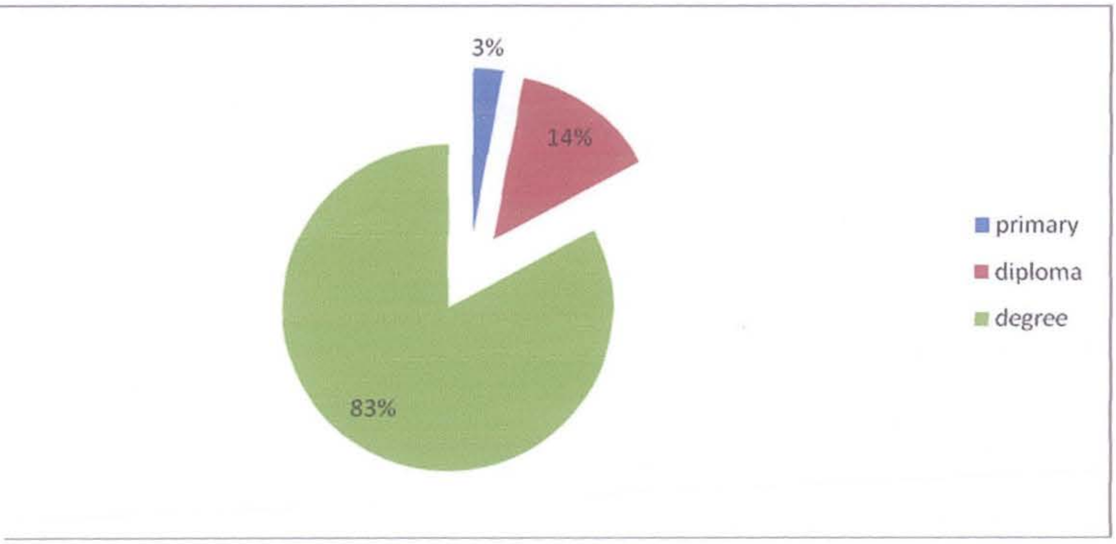
The education level was also considered important and therefore worth examining. The following table shows the results.

Table 5: Showing Education level of the respondents

Education level	Frequency	Percent
Primary	2	2.9
Diploma	8	14.3
Degree	49	82.9
Total	**59**	**100.0**

Source: Primary data, 2013

Figure 4: A pie-Chart showing Education level of the respondents



is indicates that Pride microfinance clients are fairly educated able to have capacity to lerstand questionnaires and answer accordingly. 82.9% of the respondents were found to be at degree level, 14.3% were at diploma level while the minorities (2.9%) were found to be at the nary level. However, poor credit management was dominant among the degree and diploma lers despite their ability to understand all necessities regarding loan management. This efore showed that the problem does not only come from customer's side but also from Pride ·ofinance inadequate application of tools of credit policy management.

4.3 Existing credit policies in Pride microfinance

The study sought to establish the different credit policies employed in Pride Microfinance. Different questions were asked and responded to by different respondents in a bid to achieve the objective. The following are the findings.

4.3.0 Credit policy analysis

4.3.1. Credit standards

Credit standards were set in order to identify the credit worthy clients so that the institution maximizes the revenue and minimizes bad debts. The application of the clients is investigated basing on the character, capacity, collateral security, capital and economic condition, credit standards were the yardstick for measuring the risk level of a client. This result to each element of credit standard were as follows

4.3.1.1 Character assessment to measure the risk level of Pride microfinance clients

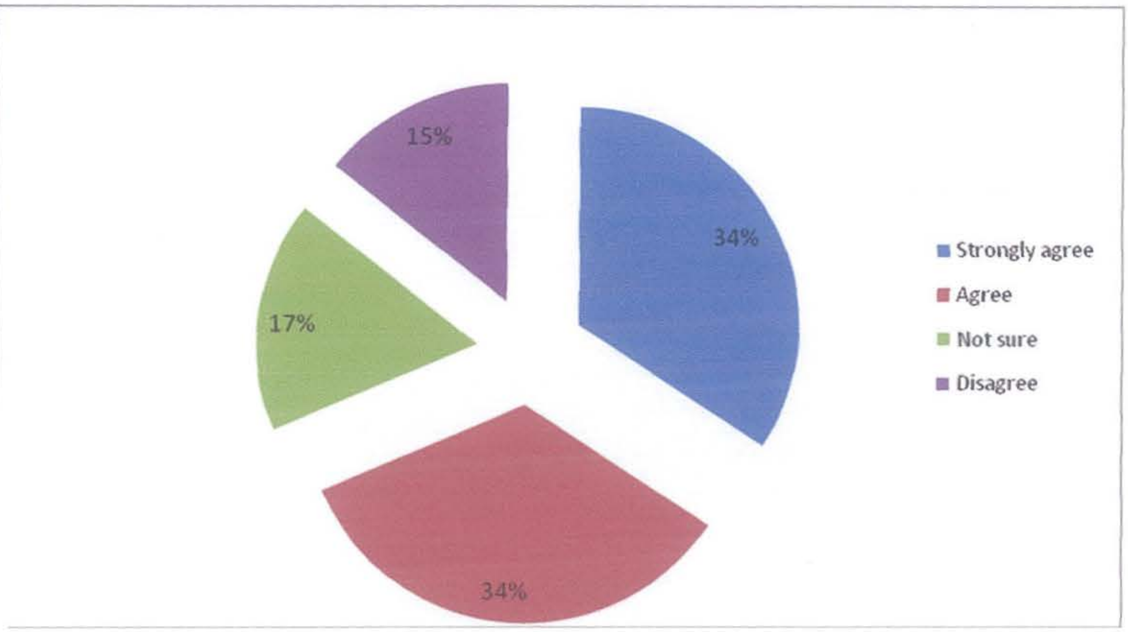
Consideration of client's characters before extending a loan was also another aspect to be investigated by the researcher.

Table 6: Showing Response on whether Pride considers client's character for loan extension.

Response	Frequency	Percent
Strongly agree	20	34.3
Agree	20	34.3
Not sure	10	17.1
Disagree	9	14.3
Total	**59**	**100.0**

Source: Primary data, 2013

Figure 5: A pie-Chart showing Response on whether Pride considers client's character for loan extension



ccording to the table above, the respondents who strongly agreed and the ones who agreed ere the majority taking the same percentage of 34.3% while those who were not sure and the es who disagreed werel7.1% and 14.3% respectively. The findings revealed 34.3% animously agreed that Pride microfinance considers client's character before extending the n but then poor loan recovery has continued to increase, it means Pride needs to review the plementation, monitoring and evaluation of its credit policies to revive its glory.

1.2 Collateral security assessment.

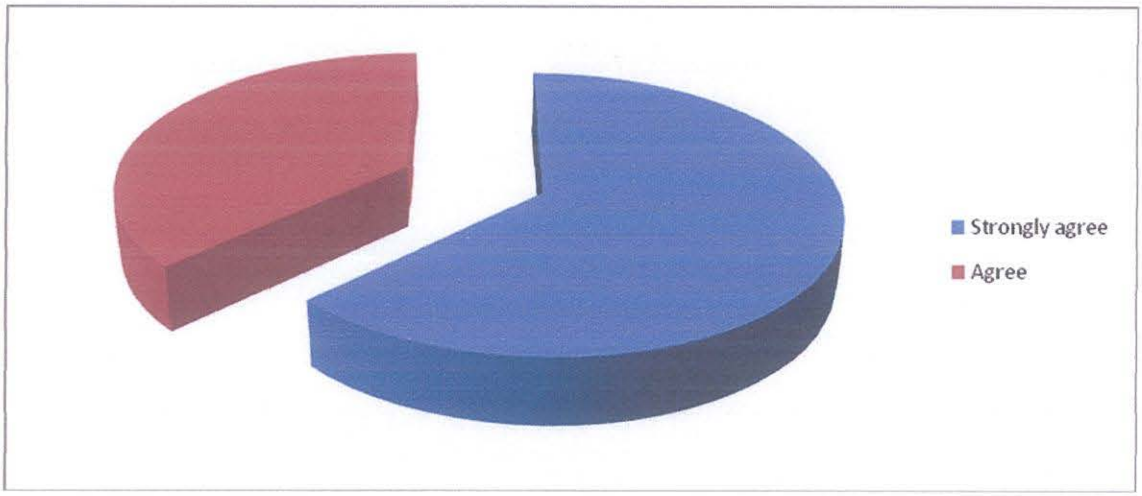
ind out whether Pride considers a person's collateral before giving out a loan was also itable since it is a major tool in effective loan recovery. The following were the results

Table 7: showing Consideration of collateral

Response	Frequency	Percent
Strongly agree	37	62.9
Agree	22	37.1
Total	**59**	**100.0**

Source: Primary data, 2013

Figure 6: A pie-Chart showing Consideration of collateral



The analysis showed that 62.9% of the respondents which was the majority strongly agreed where as 37.1% agreed. This is in a bid to safeguard their money extended to clients through loans. Because clients can at any time default or change location hence this is a better control measure in the loan recovery.

4.3.1.3 Respondents view on whether Pride considers financial status before extending the loan.

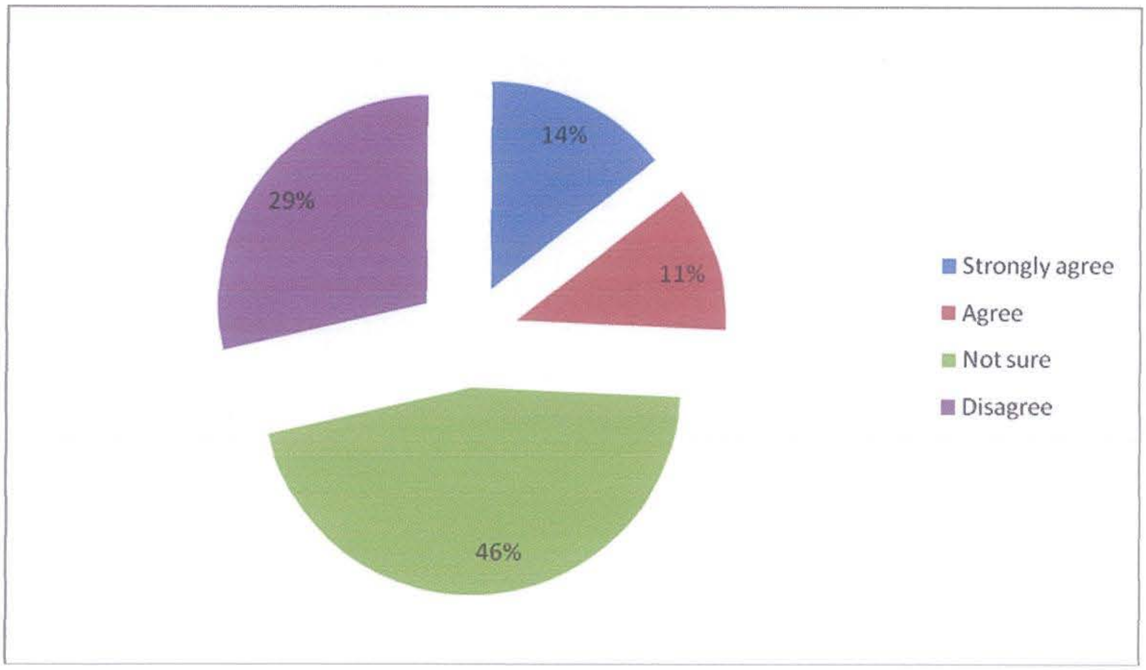
The researcher continued to find out if the economic condition of a client was always put into consideration before he is given a loan. The following are the findings as shown in the table below.

Table 8: Showing Analysis of customer's financial status.

Response	Frequency	Percent
Strongly agree	8	14.3
Agree	7	11.4
Not sure	27	45.7
Disagree	17	28.6
Total	**59**	**100.0**

Source: Primary data, 2013

Figure 7: A pie-Chart showing Analysis of customer's financial status.



It was observed that 45.7% of the respondents were not sure if the economic condition was considered before a person could get a loan. 28.6% disagreed, 14.3% strongly agreed while 11.4% of the respondents agreed. The analysis shows that the majority clients were ignorant about the question that is 45.7% and 28.6% who were not sure and disagreed respectively where as 14.3% and 11.4% strongly agreed and agreed that Pride microfinance considers client's financial stance before extending the loan to them. However, all in all Pride microfinance considers client's financial position before extending the loan to them in an attempt to reduce bankruptcy exposures and also reduce advancing credit to unworthy clients.

4.3.1.4 Assessment of the prevailing economic conditions.

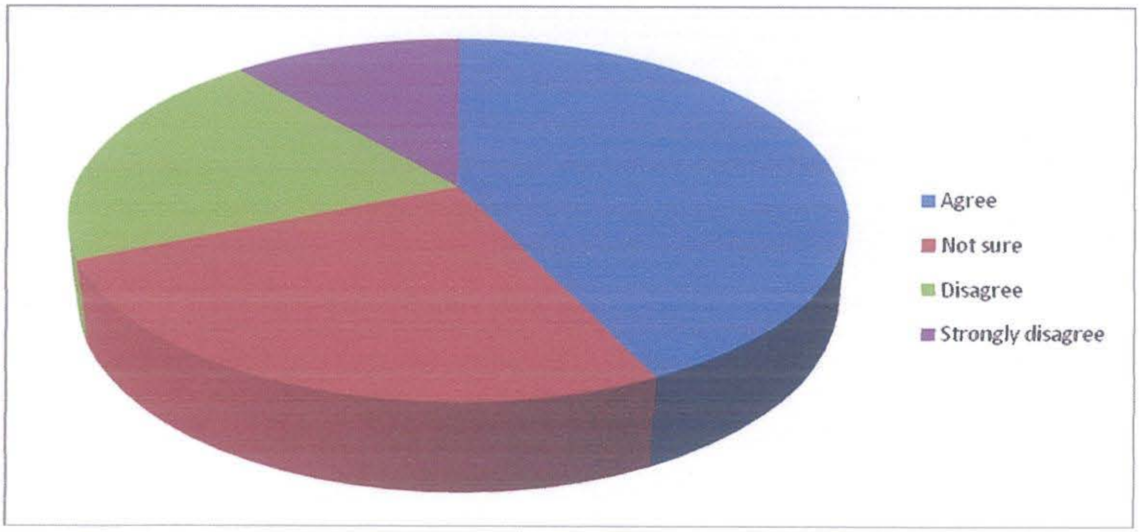
Given the relevancy of the financial status of a client before a loan can be extended, the researcher had to find out if the prevailing economic conditions of a country are considered in order to give out loans. The table below summarizes the findings.

Table 9: Showing Relevance of the prevailing economic conditions

Response	Frequency	Percent
Agree	29	42.9
Not sure	15	25.7
Disagree	13	20.0
Strongly disagree	8	11.4
Total	**59**	**100.0**

Source: Primary data, 2013

Figure 8: A pie-Chart showing Relevance of the prevailing economic conditions



The table above shows that 42.9% of the respondents agreed that economic conditions are considered. 25.7% were not sure, 20% disagreed while the rest that comprised 11.4% strongly disagreed. The results from the respondents show that they were ignorant and illiterate about the question. However, although Pride considers this factor, loan repayment was still a problem. In order to ensure repayment from clients, these conditions such as political and economic factors need to be considered. Loans should not be given to clients during inflationary conditions or given to clients during instabilities due low returns expected.

4.3.1.5 Customer's capacity assessment

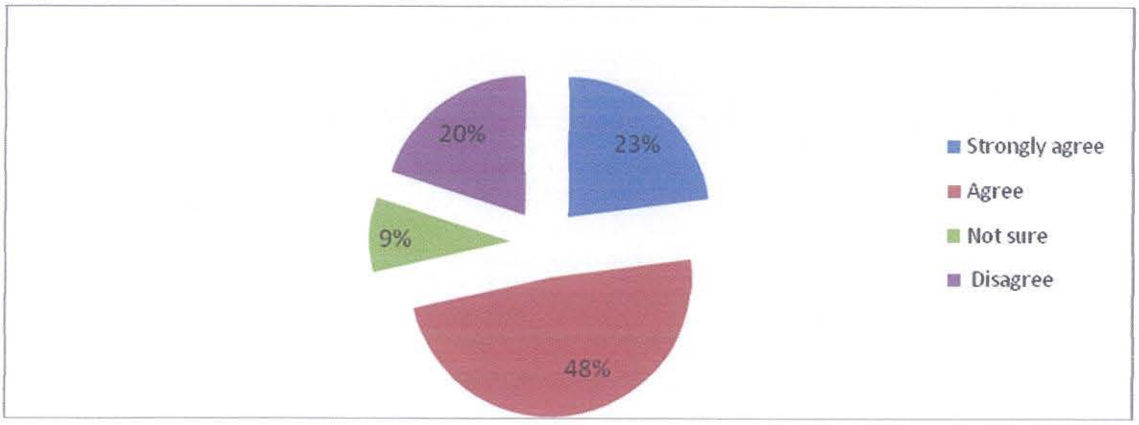
During the study, the researcher found it necessary to establish whether the client's capacity to pay back the loan in a given loan period is considered by the Pride Microfinance.

Table 10: Showing Clients' capacity to pay back

Response	Frequency	Percent
Strongly agree	12	22.9
Agree	29	48.6
Not sure	5	8.6
Disagree	13	20.0
Total	**59**	**100.0**

Source: primary data, 2013

Figure 9: A pie-Chart showing Clients' capacity to pay back



From the table above, the majority of the population (48.6%) agreed. It was followed by 22.9%which strongly agreed, 20% disagreed while 8.6% of the respondents were not sure. The loan officer assessed by looking at clients past records such as earnings, debt load and savings.

However, findings revealed that where clients were not able to pay back the loan in time, their pledged property (personal assets) or tangible businesses could be sold in a bid to regain the principal. Besides this, legal actions such as imprisonment could be taken against the borrower.

4.3.1.6 Trust assessment of customers

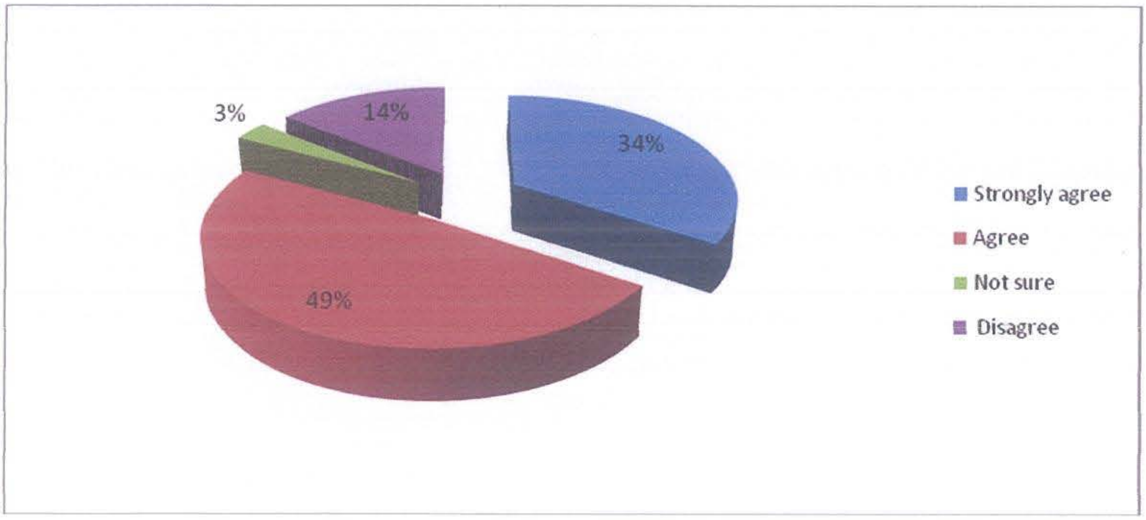
The researcher continued to find out if trustworthiness of the customer was considered before a loan could be extended and the following were the results.

Table 11: Showing Trust of the customers

Response	**Frequency**	**Percent**
Strongly agree	20	34.3
Agree	29	48.6
Not sure	6	2.9
Disagree	4	14.3
Total	**59**	**100.0**

Source: primary data, 2013

Figure 10: A pie-Chart showing Trust of the customers



From the analysis, it can be seen that 48.6% of the respondents agreed, 34.3% strongly agreed, 14.3% disagreed while 2.9% were not sure. The findings on the other hand revealed that despite the application forms which are not comprehensive enough to cater for all attributes of credit screening, there is no formal trust assessment mechanism in place.

4.3.2 Credit term analysis

The researcher sought to whether the credit terms such as credit period, loan size, interest rate to mention but a few could increase loan recovery in Pride microfinance.

4.3.2.1. Comfort ability of loan period analysis

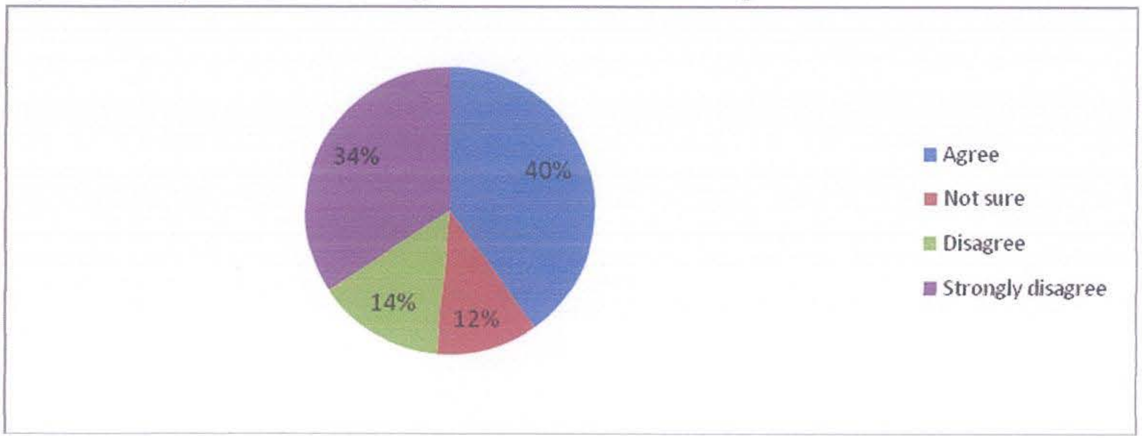
Respondents were asked whether the customers were comfortable with the loan period extended to them. The following table shows the level of response.

Table 12: Showing Comfort with the loan period

Response	Frequency	Percent
Agree	24	40.0
Not sure	7	11.4
Disagree	8	14.3
Strongly disagree	20	34.3
Total	**59**	**100.0**

Source: primary data, 2013

Figure 11: A pie-Chart showing Comfort with the loan period



The results summarized in the table above show that 40% of the respondents agreed with the fact that customers are comfortable with the loan period extended to them, 34.3% strongly disagreed, 14.3% disagreed while 11.4% were not sure about it. The 40% besides being comfortable with the loan period, they also expressed that discounts were allowed to customers with prompt settlement of the loan this serves as an incentive to pay promptly, 11.4% showed they did not know what was happening, 34.3% and 14.3% strongly disagreed and disagreed that they are not comfortable with the loan period given to them because have ever fallen victims to the application of law while enforcing payment from them.

4.3.2.2 Respondent's view on how good the loan size is.

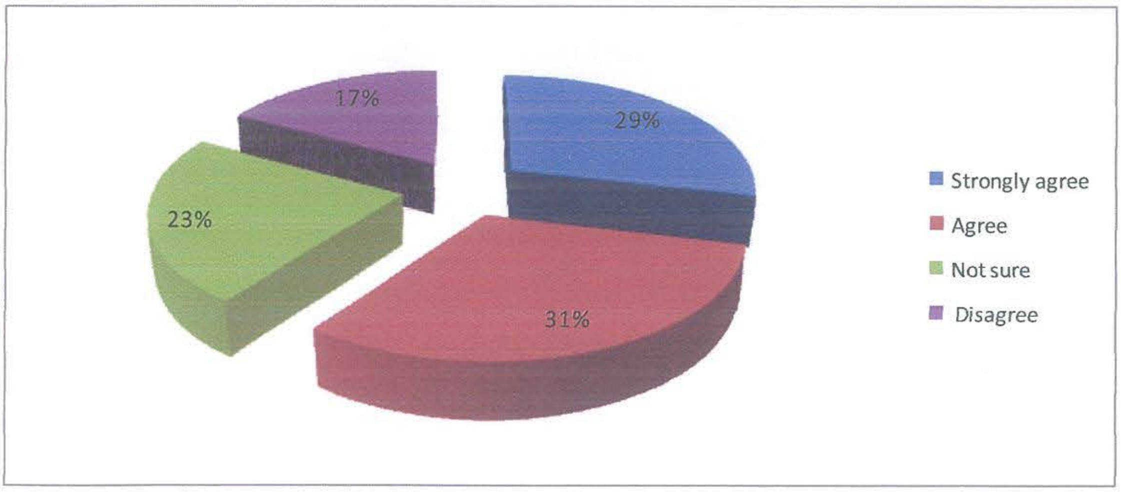
Respondents were further asked whether the loan size that B-Blue extends to clients was good. The following table shows the level of response.

Table 13: Showing Goodness of loan size.

Response	Frequency	Percent
Strongly agree	17	28.6
Agree	19	31.4
Not sure	14	22.9
Disagree	9	17.1
Total	**59**	**100.0**

Source: primary data, 2013

Figure 12: A pie-Chart showing Goodness of loan size



From the table above, it is shown that majority of the respondents (31.4%) agreed, 28.6% strongly agreed, 22.9% were not sure while 17.1% disagreed. This implies that clients are satisfied with the size of the loans extended to them since it was commensurate with their standards of living and at the same time they are able to meet to loan obligations.

4.3.2.3 Analysis on the length of loan period.

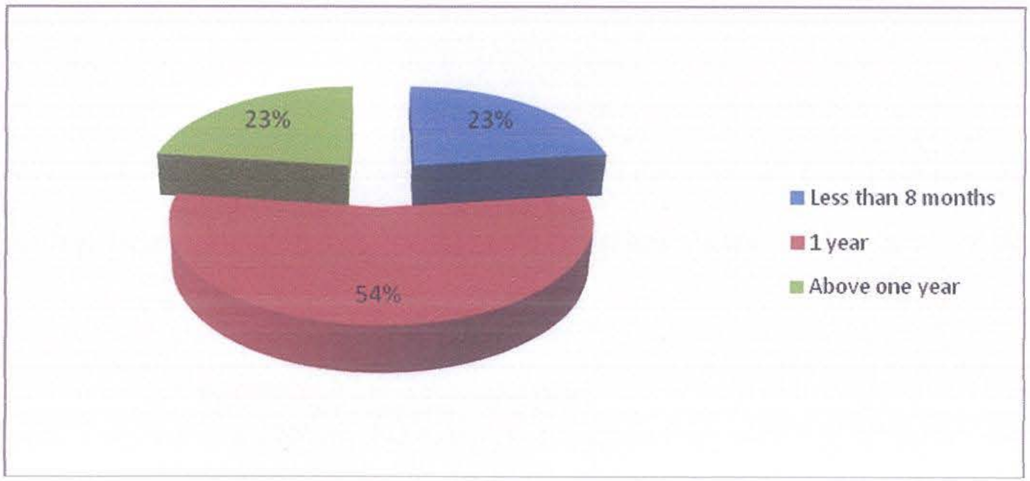
Considering the length of the loan period, respondents had this to say in accordance with the table below.

Table 14: showing Response of the length of the loan period.

Response	Frequency	Percent
Less than 8 months	14	22.9
1 year	32	54.3
Above one year	13	22.9
Total	**59**	**100.0**

Source: primary data, 2013

Figure 13: A pie-Chart showing Response of the length of the loan period.



The table above shows that majority of respondents (54.3%) acquired the loan for one year, while 22.9% acquire for a period of less than eight months and above one year. This implies that most of the loans extended have a life span of more than eight months therefore enough periods for the clients. The researcher concluded that the length of loan was sufficient in accordance to one's loan size. This however, raises concern that why then poor loan recovery? The response goes Pride microfinance needs to scrutinize its credit policy management.

4.3.2.4 Respondent's view on loan amount asked for.

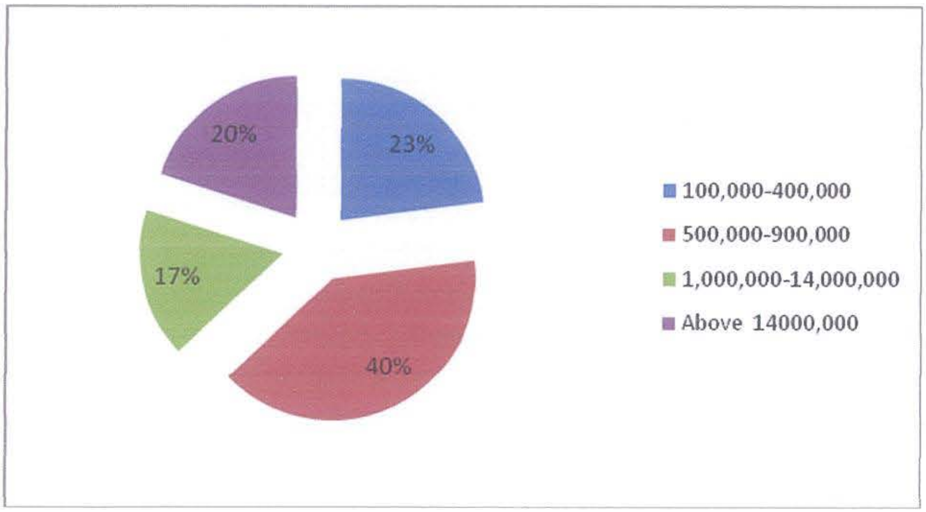
Pride considered giving small loans to ensure quick repayment; nevertheless, loan default was steadily rising implying the existence of a problem in Pride 's policies. In response to the loan amount clients ask for, the table below shows the results.

Table 15: response to loan amounts asked for.

Response	Frequency	Percent
100,000-400,000	13	22.9
500,000-900,000	24	40.0
1,000,000-14,000,000	10	17.1
Above 14000,000	12	20.0
Total	**59**	**100.0**

Source: primary data, 2013

Figure 14: A pie-Chart showing response to loan amounts asked for.



From the table above, 40% of the respondents ask for loans that range from 500,000 to 900,000

Shillings, 22.9% ask for the amounts from 100,000= to 400,000=, 20% ask for above 14,000,000 while 17.1% ask for the amounts from 1000, 000= to 14,000,000=. The results imply that Pride cuts across all categories of people in loan offer a condition that encourages people from all walks of life to access loans for development.

4.3.2.5 Interest rate assessment.

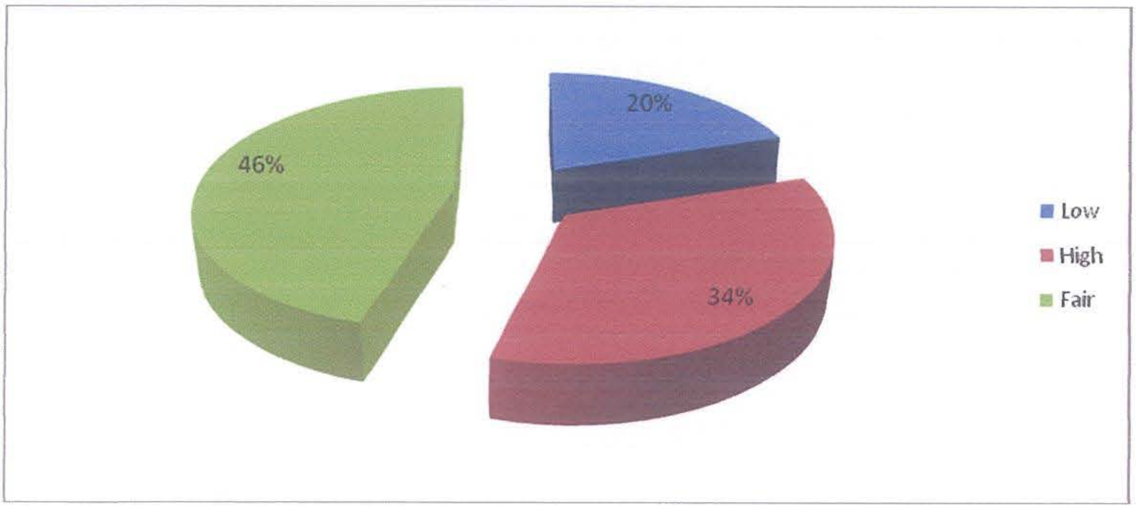
The interest rate of loan offered by Pride is 36% per year and the monthly interest is 3% with the weekly interest rate charge of 6.1%. The interest rate is set depending on loan period of the loan. Responses to the description of interest rates charged by Pride Microfinance yielded the following information as shown in the table below.

Table 16: Showing Description of interest rates charged

Response	Frequency	Percent
Low	12	20.0
High	20	34.3
Fair	27	45.7
Total	**35**	**100.0**

Source: primary data, 2013

Figure 15: A pie-Chart showing Description of interest rates charged



It is shown from the table above that 45.7% were convinced that the interest rate is fair, 34.3% said the interest was high because Pride serves a number of customers who are scattered and so high operating cost. This interest rate was meant to cover operating cost and consequent burden is felt by borrowers while 20.0% claimed that the interest was low. This implies that the loans extended by Pride Microfinance were client friendly.

4.3.3 Collection efforts analysis

Collection efforts determine the actual collection period that is procedures that the institution follows to recover payments of past dues. Like phone calls and individual visits.

4.3.3.1 Credit weekly deposits and meetings

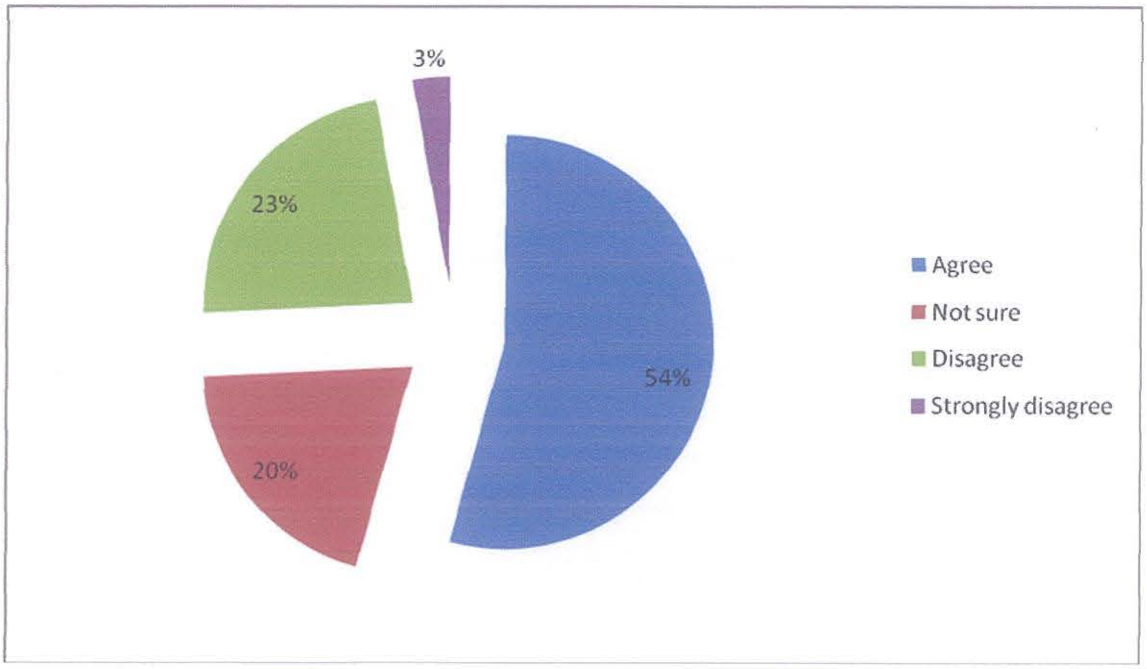
Pride requires its clients to meet weekly deposits. This method of payment is in a bid to secure their lending and minimized defaults. Pride microfinance loans are in form of revolving funds administered which also constitute the payback period. It was also important for the researcher to find out if Pride Microfinance requires clients to make weekly deposit in order to avoid default. The following responses were recorded

Table 17: Showing Requirement to make weekly deposits

Response	Frequency	Percent
Agree	32	54.3
Not sure	12	20.0
Disagree	13	22.9
Strongly disagree	2	2.9
Total	**59**	**100.0**

Source: primary data, 2013

Figure 16: A pie-Chart showing Requirement to make weekly deposits



From the table, the majority (54.3%) agreed that clients are required to make weekly deposit in order to avoid default and concluded that the weekly deposit were not favorable. They further expressed dissatisfaction with attending meetings immediately the loan is advanced to them, these were time consuming and so their businesses were affected, weekly meetings did not give the opportunity to use credit to organize their businesses. 22.9% disagreed, 20% were not sure while 2.9% strongly disagreed. However, weekly meetings and deposits are meant to guarantee and enhance loan repayment together with interest rate payment.

4.3.3.2 Methods of communication to defaulting clients

The response on how Pride microfinance communicates with its clients indicates that it was personal visit by loan officers and use of letters since telephones were expensive. The table below shows the list of methods used during loan portfolio collection and their frequency in use.

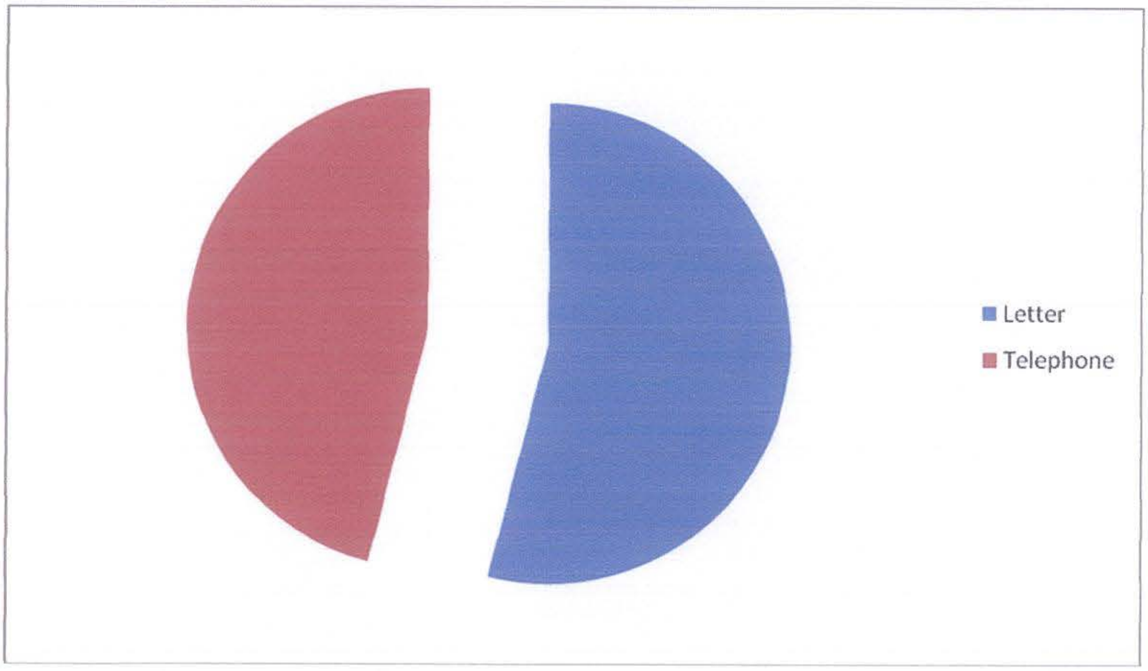
Table 18: Showing Collection procedures or methods

Frequency and percentage

Method	Very common	Common	Not common	No opinion
Letter	-	-	34 97.1%	1 2.9%
Telephone	-	-	29 82.9%	6 17.1%
Personal visit	35 100%	-	-	-

Source: primary data, 2013

Figure 17: A pie-Chart showing Collection procedures or methods



The results indicated that 34(97.1%) out of respondents said letters were not commonly used in recovery procedures by Pride, 1(2.9%) gave no opinion, 29(82.9%) said that telephones were also not commonly used, 6(17.1%) had no opinion while 35(100%) said that personal visits were very commonly used by loan officers. However, recovery rate is not all that successful due to other factors like deaths sickness and business failing hence need to revise its collection procedures such as credit screening, debt monitoring and consistency in delivery of letters and phone calls to remind its customers to pay.

4.3.3.3 Assessment of whether clients are reminded when to meet repayment

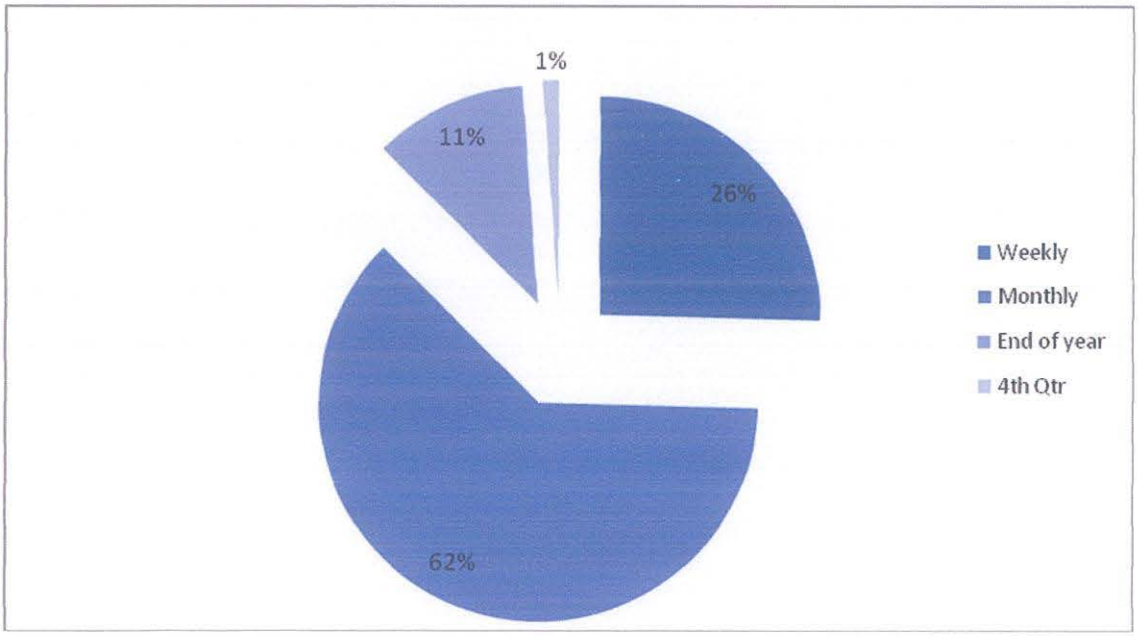
When asked how often customers are reminded in case of a default, the respondents had the following to say as summarized in the table below.

Table 19: Showing frequency of customer reminder

Responses	Frequency	Percent
Weekly	13	25.7
Monthly	40	62.9
End of year	6	11.4
Total	59	100.0

Source: primary data, 2013

Figure 18: A pie-Chart showing Frequency of customer reminder



62.9% which was the majority said customers are reminded monthly, 25.7% said they are reminded weekly while 11.4% said they are reminded at the end of the loan period, this is in an attempt to reduce the rate of loan default and at the same time avoid unnecessary excuses from borrowers that they were not aware of payment date.

4.4 Findings on how loans are recovered in Pride microfinance.

The study still wanted to examine how loans are recovered in Pride Microfinance. Different Questions were asked and responded to by different respondents in a bid to achieve the objective. The following are the findings

4.4.1 Use of legal means to enforce loan repayment

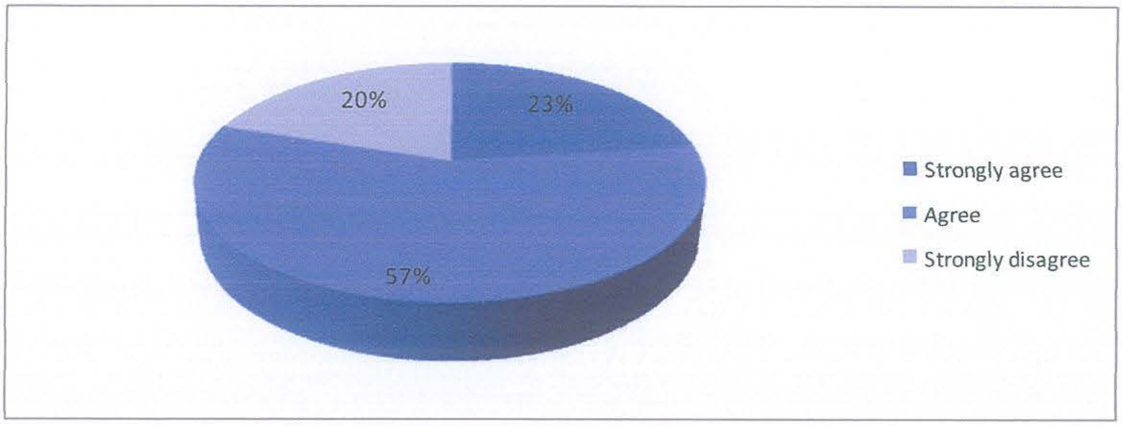
The respondents too were asked if the legal means are sometimes employed by the management when all other efforts failed. The following responses were recorded.

Table 20: Showing Employment of legal means in loan recovery

Responses	Frequency	Percent
Strongly agree	13	22.9
Agree	34	57.1
Strongly disagree	12	20.0
Total	59	100.0

Source: primary data, 2013

Figure 19: A pie-Chart showing Employment of legal means in loan recovery



The table above shows that majority of the respondents (57.1%) agreed that legal means were sometimes employed. 22.9 % strongly agreed while 20% strongly disagreed. Never the less it has continued to register an increasing low loan recovery rate despite the use of legal means this was attributed to management laxity to effect legal actions after due dates.

4.4.2 Penalties assessment

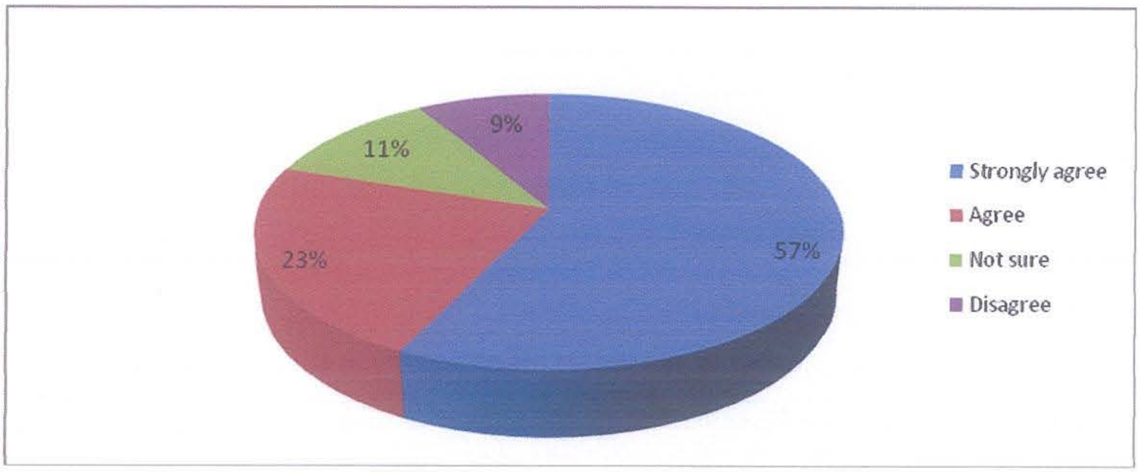
These are used in loan recovery procedures to recover the loan. The researcher also asked if the customers can face penalties if they do not pay the loan in time. The following table shows the responses.

Table 21: Showing Responses on use of penalties due to failure to pay in time

Response	**Frequency**	**Percent**
Strongly agree	34	57.1
Agree	13	22.9
Not sure	7	11.4
Disagree	5	8.6
Total	**59**	**100.0**

Source: primary data, 2013

Figure 20: A pie-Chart showing Responses on use of penalties due to failure to pay in time



The table above shows that the majority (57.1%) strongly agreed that customers face penalties if they do not pay in time. 22.9% agreed, 11.4% were not sure while 8.6% disagreed. The researcher found out that there was a penalty of 10% on any loan defaulter. However despite penalties, clients still default due to some other factors like deaths, sickness, business making losses and theft, thereby making chances to recover loans minimal

4.4.3 Respondent's view on whether Pride microfinance trains officers on loan recovery

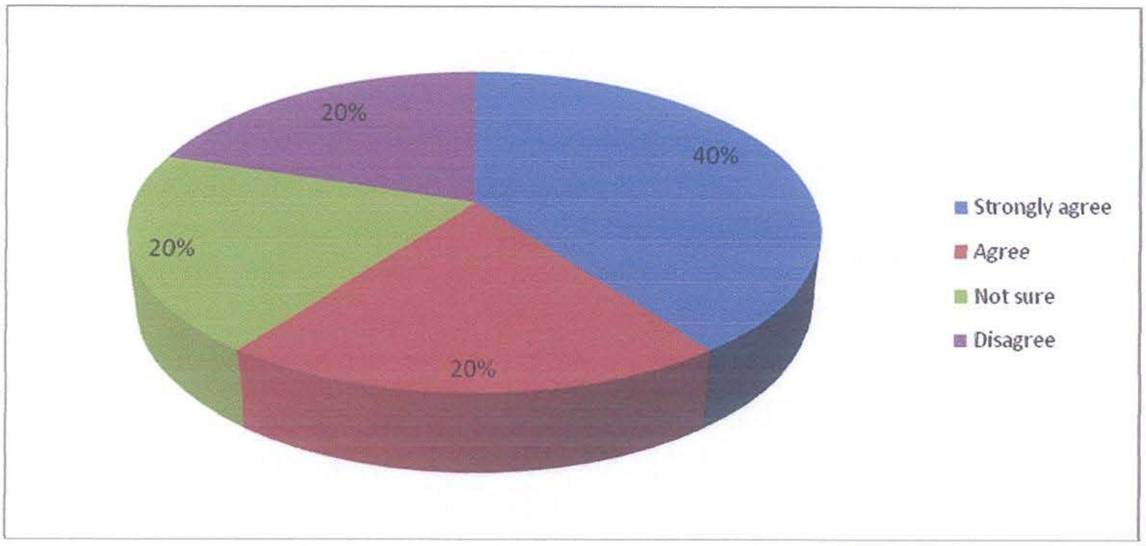
The respondents were also asked whether loan officers are trained to recover loans from clients. The respondents gave the following responses.

Table 22: Showing Training of loan officers in loan recovery

Response	Frequency	Percent
Strongly agree	23	40.0
Agree	12	20.0
Not sure	12	20.0
Disagree	12	20.0
Total	**59**	**100.0**

Source: primary data, 2013

Figure 21: A pie-Chart showing Training of loan officers in loan recovery



According to the table above, 40% of the respondents strongly agreed that the loan officers are trained while 20% of the respondents agreed; it was the same percentage as those who were not sure and those who disagreed. This was in a bid to effect proper implementation of credit policy management though the results contradicted this objective. This was attributed to limited and inefficient collection policies to influence timing of collections or payments coupled by management laxity to effect legal actions.

4.4.4 Assessment of the loan percentage recovered

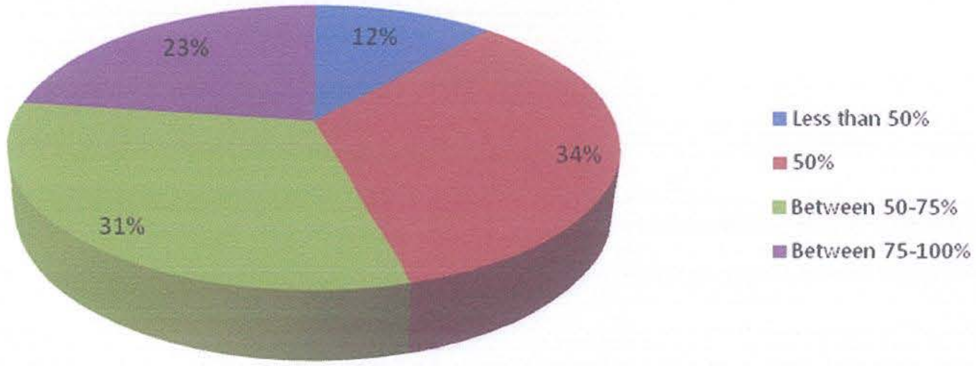
It was also equally important to ask the respondents the percentage of the loan disbursed to customers if it is paid back. The table below shows the responses.

Table23: Showing Responses to loan percentage paid back

Response	Frequency	Percent
Less than 50%	7	11.4
50%	20	34.3
Between 50-75%	18	31.4
Between 75-100%	14	22.9
Total	**59**	**100.0**

Source: primary data, 2013

Figure 22: A pie-Chart showing Responses to loan percentage paid back



From the table above, 34% of the respondents said that 50% of the loan is paid back. 31.4% Said that the percentage is between 50 and 75%, 22.9% said it is between 75 and 100% while 11% of the respondents said it is less than 50%. The findings above depict that loans are recovered in varying ways relying on the ability of borrowers.

4.4.5 Regulatory framework influence

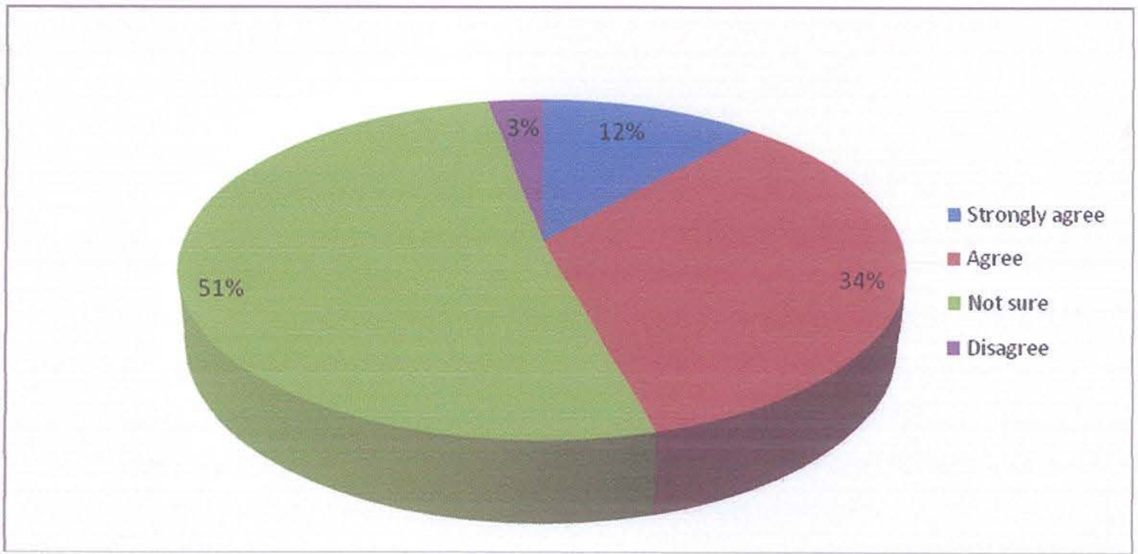
The researcher also asked whether the regulatory framework influences recovery of loans and the results were as below.

Table 24: Showing Influence of regulatory framework on recovery of loans

Response	***Frequency***	***Percent***
Strongly agree	7	11.4
Agree	20	34.3
Not sure	31	51.4
Disagree	2	2.9
Total	**59**	**100.0**

Source: primary data, 2013

Figure 23: A pie-Chart showing Influence of regulatory framework on recovery of loans



From the table above, 51.4% of the respondents were not sure whether regulatory framework influences repayment of loans and this was the majority. 34.3% agreed, 11.4% strongly agreed while 2.9% disagreed. It was seen that proper regulatory body could determine the obligation set by the body for example to suit their client's needs. When the government or the association of MFI in Uganda requires MFI to charge low interest rate (Fair) the blow is felt by this institution. Especially having extended the loan on a higher interest rate than the one recommended and in this case there is reluctance from customers to meet their loan obligations like monthly interest remittances inclusive.

4.5 Findings on the relationship between credit policy and loan recovery.

In finding out the relationship between credit policy and loan recovery of Pride MFI, the researcher performed a correlation analysis using SPSS. The use of variables such as credit standards, credit terms and collection efforts have tried to explain the picture on the effect of a stringent or weak credit policy on the loan recovery in Pride MFI. Loan recovery in this case was looked at in terms of ability to regain the loaned amount (principal) and its interest rate payment from borrowers. It was further confirmed by a test of hypothesis as shown below.

Table 25: The relationship between credit policy and loan recovery

Correlations		Credit policy	Loan recovery
Credit policy	Person correlation	1.000	0.722**
	Sig. (2. tailed)	.	.012
	N	35	35
Loan recovery	Pearson correlation	0.722**	1.000
	Sig. (2-tailed)	.012	.
	N	35	35
** Correlation is significant at the 0.05 level (2-tailed).			

Source: statistical package for the social scientists (SPSS) output.

The results revealed a significant positive relationship between credit policy and loan recovery (r = 0.722**, Sig. = .012). This implies that the more efforts that Pride channels towards favorable credit policies, the better the loan recovery it shall realize. The Pearson coefficient 'r' reflects the degree of linear relationship between the two variables, it ranges from negative one and positive one that is $-1<=r<=1$. If r=0, then, there is no relationship between the two variables, if r ranges between +/-0.1 to +/-0.4 the relationship is weak, if r ranges between +/-0.4 to +/-0.6 the relationship is moderate and if r lies between +/-0.6 to+/-0.9 the relationship is strong. Besides if r=+/-1 there is perfect relationship between the two variables. However, since the correlation coefficient (r=0.722**) lies between +/-0.6 to +/-0.9 the researcher concluded that credit policy and loan recovery are significantly related

4.6 Discussion of findings

The findings are discusses according to the research objectives

4.6.1 Existence of credit policies in Pride Microfinance institution.

The study revealed that most of the Pride clients have a positive perception about the existence of credit policies applied in order to manage exposures or risks of loan default. This is in compliance with the view made by Pandey I.M(1995) that lending institutions employ a combination of three decision variables namely credit standards, credit policy and collection efforts in order to have optimal recovery from debtors and diffuse loan default exposures.

The study was also supported by Girma (1996) who asserted that through such credit policies the institutions are enabled on how to analyze credit request from customers and provide them with a decision criteria for accepting or rejecting applications.

Ssewagudde (2000) also stressed that these credit policies provide parameters, define procedures and directives through which loans are disbursed.

4.6.2 How loans are recovered in Pride Microfinance.

The findings on how loans are recovered shows a fluctuating low recovery on loans for instance in 2010. Pride recovered 49% and lost 51% out of the money (loans) given out. This clearly shows how low and deteriorating recovery rate is rising. This is supported by still Pandey (1995) who asserts that return on equity indicates the performance and strength of an institution in maximizing profits to benefit the shareholders.

The study further showed substantial raise in default rate ranging from 5, 130,236 to 6, 651, 664 between 2008 and 2010. However, Brook (1993) maintains that loss ratios and return on loan portfolio performance ratios are the best indicators of financial performance among lending institutions, besides, if interest rate on borrowing is high, people will either not borrow or default.

Mugisha (1995) also commented that bad quality loans not only erode the institution's ability to recycle its financial resources but also threaten their survival. Nevertheless, the study revealed use penalties, legal proceedings, collaterals in order to check on loan default or late repayment of both the principal and weekly deposits. This is supported by Breth (1999); he stated that before deal is signed requirement like collateral, legal proceedings as penalties need to be thoroughly understood by both parties, that this provides risk protection and enable the lender to follow up the borrower in case of failure to honor the agreement. Similarly Myers (1998) stated that attaching collateral assets, court litigation ensure mandatory repayment of principal.

4.6.3 Relationship between credit policy and loan recovery

The finding of the study indicated a strong positive relationship between credit policy and loan recovery. According to the findings using Pearson correlation coefficient, the relationship was found to be significant with a correlation coefficient of 0.722 implying a strong relationship between the two variables. If Pride microfinance channels more efforts towards favorable credit policies, the better it will be in as regards loan recovery is concerned. Ssewagudde (2000) pointed out that if such policies are carefully formulated, administered from top and well understood at all levels of the institution, proper credit standards and elimination of excess risk will be achieved.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction
This chapter presents the summary discussions, conclusion and recommendations of the findings. The summary focuses on the findings in relation to objectives of the study that it intends to achieve, the summary is followed by the conclusion which is also based on the findings of the study and lastly the recommendations to improve on credit policy in Pride Microfinance institution.

5.1 Summary
5.1.1 Findings on existing credit policies in Pride Microfinance institution.
It was found out that the variables that define credit policy such as credit standard , credit terms and collection procedures or such efforts exists in the lending methodology used by Pride Microfinance institution. However, despite all the Pride microfinance efforts of attaching collateral security to secure the amount loaned out, this financial institution has continued to register a steady rise of loan default. The branch manager Gloria kizanye cited that the growing rate of deficit is as a result of inadequate application of the tools of credit policy management thus locking it into an increasing portfolio of non-performing assets. This clearly showed that credit systems were only designed on paper and lacked proper implementation.

Characteristics like age, marital status and education levels were investigated and found to be having a bearing on the client's understanding of the credit policies and recovery procedures.

5.1.2 Findings on how loans are recovered in Pride Microfinance institution.
Findings indicated that loan default increased steadily in 2008 to 2010 (38%-51%) of nonperforming assets respectively out of (62%-49%) of performing assets, besides weekly deposit are made to avoid the default.

The interest rate of 36% per year charged on loans was too high which reduced the client's capital; businesses are ineffectively conducted thereby leading to poor loan recovery rate.

However collateral is the most considered factor for purposes of credit extension, several tactics were used by the institution to ensure payback, most important was legal action or threat to legal.

5.1.3 Relationship between credit policy and loan recovery

Findings indicated there is a strong positive relationship between credit policy and loan recovery represented by a correlation of 0.722 implying that the more efforts put on credit policy, the higher the loan recovery made concluding that the two variables are significantly related.

5.2 Conclusion

The study was about credit policy and loan recovery in Pride Microfinance. It aimed at identifying better approaches to credit policy management and improve efficiency in loan recovery. For instance the study revealed that credit officers carried out close monitoring and loan management. However, clients' said that credit officers lacked customer care skills; they were arrogant and uncooperative during execution of their duties, clients reported embezzlement of funds by loan officers. From the findings, the researcher concluded that credit policy has a significant impact on loan recovery of Pride microfinance; therefore, it should be very selective in choosing credit policies which will yield desired results and fit in its resources and at the same time choose credible and trained officers to carry out monitoring and supervision of loaned amount.

The collection procedures were carried out mostly by personal visits by loan officers on weekly basis and during these visits meetings are organized, clients were not in favor of weekly meetings because it interfered with their businesses. The clients were required to make weekly deposit in order to avoid defaults. Clients were not happy with the short loans given out because it affected their repayment in time.

5.4 Recommendations

To make clients appreciate the credit policies and recovery procedures. Pride microfinance has to educate the clients and also listen to their grievances. Education background was found out to have an impact on the client's understanding of policies and recovery procedures.

The interest rate should be reduced from 36% per year at least 24% like other lending institutions. The grace period should be extended to at least a month from when loan should be repaid

The loan amount or size should at least be increased from 700,000-10,000,000 million depending on the financial need and capacity to repay

The payback period was found to be short such that borrowers were not able to repay on time especially those clients that invest in long-term businesses like real estates. The weekly deposits affected the payback period, the institution should either extend the payback period from one year to at least two years or extend weekly deposit to monthly deposits so as to increase the percentage of payback from 50%-75% to 75%-100%. Pride must look into scrutinize the customers who borrow loans thoroughly before loan is issued.

5.5 Suggestion areas for further research.

The research has not been exhaustive and conclusive enough due to the limited resources at the disposal of the researcher. However, areas that required further research are like whether the micro finance institutions (MFI) have helped in improving business of their clients and the implication of giving out long-term loans to clients.

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APPENDICES

APPENDIX I: RESEARCH INSTRUMENTS

APPENDIX A: QUESTIONNAIRES

Dear respondents:

This questionnaire is purely for academic purpose, designed for obtaining information about the relationship between credit policy and loan recovery in Pride Microfinance Kisoro. This research is a requirement for the award of a degree of Bachelor of Business Administration of Kampala International University and therefore the information obtained will be treated with utmost confidentiality

A. Personal Data

1. Gender (Tick where appropriate)

Female	Male

2. Marital Status

Married	Single	Widow	Divorced

3. Age

Under 25	25-35	35-45	Above 45

4. Level of Education

Primary	Diploma	Degree

Other (specify)……………………………..

B. Data relating to existing Credit Policies in Blue Microfinance

i) <u>Credit Standards</u>

1) Pride considers client's characters before extending a loan.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

2) Pride considers customer's collateral before extending the loan to them.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

3) To qualify to credit, prevailing economic conditions are considered

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

4) To access capital it considers the customer's financial status in order to loan to them.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

5) Pride assesses customer's capacity to pay back in order to qualify for the loan.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

6) Pride considers the trustworthiness of customers before extending a loan to them.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

ii) Credit terms

1. Are customers comfortable with the loan period that Pride extends to them?

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

2. The loan size that Pride extends to clients is good

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

3. What is the length of the period?

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

4. What loan amount do clients ask for?

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

5. How do you describe the interest rate charged by Pride MFI?

Very high	High	Fair	Low	Very low

iii) Collection efforts

1) Pride requires clients to make weekly deposit in order to avoid default.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

2) Customers are reminded by Pride in case of a default

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

3) Pride uses the following methods to communicate and remind its clients.

	Very common	Common	Not common	No opinion
Letters				
Telephone				
Personal visit				

4. Sometimes management uses legal means when all other efforts have failed.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

C. <u>Data relating to how loans are recovered in Pride MFI Kisoro</u>

1. The regulatory framework influences customers to repay the loan.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

2. Can customers face penalties if they don't pay the loan in time?

Less than 50%	50%	Between 50-75%	Between 75-100%

3. Of the loan disbursed to customers, they pay back

Less than 50%	50%	Between 50-75%	Between 75-100%

4. Payment of loan in time in Pride is determined by the reminders to customers.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

5. Recovery of loans is influenced by interest rates charged on clients.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

6. The loan period given to customers affect loan recovery in Pride MFI Kisoro.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

7. The loan amount extended to customers affects the loan recovery in Pride.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

8. Loan officers in Pride are trained to recover loans from clients.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

D. <u>Data relating to relationship between credit policy and loan recovery</u>

1. Pride MFI Kisoro credit policy is set in order to recover the loan.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

2. How do you rate credit policy and loan recovery in Pride from 2008-2010?

Very high default	High default	Moderate	Low default	Very low default

3. Is there any direct relationship between credit policy and loan recovery?

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

a. What problems do customers face in repaying the loan?

(i) ....

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

b. What steps should Pride MFI Kisoro take in order to improve on its credit policy and ensure high loan recovery?

(i) ……………………………………………………………………………………………………
(ii)……………………………………………………………………………………………………
(iii)……………………………………………………………………………………………………

c. Customers borrow from Pride at the same time from other lending institutions

A. Yes B. No

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

……………………………………………………………………………………………………

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

……………………………………………………………………………

APPENDIX B: INTERVIEW GUIDE

1. What do understand by term credit policy?
2. How has credit policy led to the success of micro finance institutions?
3. What are the existing credit policies in Pride micro finance Kisoro?
4. How are loans recovered in Pride micro finance Kisoro?
5. What is the relationship between credit policy and loan recovery?
6. How would want credit policies in Pride micro finance Kisoro be improved?
7. What are the challenges faced by Pride micro finance Kisoro in its credit policies?
8. Any additional information?

Thank very much for your valuable time.

APPENDIX 11

TIME FRAME OF THE STUDY

ACTIVITY	**TIME IN MONTHS, 2013**			
	1	**2**	**3**	**4**
DISSERTATION WRITING August & October 2013	✓			
DATA COLLECTION Early November 2013		✓		
DATA ANALYSIS Late November 2013			✓	
SUBMISIION Early December 2013				✓

APPENDIX 111

ITEM: BUDGET FOR THE STUDY

ACTIVITY	**AMOUNT IN UGANDAN SHILLINGS**
TYPING AND PRINTING	50,000/=
LITERATURE COLLECTION	200,000/=
BINDING	100,000/=
ACCOMADATION	200,000/=
MEALS	100,000/=
TOTAL	**650,000/=**