THE EFFECT OF CREDIT MANAGEMENT ON THE SUSTAINABILITY OF FINANCIAL INSTITUTIONS IN CENTENARY RURAL DEVELOPMENT BANK

BY

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A RESEARCH REPORT PRESENTED TO THE FACULTY OF BUSSINESS AND MANAGEMENT IN THE PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE BACHELOR OF BUSSINESS ADIMINISTRATION IN KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

I, **TUSINGWIRE TRIPHIL** declare that the material in this book has been done entirely by my effort and has not been presented else where for any academic qualification.

Where other people's works have been used, references have been provided. Its is in this regard that I declare this work originally mine and hereby present it in partial fulfillment of the requirement for the award of the Bachelor of Business administration degree.

SIGNED

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APPROVED BY

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MR MUYANJA PETER (SUPERVISOR)

DATE 06/09/08

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DEDICATION

This work is affectionately dedicated to my parents for their support patience and understanding during this period of study not forgetting all those who constantly wished me success.

ACKNOWLEDGEMENT

My gratitude first goes to God who has given me the strength and courage to undertake this research.

I also owe a lot of appreciation to all those who assisted me in carrying out this research. I am grateful to my supervisor Mr. Muyanja Peter who tirelessly went through my work and inspired me to dig deeper into the core of the matter. His kind criticism, patience and understanding, assisted me a great deal.

I am indebted to my friends who gave me encouragement in time of difficulties. Thanks also go to all those lecturers who impacted professionalism into my work.

I wish to thank my family for their love, financial support and inspiration during my stay in Kampala International University (K.I.U).

Finally, I would like to thank all my respondents and those within a short notice without which this work would not have been possible.

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ABBREVIATIONS

BOU - Bank of Uganda

CERUDEB -Centenary Rural Development Bank Ltd.

ERP - Economic Recovery Program

IMF - International Monetary Fund

MCC- Microfinance Competence Center

MMC- Mindanao Microfinance Council

MF - Micro finance

NGOs - Non-Governmental Organizations

WWB- Women's World Banking

ABSTRACT

The purpose of this study was to investigate the effect of credit management on the sustainability of financial institutions in CERUDEB-Centenary Rural Development Bank Ltd.

The specific objectives of the study were to evaluate the relationship between pre-credit disbursement process and financial institutions sustainability, to establish the relationship between credit terms and clients' needs' satisfaction and to evaluate the relationship between credit delivery and repayment process.

The methods used for data collection were questionnaires to the staff members of pride micro finance and focus group discussions for clients.

In chapter four, the findings were presented and interpreted in relation to the study objectives and research questions. While linking to the existing literature, results included demographic characteristics, frequency and percentages. Based on the findings it was observed that there is significant relationship between credit management and sustainability of financial institutions.

In chapter five, development of solutions to the problem, summary of the findings and conclusions were attempted. The findings suggested recommendations on areas pertaining to capacity building programs to the firm's man power widening the scope of the amenity among others.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

The first banks were probably the religious temples of the ancient world, and were probably established sometime during the 3rd millennium B.C. Banks probably predated the invention of money. Deposits initially consisted of grain and later other goods including cattle, agricultural implements, and eventually precious metals such as gold, in the form of easy-to-carry compressed plates.

The fourth century B.C. saw increased use of credit-based banking in the Mediterranean world. In Egypt, from early times, grain had been used as a form of money in addition to precious metals, and state granaries functioned as banks

According to Ledgerwood (2001), prior the 1980s government agencies were the predominant avenue for providing productive credit to those with no previous access to credit facilities. Their services had and still have limited access, because they need collateral as a requirement for getting a loan and the transaction costs are so high.

Governments and international donors assumed that the poor required cheap credit and saw this as a way of promoting agricultural production by small landholders. In addition to providing subsidized agricultural credit, donors set up credit unions inspired by the Raiffeinsen model developed in German in 1864.

In Uganda, the health of the financial sector has been impaired by political and social turmoil. Kasekende (2004) indicates that the troubles of the 1970s and early 1980s produced a severe contraction of Uganda is monetary economy, a decline in financial intermediation and a loss of financial depth.

In addition to that, the concentration of financial services lay in the hands of a few commercial banks, of which two banks; Uganda commercial bank and cooperative bank controlled 70% of the banking business. During the same year, the two big banks mentioned above became insolvent, and significant risks posed by a weak banking sector began sector began to emerge.

In order to address weaknesses in the economy and the financial sector in particular, the government of Uganda embarked upon the economic recovery program (ERP). It put in place to improve the incentive structure and business climate so as to promote savings, mobilization and investment as well as the rehabilitation of the country's economic, social and institutional infrastructure.

The Centenary Rural Development Bank Ltd. (CERUDEB) is a commercial bank that offers economically-disadvantaged Ugandans a full range of appropriate financial services including savings, credit and funds transfer services. (CERUDEB, 2007)

The origins of the Bank stem from an initiative of the Uganda National Council of Lay Apostate in the early 1980's designed to promote the provision of a range of appropriate financial services to the rural population of Uganda. In 1983 the Centenary Rural Development Trust was registered as a financial institution and operations commenced in 1986. The Trust was transformed into a commercial bank in 1993. (CERUDEB, 2007)

Given the above background, and the need to create viable institutions, and credit being an essential financial service to finance institutions, it ought to be managed in a business approach that will keep credit institutions sustainable.

1.2 Statement of the problem

The Centenary Rural Development Bank Ltd (CERUDEB) was started to help people come out of their financial burdens. How ever the credit management of this bank and many others of the same nature has been questionable as shown by a high drop out rate of clients, a high delinquency rate that has even forced the bank to jail some clients, poor financial management that is prone to risk, continued relevance on donors and minimal operational efficiency below 100% (Duursma, 2001). This therefore raises concern as to whether Centenary Rural Development Bank Ltd (CERUDEB) will fulfill its campaign, and even become sustainable so as to meet the future demands of their clients. Therefore there is need to examine credit management and its effects on the sustainability of financial institutions, hence the need for investigation.

1.3 Objectives of the study

1.3.1 General objective

The general objective of the study was to examine the relationship between credit management the sustainability of financial institutions in Uganda.

1.3.2 Specific objectives

1 To evaluate the relationship between pre-credit disbursement process and financial institutions sustainability.

2 To establish the relationship between credit terms and clients' needs' satisfaction.

3 To evaluate the relationship between credit delivery and repayment process

1.4 Research questions

1 What is the relationship between pre-credit disbursement and financial institutions sustainability?

2 What is the relationship between credit terms and clients' needs' satisfaction?

3 What is the relationship between credit delivery and repayment process?

1.5 Scope of the study

The study was limited to only registered financial institutions in Uganda and looked at Centenary Rural Development Bank Ltd (CERUDEB) headquarters located at Entebbe road Kampala as the case study.

1.6 Limitations of the Study

The researcher encountered the followings problems:-

The bureaucracy within some organizations since the study at certain point required review of organizational documents. To minimize this problem, the researcher sought permission from the authority of the organizations and also explained to the relevant officers the purpose of the research.

Since top management staff, with busy schedules were part of the respondents, the researcher did not get much time from them as anticipated. This challenge was solved by seeking appointments with them at their convenient places and time

1.7 Significance of the study

This study is of great importance both at the macro and micro level.

At the macro level, informed decisions in policy formulations and in the building of the institutional regulatory framework might be made basing on the findings from research.

At the macro level, a number of financial institutions may adopt the recommendations put forth, and use the findings to address issues pertaining credit management so as to attain sustainability.

The study will also open up areas for further research, for example the effect of growth on the sustainability of financial institutions.

1.9 Theoretical Framework

CREDIT MANAGEMENT

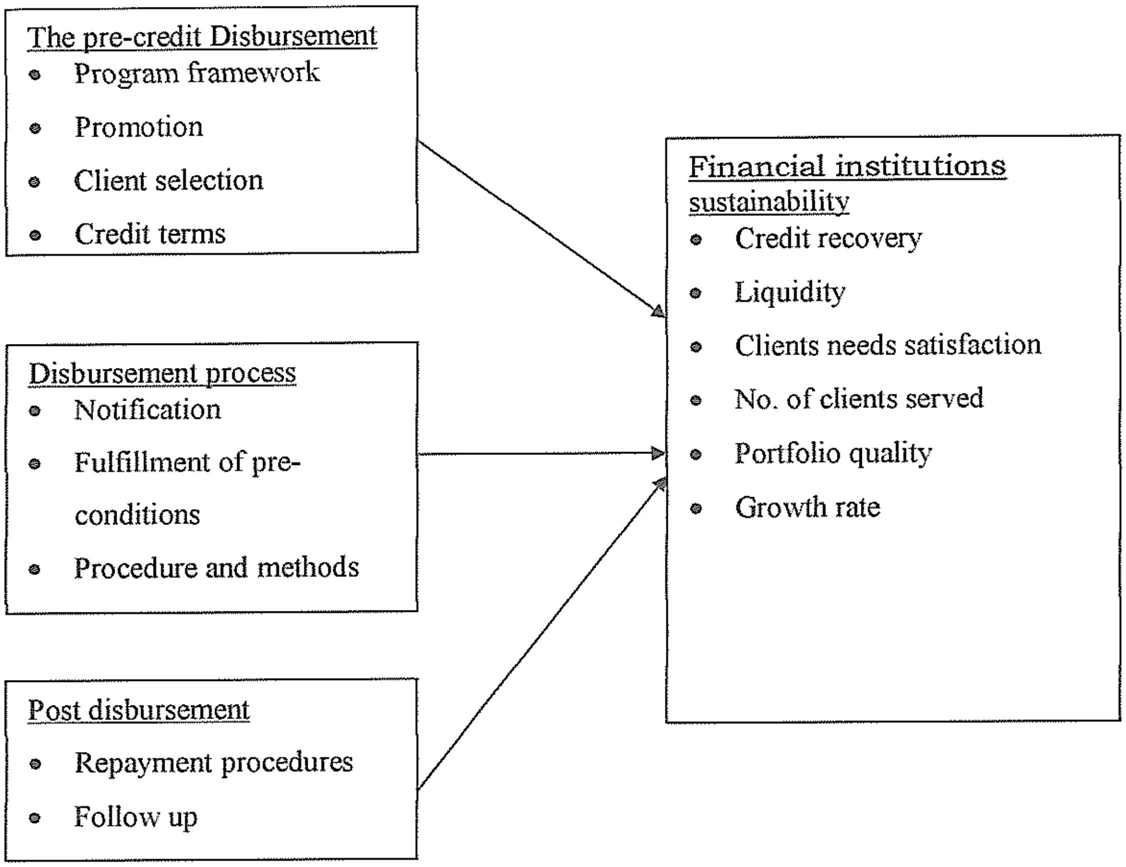


Figure 1.1: the researcher's own conceptual framework

In this case credit management is the independent variable and is broken down into three processes which are the pre-credit disbursement, the disbursement and post disbursement process. The dependent variable is financial institutions sustainability with factors measuring it outlined below it. The way credit management is handled will have an impact on financial institutions sustainability by affecting any of the indicators of sustainability.

CHAPTER TWO

LITERATURE REVIEW

2.1 The pre-credit Disbursement process

This is the period before money is lent out to clients. It entails all activities done to determine whom to lend, what to lend and how to lend effectively before credit is given to clients. The design at this stage has a strong bearing on the success of the micro-credit institution. Therefore management of activities should be stringent. The activities include the program frame work, promotion and client selection. (WWB, 2007)

2.1.1 The program framework

This comprises activities done at the designing of a financial institution. In the design, most financial institutions replicate successful one else where and use the individual lending and the peer lending methodologies to deliver services to clients (Water field, 2006). Where as replication is good, Water field (2006), emphasizes that programs should not be replicated, but rather should be appropriately designed for every context. "if replication means doing something in the same way as it has been done else where, regardless of local circumstances, it is almost certainly doomed to failure, but there is now a wider appreciation of the need to design an appropriate credit delivery system for every market"

In light of the above, Harper 2003 emphasizes that credit is a service, and it has to be marketed like any other. It is easy but probably wrong merely to imitate what is done in a particular model case.

WWB, 2007 outlines a number of issues to be considered in the program framework. They include the mission and objectives the target group to serve, defining core products and services, staffing, mutual stake in success financial means and organization means. According to WWB, these lay a strong foundation in the success of a financial institution.

2.1.2 Promotion

When the program frame work is in place, the financial institutions needs to think about how to let prospective clients know about their services. New financial institutions will have a particular need to advertise their services to their target clients. Once financial institutions begun to make loans and mobilize savings, clients themselves become promoters and promotion largely takes place by word of mouth. "A strong program offering efficient services to its clients is the best kind of promotion" (WWB, 2007).

MMC, 2001 emphasizes that promotion in financial institutions is largely by word of mouth and this is by speaking in public meetings or directly in the financial institutions offices. Once on ground and offering the efficient services the clients themselves become promoters. When promoting "do not create expectations that can not be met because this results in loss of credibility and always plan your promotion carefully in order not to create business you can not handle" MCC 2001.

Mutual et al (2005) further note that financial institutions use a variety of means to promote their credit programs. They include; news paper advertisements, sports on television, videos, information packets, including brochures, public meetings, door to door and church services. It is important that the means chosen to reach potential clients is appropriate.

2.1.3 Clients selection

There is a direct relationship between successful lending and appropriate client selection and loan analysis. A low payment rate is as likely to be a result of poor client selection on the part of the financial institutions and on willingness to repay on the part of the clients. (MCC, 2001)

There are two principle elements of the client selection process. The collection of information necessary to make a loan decision, and the analysis of this information. WWB, 2007 notes that the key to any effective client selection process is a good understanding of the client group and its needs, and tailoring of the process to this client group.

2.1.4 Credit terms

Terms are conditions offered or agreed to by some body, Ashornby, 2005. In this case, Holt 2007, indicate that credit institutions must take into account credit conditions which must be agreed upon by clients before lending.

Water field and Duval, 2006 indicate that there are four key terms to be taken into account in the structuring of loans. The loan period, the loan size, loan security and the effective interest rate.

2.2 Credit delivery and payment process

The key to responsive, successful programs is rapid, simple and efficient procedures in credit extension.(WWB,2007). Poor women entrepreneurs operating in the informal sector applying for a loan need it now-not several months from now when the financial institutions completes a lengthy and involved loan processing procedure. These procedures should be carefully established and the level of staffing should be adequate so that clients receive a prompt response to their request. Successful financial institutions are those that are able to disburse a loan with in a few days of the application.

Presto, 2005 notes that credit delivery and payment process involves two categories of methodologies. The individual lending where loans are given to individual guaranteed by collateral and the peer group lending where loans are given via groups who secure loan payments. The individual lending methodology necessitates the credit officer to have frequent and close contact with the individual clients, while in the peer group lending methodology the functions typically performed by the credit officer or agent are delegated to the borrowing group.

However in both methodologies, WWB, 2007 notes that the same steps are followed and they include notification, calculation of repayment schedule, fulfillment of preconditions and then disbursement.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter explains the methods that the researcher used to select the geographical areas, from which, research carried out and methods of selection of respondents. It also explains the methods that will be used to collect process and analyze data.

3.2 Research design

The study used both qualitative and quantitative research design. Given the duration of the study, the researcher felt that there was a deeper penetration of the problem if a case study was used. This is because a case study examined one organization that is Centenary Rural Development Bank Ltd (CERUDEB), which represents others in Uganda. It examined the trends in Centenary Rural Development Bank Ltd (CERUDEB) for a period of five years and explained the effect on credit management on the sustainability of financial institutions using findings from Centenary Rural Development Bank Ltd (CERUDEB).

3.3 Study population

The study was carried out at Centenary Rural Development Bank Ltd (CERUDEB). This is because pride is a registered microfinance institution in Uganda and has branches all over the country. In addition to that it has a big client base. This gave the study a broad coverage and will make it representative enough.

3.4 Sample size and selection

The respondents were drawn from all staff of Centenary Rural Development Bank Ltd (CERUDEB) and their clients. The respondents fell in the categories of top management, direct-service providers (staff) and service beneficiaries (clients) as illustrated by table 3.1 below;

Table 3.1: Categories of Sample

Categories of expected Respondents	Population	Sample
Top management	08	4
staff	18	6
Clients	120	30
Total	146	40

3.5 sources of data and data collection methods

This study used both primary and secondary data. Primary data was collected using questionnaires, which were given to managers and branch staff. These were self administered since the respondents were all literate. For clients, focus group discussions were held using an interview guide.

In carrying out research the researcher first got a release letter from the course administrators which she took to the organization under study, that is Centenary Rural Development Bank Ltd (CERUDEB). She was then given permission by the authority to access information from the organization.

Document analysis was also done as a means of secondary data. Reports, training manual and profit and loss statements for the period under study were read and the required data collected from them.

3.6 Data processing and analysis

This involved three sets of activities which included editing, coding and frequency tabulations. Editing was done by looking through each of the field questionnaire ascertaining that every applicable question had an answer and all errors eliminated for the completeness, accuracy and uniformity.

The researcher then proceed and coded various responses given to particular questions that lack coding frames, she then established how many times each alternative response category was given an answer using tally marks which later were added up. Data was then presented in frequency tabulations rendering it ready for interpretation. Quotations and field notes made from interviews were also included.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND DISCUSSION OF THE FINDINGS

4.1 Introduction

This chapter is a presentation, interpretation and discussion of the field results. Results are presented in tables and in form of frequency counts and percentages.

4.2 Demographic Characteristics of Respondents

4.2.1 Sex of Respondents

During the survey 60 male respondents (67%) were given the instruments, while 30 female respondents (33%) were given the instruments. This selection was aiming at fair gender coverage. Out of 90 instruments distributed, 44 were returned by males giving 78.6% while females returned only 12 which is 21.4% as illustrated by table 4.1 below.

Table 4.1: Distribution of the Respondents by Sex

Sex	**Respondents**	**Percentage**
Males	44	78.6
Females	12	21.4
Total	**56**	**100**

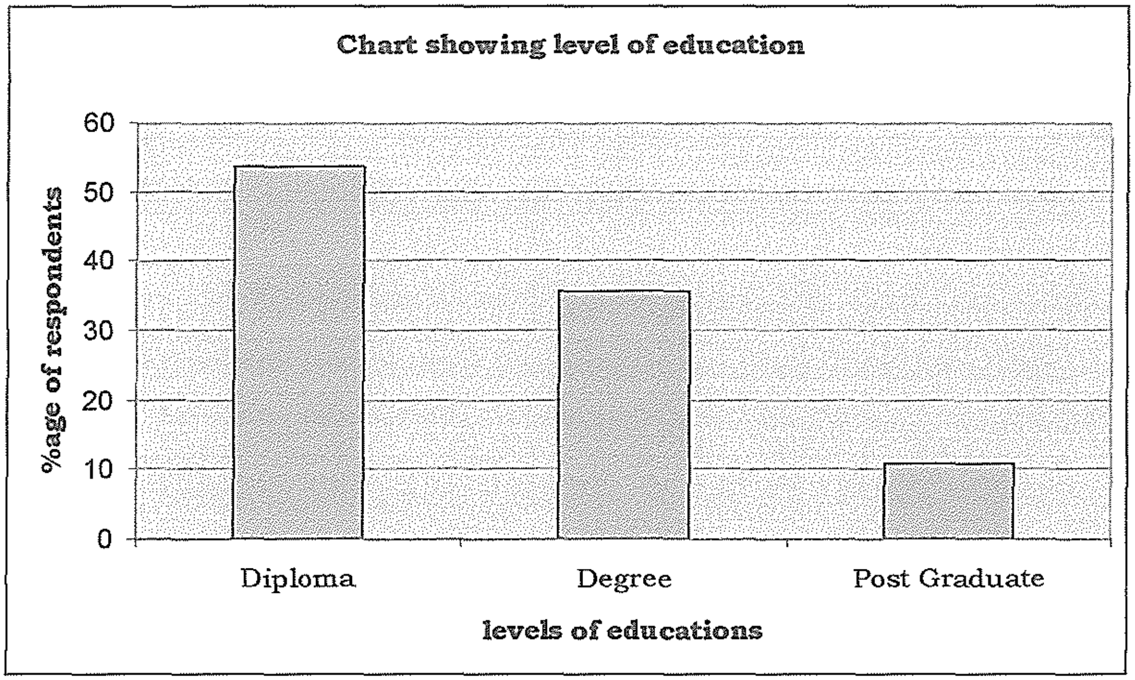
Source: Fieldwork survey (2008)

4.2: Level of Education

Level of education	**Respondents**	**Percentage**
Diploma	30	53.6
Degree	20	35.7
Post Graduate	6	10.7
Total	**56**	**100**

Source: Fieldwork survey (2008)

Figure 4.1: Showing Level of Education



Out of the total number of respondents who responded 30(53.6%) were Diploma holders, 20(35.7%) Degree and 6 (10.7%) respondents were post Graduate Holders. This only meant that, the service providers were qualified and knew what their job required.

Table 4. 3: Shows Years of service in the company

Level of education	**Respondents**	**Percentage**
0-2	20	35.7
3-5	30	53.6
6-8	6	10.7
Total	**56**	**100**

Source: Fieldwork survey (2008)

The majority of the service providers 30(53.6%) had spent between two to five years on the job. This means most service providers had the experience needed to serve people.

Table 4.4: The mission of the organization is clear and related to the credit scheme

Response	Respondents	Percentage
Agree	30	53.6
Disagree	20	35.7
Not sure	6	10.7
Total	**56**	**100**

Source: Fieldwork survey (2008)

Out of the total number of respondents who responded to the question 30(53.6%) agreed with the statement that the mission of the organization is clear and related to the credit scheme. 20(35.7%) did not agree with the statement while only 6(10.7%) respondents were not sure whether actually that the mission of the organization is clear and related to the credit scheme.

Table 4.5: Product offered suits the target group being served

Response	Respondents	Percentage
Suits	36	64.3
Does not suit	20	35.7
Total	**56**	**100**

Source: Fieldwork Mukono District (2008)

The respondents interviewed agreed with the statement that the product or the policy on credit management suits the target customers they are serving 36(64.3%). Only 20 (35.7) of the respondents disagreed.

Table 4.6: The credit policy requires that borrowers are savers

Response	Respondents	Percentage
True	20	35.7
False	36	64.3
Total	**56**	**100**

Source: Fieldwork survey (2008)

On the question whether the credit policy only favors only savers the respondents where not on agreement with the statement 20(35.7%). They stressed that the credit policy favors even those who do not save with the micro finance so long as they agree with the terms of credit.

Table 4.7: This company your employer of choice

Response	**Respondents**	**Percentage**
Yes	56	100
No	-	-
Total	**56**	**100**

Source: Fieldwork survey (2008)

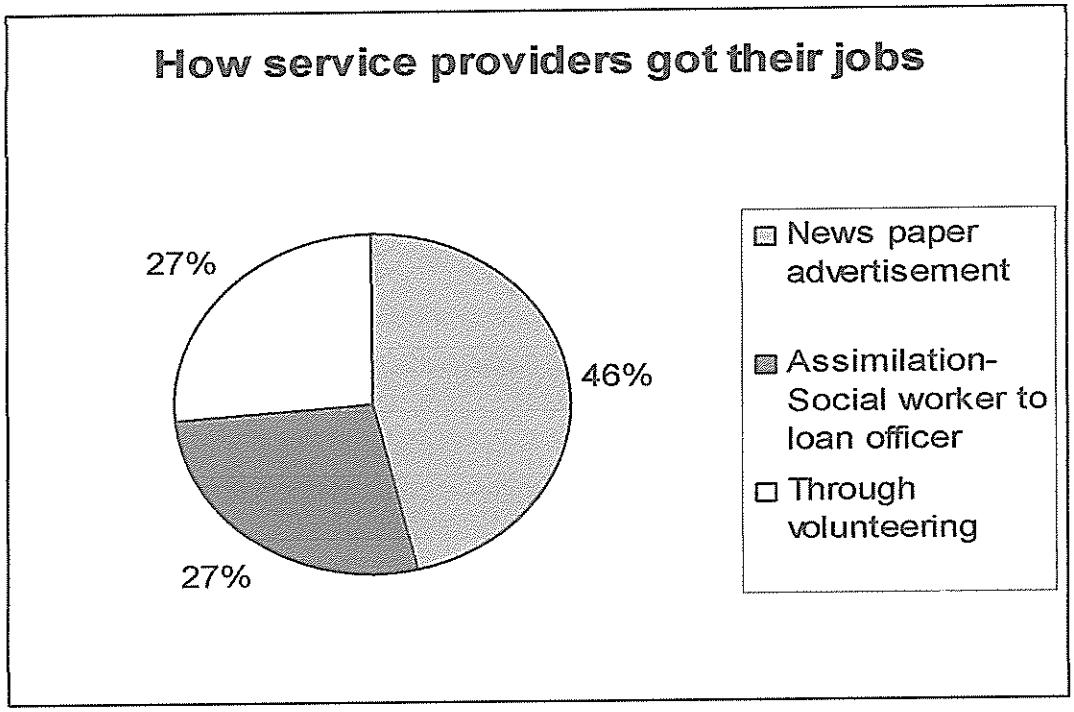
All the service providers said that Centenary Bank is their employer of choice 56(100%). This implies that all the service providers love their work and look committed to doing there job.

Table 4.8: How You Got the Job

Response	**Respondents**	**Percentage**
News paper advertisement	26	46.4
Assimilation-Social worker to loan officer	15	26.8
Sourcing	-	-
Through volunteering	15	26.8
Total	**56**	**100**

Source: Fieldwork survey (2008)

Figure 4.2: How service providers got their jobs



From the table and chat above, the majority of service providers got their jobs through news paper adverts 26 (46.4%). Another good number got their jobs through Assimilation-Social worker to loan officer and through volunteering 15 (27%).

Table 4.9: Recruiting a friend if one is a human resource person

Response	Respondents	Percentage
Yes	56	100
No	-	-
Total	**56**	**100**

Source: Fieldwork survey (2008)

All the respondents said they would not recruit a friend if they were in human resource person of the organization. This means that all the service providers are honest. This is good for any organization.

Table 4.10: Determining Who to Lend

Response	Respondents	Percentage
The credit officer	-	-
The group	-	-
Both the credit officer and the group	10	17.9
The loan review committee	46	82.1
Total	**56**	**100**

Source: Fieldwork survey (2008)

Table 4.8 above shows that it's normally the loan review committee 46 (82.1%) which takes the decision about who to lend money. How ever some respondents pointed out that in some circumstances both the credit officer and the group can decide who to lend money 10 (17.9%). It was how ever agreed that it's not the policy of the organization for other people apart from the loan review committee to decide on the person to lend money. Other groups of people only help the loan review committee to take an informed decision.

Table 4.11: Determining the delivery of services in the organization

Response	Respondents	Percentage
Clients	-	-
The group	-	-
Management	56	100
Board of Directors		
Staff		
Total	**56**	**100**

Source: Fieldwork survey (2008)

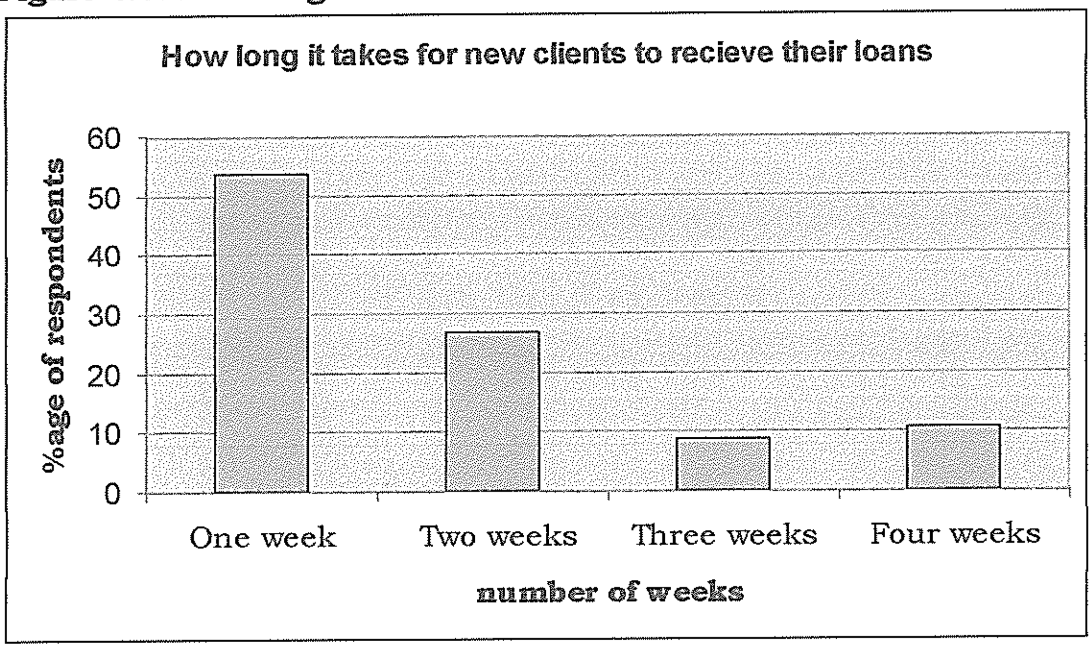
All the respondents (100%) were of the view that it's only management that determines the delivery of service in the organization. This is done after the necessary consultation with all the stake holders in the organization

Table 4.12: How long it takes to prepare new clients before lending

Response	Respondents	Percentage
One week	30	53.6
Two weeks	15	26.8
Three weeks	5	8.9
Four weeks	6	10.7
Total	**56**	**100**

Source: Fieldwork survey (2008)

Figure 4.3: How long it takes for new clients to receive their loans



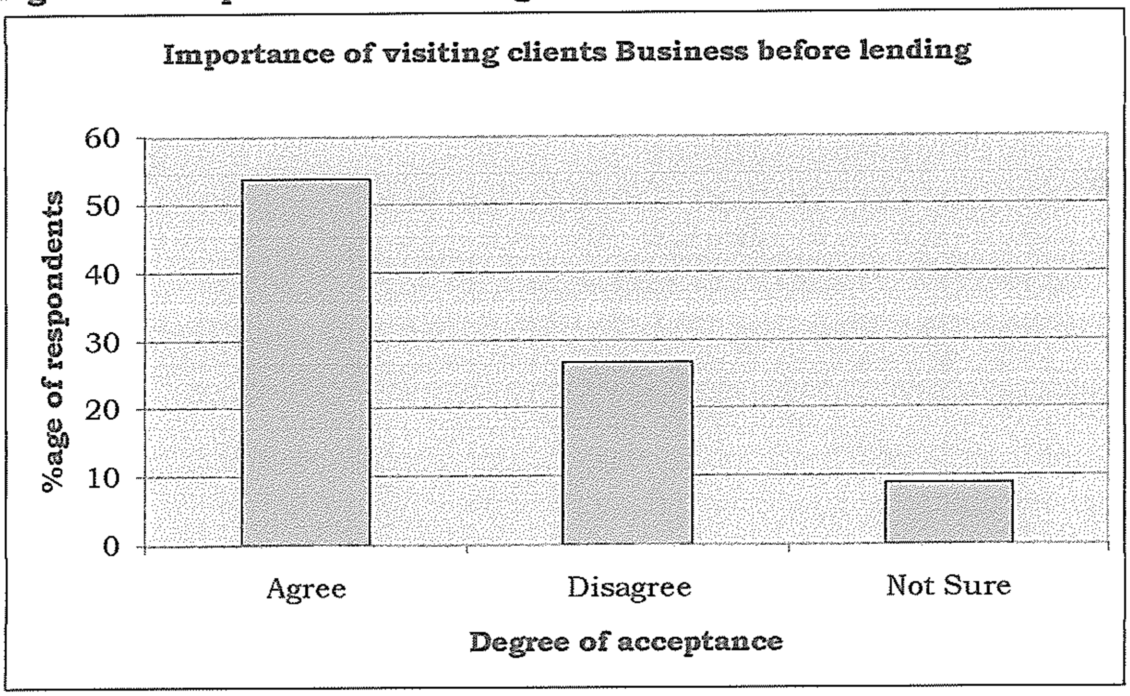
From table 4.9.1 above it is evident that most respondents thought that it takes only one week for a client to receive a loan 30(53.6%). 15(26.8) said that it takes a client two weeks to process their loan while 11% of the respondents said it takes more than two weeks to process a clients loan. When asked why some of the respondents said to process some body's loan depends on the amount one wants. This means if a client wants a lot of money it could take him/her more weeks before his loan is processed because of the wide consultations which are made about his repayment programme.

Table 4.13: Importance of visiting clients' businesses before lending

Response	Respondents	Percentage
Agree	30	53.6
Disagree	15	26.8
Not Sure	5	8.9
Total	**56**	**100**

Source: Fieldwork survey (2008)

Figure 4.4: Importance of visiting clients Business before lending



When asked on the importance of visiting a clients business before lending; table 4.9.2 shows that 30(53.6%) of the respondents agreed that it's important while 15 (26.8%) of the respondents did not think its necessary. 5(8.9%) how ever were not sure since some customers are honest about there business dealings were as others do not want to disclose what they do but it doesn't necessarily mean they are not able to pay there debts in time.

Table 4.14: How long it takes to process a loan for repeat clients

Response	Respondents	Percentage
Less than a week	40	71.4
A week	16	28.6
Over a week	-	-
Total	**56**	**100**

Source: Fieldwork survey (2008)

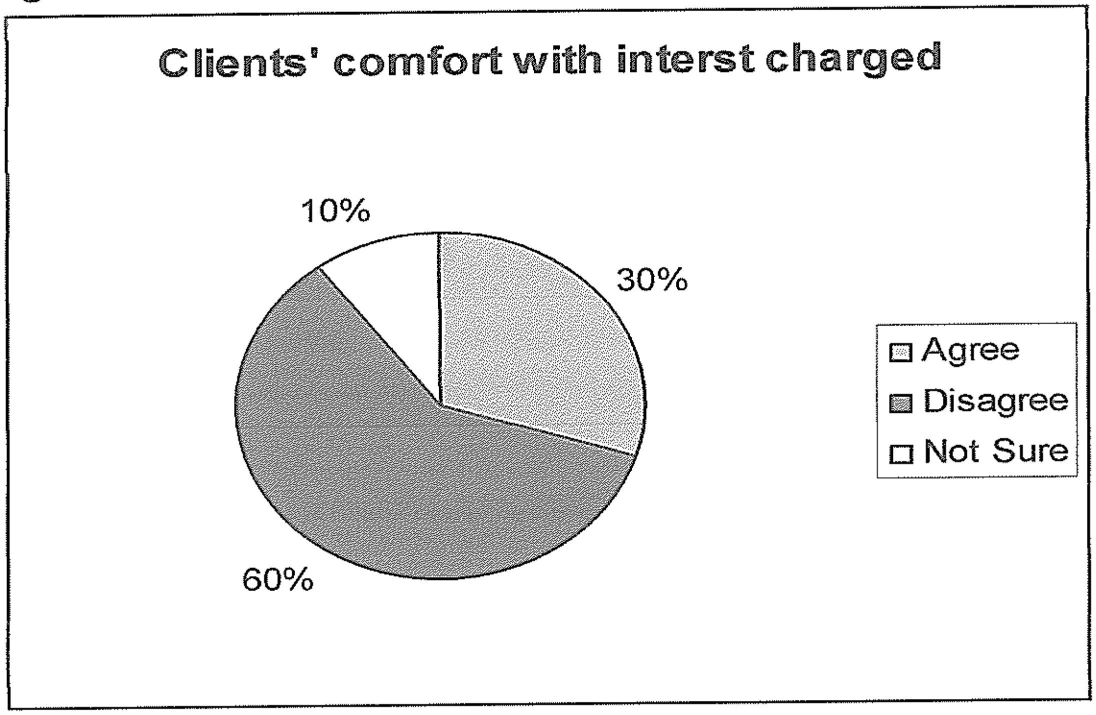
From the above, it's evident that repeat client processing of loans takes a shorter period of less than one week due to their reputation in loan payment ,capability to pay, credit worthiness a good capital base due to proper utilization of the previous loan. The 28.6% indicate that they had to undergo some kind of securitization before a loan is awarded to them. This is so because of poor reputation.

Table 4.15: Clients are comfortable with the interest charged

Response	Respondents	Percentage
Agree	15	26.8
Disagree	30	53.6
Not Sure	5	8.9
Total	**56**	**100**

Source: Fieldwork survey (2008)

Figure 4.5: Client's comfort with interest charged



From the table 4.9.3 above it is apparent that most respondents were in disagreement with the view that clients are comfortable with the interest charged 30(53.6%). Only 15(26.8%) thought the clients were comfortable. 5(8.9%) of the other respondents were not sure whether the clients were comfortable or not since Pride Micro Finance has one of the lowest rate in the country and yet this does not guarantee that the clients are comfortable with them.

Table 4.16: How loans are disbursed

Response	**Respondents**	**Percentage**
By cheque	10	17.9
By transfer	-	
By cash	46	82.1
Others	-	
Total	**56**	**100**

Source: Fieldwork survey (2008)

The results from the table show that most of the clients are served by cash 46 (82.1%). When is asked the staff members why this is so, they informed me that it's because most clients do not have bank accounts.

Table 4.17: The type of security is offered in case of non payment

Response	**Respondents**	**Percentage**
Guarantors savings	35	62.5
Personal assets	-	
Both the above	21	37.5
Others	-	
Total	**56**	**100**

Source: Fieldwork survey (2008)

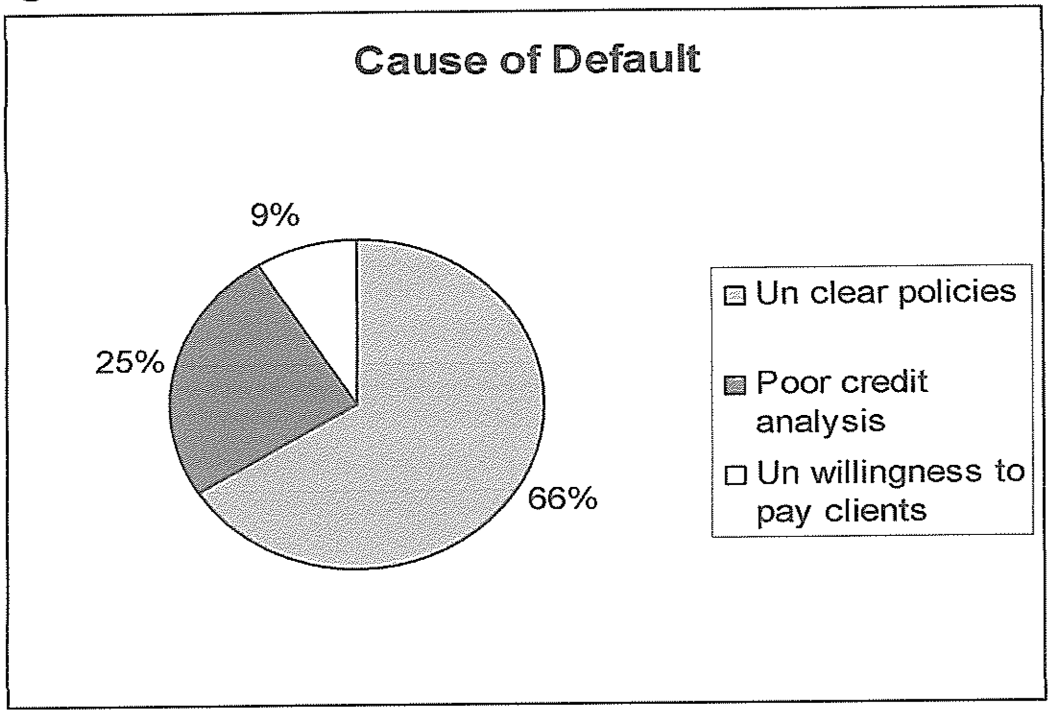
Results from the table above show that most clients present there savings in the Microfinance as guarantee for non payment 35 (62.5%) while the rest 21 (37.5%) are supposed to present both personal assets and savings in the Microfinance as guarantee for non payment of loans.

4.18: Causes of default

Response	**Respondents**	**Percentage**
Un clear policies	37	66.1
Poor credit analysis	14	25
Un willingness to pay clients	5	8.9
Total	**56**	**100**

Source: Fieldwork survey (2008)

Figure 4:6: Cause of default



From the table and chat above the majority of the respondents 37 (66.1%) said that the cause of default is the unclear policies of some financial companies. Others said that the cause of default is due to poor credit analysis of the clients 14 (25%). Where as a small number of the respondents 5 (8.9) thought that it's the customers them selves who are to blame for their unwillingness to pay back the loans.

Table 4.19: What factors hinder the growth of the scheme?

Response	**Respondents**	**Percentage**
Policy formulation	12	21.4
Poor selection of clients	12	21.4
Inefficient loan offers	13	23.2
Poor economic conditions	13	23.2
Others	6	10.7
Total	**56**	**100**

Source: Fieldwork survey (2008)

The results from the findings indicate that it's a mixture factors like Poor formulation of policies; poor selection of clients; inefficient loan offers; and poor Economic conditions that hinder the growth of the schemes.

As it was observed above the major stumbling block is inefficient loan offers and poor working conditions accounting for 23% each, followed by policy formulation and poor selection of clients accounting for 21.4 each while the least is 10.7 for other factors. This is a clear indicator for the company to put in place measures to screen their clients and embracing capacity building programs for the available loan officers in order to increase the number client served.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the conclusions from the study and the recommendations made are presented. The study used both qualitative and quantitative methods of analysis.

5.2 Summary of findings

As it was presented in chapter four, the findings indicated that for the sustainability of financial Institutions, credit management has a significant contribution. The study has revealed that financial Institutions can be able to operate in a vibrant environment if it meets the needs of the clients. Financial Institutions cater for diverse clients running from individuals to those in group saving schemes. In group level individuals mobilize their funds jointly and can use joint saving as security against loan. The aggregation of individual savings may allow group members to constitute larger collaterals and enhance their access to credit services. It was reported that clients at financial Institutions got necessary product. Majority of them 64.3 % were in favor of the firm credit management policy. Though this study it was observed that even non savers were the beneficiaries of the loan, what matters at financial Institutions is one's ability to meet terms and conditions of credit. 64.3% reported that it is not necessary to be the saver in order to qualify for the loan. Under this circumstances financial Institutions needs to engage vigorously on extensive sensitization seminars to educate people on the necessity to have banks accounts, this can even facilitate disbursement process rather than disabusing money by cash.

The finding also portrayed that 82.1% of the clients are served by cash. This can be advantageous to underprivileged social constituencies, as it empowers them to access the loan. It also helps the poor households. Water field and dival, 2006 indicate loan security and effective interest rate as sound terms to secure credits. Therefore the needs to review the loan scheme at Centenary Bank can be of critical significance.

5.3 Conclusion

The aim of this report was to investigate the relationship between credit management and the sustainability of financial Institutions in Uganda.

The first major question asked in this study was: The suitability of the product being served to the target group. According to research findings, it is apparent that the majority of the respondents thought that Centenary Rural Development Bank Ltd (CERUDEB) offers the necessary Product to clients. This means that clients get what they wants s regards to the services of this financial institutions.

My second important question was: Does the credit policy require that borrowers are savers? The findings reported this is not always the case as most respondents said that whether a client has an account in the financial institution or not will always be served. This is particularly beneficial to the clients as most of them do not keep money in the bank.

This leads me to my third question: Who determines who to lend?
The majority of respondents said that it's the loan review committee that determines who to lend. This means that a client will be evaluated thoroughly to determine his/her credit worthiness before loans are disbursed to the respective clients.

Finally, my last most important question was on how long it takes to process a loan for clients: Here most of the respondents said it takes less than one week to process the loan for a client. This is particularly good because this means clients are served in time with out delay.

5.4 Recommendations

Looking at the findings of the study, the following recommendations are made;

Widening the scope of the people who can access the loan through extensive and vigorous mobilization strategies; **as** it was observed few of the clients have bank accounts, this necessitates the need for Pride to conduct a sensitization seminar in both urban areas and in rural areas so as to access even the poor households. Such seminars have to emphasize the need for people to join local clubs and village association so as to access the loan using group accounts as to access the loan using group accounts as collaterals.

Incentive mechanism; the firm should have incentive mechanism in place to issue loans. Strategies to issue credit have to be implemented in orderly and logical manner. The incentive mechanisms have to be time bound and could include refund of extra money if the loan failed to capture the deadline.

To ensure intense competition with other financial Institution there is the need to maintain relationship with judicial machinery. Generally judicial environment has an important bearing on the development of the financial sector. Emphasis should be placed on the need to recover outstanding loans rather than writing them off so as to reduce negative effects on the side of the organisation. One of the options is to hand over portfolio to Court bailiffs, lawyers and/or the non performing asset recovery trust.

Code of ethics; there is need for the kind of behavior derived relevant to the achievement of credit management scheme to be emphasized in the company's code of ethics. The code should stipulate how disbursement transactions are done to avoid unethical behavior and streamline the relationship between clients and the respective organisation.

Regulatory instrument; Centenary Rural Development Bank Ltd. (CERUDEB) should also lobby for a regulatory instrument that will enable it to use saving collected for more user friendly operations provisions. A national credit bureau should be formed so as to regulate and control of the daily transactions in this institution. Development of the borrower data base infrastructure through improved data compilation has also to be in place so as to facilitate auditing activities.

Linking of saving and credit programs; This mechanism will assist Centenary Rural Development Bank Ltd. (CERUDEB) to overcome any problem resulted from asymmetry of information between itself and its borrowers. Saving can be appropriate criteria to those who lack collaterals. To avoid lack of corporation for the group member who could weaken the performance of the group that qualify for the loan, lenders should make group responsible for loan recovery and repayment, in this manner peer pressure will act as substitute for collateral.

Sequential lending; when loans are provided sequentially to different sub-groups of borrowers participating in a given group lending scheme, probability to reduce contagion and coordination failure risks will extremely decline. Also self-selection leads to the formation of group of relatively safe borrowers, hence limiting the transfer of risk from the group to the individual borrower.

Capacity building programs; the firm should embrace capacity building programs at the institutional level including book keeping and reporting standards, strengthening of internal control systems and credit decision mechanisms as well as improving technology and human resources.

5.5 Areas for further studies

In addressing the research problem, a number of interviewing variables that could have a significant impact on sustainability of financial Institution arises, hence the researcher is appealing to other scholars to carry research on areas pertaining to internal control system and sustainability of Microfinance institutions, the impact of community based organizations on sustainability of financial institutions and the role of government on sustainability of financial Institutions.

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APPENDIX A: QUESTIONNAIRE TO BRANCH STAFF

Dear Respondents,

This questionnaire is meant to obtain information regarding a study on credit management and its effect on the sustainability of financial institutions in Uganda. The study is a partial fulfillment of the award of bachelor of Business Administration degree of Kampala International University. Its success depends on your completing this questionnaire with honest answers. All the information provided will be used only for the study and will be treated with strict confidentiality. Thank you for your cooperation.

Instructions

1) Where options are given, circle the appropriate one.
2) For questions with out options space is left for you to fill in the answers.

Personal Data

1. Sex
    a) Male
    b) Female

A) Highest level of Education
    a) Diploma
    b) Degree
    c) Post Graduate
    d) Other
    (Specify)...

B) Profession
    a) Economist
    b) Social Worker
    c) Teacher

d) Other
(Specify)..
......

C) Year of service in Centenary Rural Development Bank Ltd. (CERUDEB)
a) 0-2
b) 3-5
c) 6-8
d) Over 8

3) The mission of he organization is clear and related to the credit scheme
a) Agree
b) Disagree
c) Not sure

4) Does the product you offer suit the target group you are serving?
a) Suits
b) Does not suit

5) The credit policy requires that borrowers are savers.
a) True
b) False

6) Is Centenary Rural Development Bank Ltd. (CERUDEB) your employer of choice?
a) Yes
b) No

7) How did you get this job?
a) News paper advertisement
b) Assimilation-Social worker to loan officer
c) Sourcing
d) Through volunteering

8) If you were the Human Resource person of the Organization, would you recruit a friend?

a) Yes

b) No

B) Give reasons to justify your answer?...

....

9) Who determines who to lend?

a) The credit officer

b) The group

c) Both the credit officer and the group

d) The loan review committee

10) Who determines the delivery of services in the organization?

a) Clients

b) Management

c) Board of Directors

d) Staff

e) Other (Specify)...

11) How long does it take to prepare new clients before lending?

a) One week

b) Two weeks

c) Three weeks

d) Four weeks

d) Over four weeks

12) It is important to visit clients' businesses before lending.

a) Agree

b) Disagree