LOAN DELINQUENCY AND THE PERFORMANCE OF MICROFINANCE INSTITUTIONS.

CASE STUDY: CAPITAL MICROFINANCE

BY

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DECLARATION

I ZAITUNI FAITH, declare that this research report is a result of my own efforts. To the best of my knowledge, it is original and no part of this document has been submitted to any university or institution for any academic awards.

CANDIDATE'S SIGNATURE...........Faith.............

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DATE:..........19th/01/15..........

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This is an appreciation to God Almighty for always being there for me all this while. It is because of His Grace that I have been able to complete this course.

APPROVAL

This is to declare that this research report has been done by **ZAITUNI FAITH** under my supervision and submitted to the College of applied economics and management for examination with my approval.

SIGNATURE...

(SUPERVISOR)

DATE..19/1/2015

LIST OF ABBREVIATIONS

MFIs-Microfinance Institutions.

MIX-Microfinance Information Exchange.

3SLS-Three Stage Least Squares.

FEVD-Fixed Effects Vector Decomposition.

GDP-Gross Domestic Product.

ABSTRACT

The study aimed at establishing the relationship between loan delinquency and performance of micro finance institutions basing on the following objectives; to identify the causes of delinquency, examine the indicators of loan delinquency and examine the impact of loan delinquency to Capital microfinance.

Both qualitative and quantitative research designs were used. The sample size was selected using a purposive method and sample size of 30 respondents was consideredand they were employees of the Capital microfinance institution, they comprised of cashiers, accountants loan officers, ledger keepers and field officers. Examples of the user department samples included finance and administration, Human resource, ICT department as well as the welfare department.

Data was collected by the use questionnaires given by the respondents and analyzed using means, rank and graphical data analysis.

Findings indicated that loan delinquency is mainly composed of causes, indicators and impact which constitute average mean of 3.86, 2.87 and 2.83 respectively. The causes of loan delinquency 3.86 constituted the highest value with impact 2.83 constituting the least value. This implies that Capital micro finance concentrates more on the causes of loan delinquency and less on its impact, but the overall loan delinquency was high at an average mean of 3.19.

Recommendations included, the general conduct of the research saw a number of loopholes around delinquency and its eventual effect. Therefore the researcher felt there should be improvements in the following areas. Repayment commitments to be sufficiently strong to discourage borrowers from defaulting, Staff to contact the borrower to communicate the message that late payment is unacceptable, Micro finance institutions to review credit policies and operations to ensure they comply with basic principles and methodology and Micro Finance Institutions to set up a control system to measure refinancing requests.

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CHAPTER ONE

1.0 Introduction

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

1.1Background

Professor Muhammad Yunus established the Grameen Bank in Bangladesh in 1983, fueled by the belief that credit is a fundamental human right. His objective was to help poor people escape from poverty by providing loans on terms suitable to them and by teaching them a few sound financial principles so they could help themselves.

From Dr. Yunus' personal loan of small amounts of money to destitute basket weavers in Bangladesh in the mid-70s, the Grameen Bank has advanced to the forefront of a burgeoning world movement toward eradicating poverty through micro-lending. Replicas of the Grameen Bank model operate in more than 100 countries worldwide.

Microfinance has a set of tools, approaches and strategies which have grown around addressing the financial needs of the poor people that is people who don't easily access the mainstream financial services and therefore are financially excluded (Oslow, 2006) Delinquency in most Microfinance Institutions IS considered as a block to the financial intermediation as most of the institutional funds are locked up within the borrowers which demands the addressing of organizational competitiveness. Fross (2005) reports.

Delinquency and its eventual effects more confidently in the business process of providing loans, payment of loan is targeted to reduce operational costs and extend credit as well as promotional borrower entrepreneurial activities. In survey of four banks in Burkina Faso, payment of the loanable funds reached an average 46% on the available funds (Mungu, 2007). In Uganda, a number of Microfinance Institutions are facing a large number of their loans in arrears, Capital microfinance Institution inclusive Capital micro finance institutions provided domestic and international money transfers. In light of competition not from other institutions and pressure to reduce operational costs, the institution has developed an instrument that can effectively lead to a prudent borrower selection, strict managerial control and accountability, also designed an incentive that uses both financial and non financial system to encourage on time payments.

However, Delinquency in Capital Micro Finance Institution has been caused by a number of challenges which include but not limited to the poor loan follow up, poor loan appraisal, lack of strict managerial control and accountability as well as weak borrower. Capital micro finance failed to recover the loans amounting to 10million shillings because of its group leading mechanism; these and other challenges have greatly affected the effective performance and institutional success of Capital micro finance.

Under the continued effects of global financial crisis where the donor's investment in microfinance sectors has become shrunk, how the macroeconomic factors or the crisis or the macro-institutional factors would affect the performance of microfinance institutions(MFIs) have become one of the key debates among the policy makers and practitioners. The present paper has investigated the effect of both institutional factors and the macro economy on the financial performance of MFIs drawing upon the Microfinance Information Exchange (MIX) data as well as cross-country data of macro economy, finance and institutions drawing upon three stage least squares (3SLS) and fixed effects vector decomposition (FEVD) to take account of the endogeneity of key explanatory variables.

In contrast to Ahlin et al.'s(2010), we generally find that institutional factors affect MFIs' financial performance and these are, Loan Delinquency, Staff Management, Loan Management. It is also found that the macro-economic and financial factors, such as GDP and share of domestic credit to GDP have positive impacts on MFIs' financial performance, such as profitability, operating expense ratio and portfolio quality. It is thus concluded that while the macroeconomic factors are important, improving macro institutional factors, policies to raise country-level institutional qualities are required for making the activities of MFIs more sustainable under the global recession.

1.2 Statement of the problem

Payment in time of loans from the borrowers is an ingredient that determines the performance of most Micro Finance institutions and shows continued survival and financial sustainability on the loan able funds Efforts have been made to reduce the delinquency rate through carrying out feasibility studies on the project that the loans are being borrowed for, even loan officers are pressured by their bosses to recover the loans or lose their Jobs. This has made them work harder; however some of the loan applicants have failed to pay in time even after they have laid down plans on how the money borrowed is going to be used in order to generate profits. Others may be due to weak collection policies and procedures as well as loan follow up as in the case of capital Micro Finance .a total of 250 clients had their loans past due date longer than 12 months and this was because the loan officer could hardly monitor the loans because the borrowers were operating in different areas than those they had laid down in the loan application, this has actually affected the performance of institution.

1.3 Purpose of the study

The purpose of the study is to examine loan delinquency, its causes, indicators and impact to Microfinance institutions

1.4 Research Objectives

1. To identify the causes of delinquency in microfinance institutions.
2. To examine the indicators of loan delinquency in microfinance Institutions.
3. To examine the impact of loan delinquency to Capital microfinance.

1.4 Research Questions

1. What are the causes of loan delinquency in microfinance institutions?
2. What are the indicators of loan delinquency in microfinance institutions?
3. What are the impacts of loan delinquency on Capital microfinance?

1.5 Hypotheses

H1 –loan delinquency has a significant influence on the performance of micro finance institutions.

H0 –There is no significant influence ofloan delinquency on the performance of micro finance institutions.

1.6 Scope of study

1.6.1 Geographical scope

The research was conducted at capital micro finance located in Wandegeya Kampala.

1.6.2 Content scope

The study covered the causes of delinquency, examined the indicators of loan delinquency and examined the impact of loan delinquency and how loan delinquency affects the performance of Capital microfinance in general.

1.6.2 Time scope

The study covered a period of four months; from September to December 2014

1.7 Significance of the study

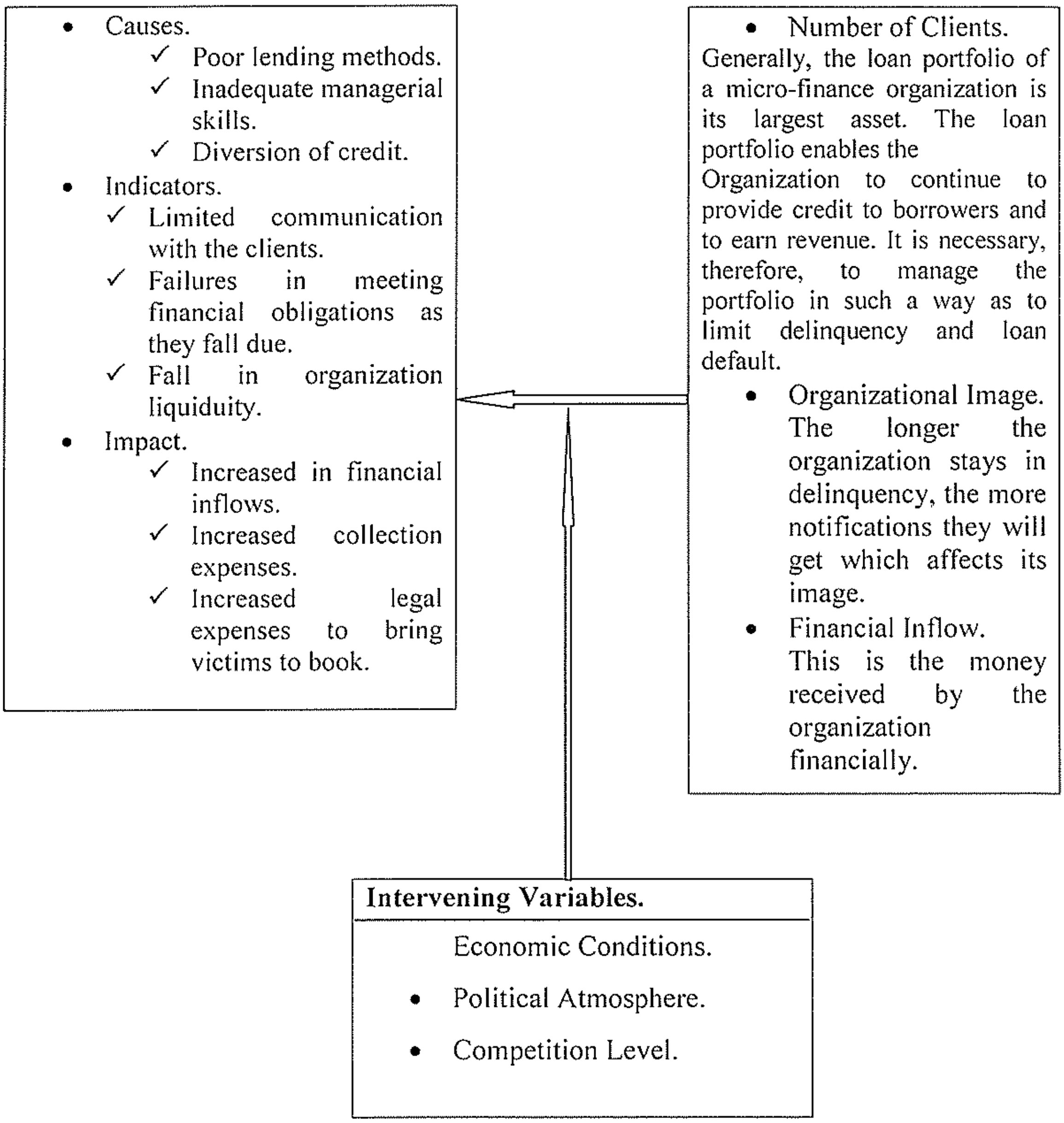
1. The study research will beneficial to capital Micro Finance in identifying the stages of loan delinquency management for example post loan stage, pre-loan to stage and the stage when delinquency occurs
2. The study will help policy makers m designing ways in which micro finance institution will be able to address the challenges that disrupt organist ion performance by putting measures that encourage financial outreach and sustainability.
3. The study research will be beneficial to scholars in related literature as well as those in the field of finance.
4. It is a basis for the award of Bachelor's Degree in Business Administration of Kampala International University.

1.8Conceptual Framework

The diagrammatic representation of conceptual framework shows how the variables are related.

Figure 1 Conceptual framework

Independent Variable. **Dependent Variable.**



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

2.1 Conceptualization of the study variables

According to Mutebile (2004), Lending is the largest source of revenue for most of the credit institutions which obviously covers the loan portfolio Muhumuza et al (2004), observes that lending if not well articulated In most credit institutions, realization of profits could be inevitable thus leading to high costs of operation and sustainability.

According to (USAID) delinquency refers to Arrears or a late payment which measures the percentage of a loan portfolio at risk Delinquency payments in arrears are loan payments which are past due (Adapted from SEEP) According to Silva, (2000) also defines delinquency as the situation that occurs when the loan payments are past due date or loans inArrears.

2.2 The causes of delinquency

The study of Aketch and Aleke (1996), focusing on the causes and consequences of delinquency in Africa's micro - enterprises shows that many Micro finance institutions have faced a problem of having the percentage of their loans III Arrears which of course affects their operation and financial sustainability

Aketch and Aleke studies, found out that delinquency is caused by client factors which include: unfilled expectations that's to say realization of profits because other prosperous business people (dreams off road), lack of managerial skills that is to say: lack of entrepreneurial skills, stringent managerial control and accountability (doing business by feeling), Diversion of credit for other business than those intended for Juma (DFCLU, 2000), adds that external factors could increasingly cause delinquency and therefore lead to loans past due date thus the factors include; natural hazards like floods that have hampered very many suburbs of Uganda inflationary tendencies, unfavorable economic policies that is to say; smuggling in cheap goods, political turmoil, lack of networking among others.

Gapenski (2004), identified that poor management and communication by the loan officers can lead to higher rates of delinquency and higher rates of default Gapenski adds that miss communication of member's rules and regulations, failure to establish workable relationship and showing favoritism to certain members may be dangerous to financial institutions.

Sanyu (2000), stresses it that institutional factors are the most serious factors responsible for the causes of delinquency and they include, inappropriate loan terms and size, lack of good lending methodologies, extremely high interest rates, late disbursement and among others.

Therefore delinquency is much more likely if the group information and group management norms are not upheld if the institution adopts group lending mechanism (Senkubuge, 2004).

According to Savings and Credit Report (2000), of Capital microfinance, the major causes of delinquency in Capital microfinance -Nankulabye branch was mainly lack of follow-up, poor management information systems, corruption and fraud and the lack of good lending methodologies coupled with poor loan appraisal mechanisms therefore this deteriorated the continued operation and financial sustainability.

Furthermore Oketch (2004), observed that there are uncontrollable factors which bring about delinquency and therefore the Microfinance institutions could hardly have strategy over them and they include; individual crisis such as illness, death that throw the households that into a dare economic situation, changes in government policy for Instance a crackdown of street vendors, and new taxes imposed on the beneficiaries natural disasters therefore all these factors require constant monitoring and consideration which becomes a handle to most Microfinance Institutions.

Hochsch Wander et al (2005), argued that delinquency is caused not only by bad borrowers but by the Micro finance Institutions that have not implemented effective methodologies which suit their clients therefore this tremendously denies the effective operation and increased sustainability.

More so, according to Finscope Survey (2006), emphasizes that Micro finance Institutions should carry out a proper analysis on the causes of delinquency because it tends to destroy the images and philosophy of the organizations outreach to the poor clients. The survey indicates that the delinquency level should be maintained of a zero percent.

2.3Indicators of Loan Delinquency.

Indicating the problem is not improving and perhaps the borrower is not active. These two factors together are the least favorable.

The Repayment Rates can be defined by how they calculated at the organization. The repayment rate does not indicate the quality of the loan portfolio but measures the rate of loan recovery.

These are the indicators that include, failures in meeting financial obligations as they fall due, limited communication with the clients, increase in the amount of doubtful debts in the financial statements, and also the fall in the organizational liquidity.

Repayment rates measure the amount of payments received with respect to the amount due, whereas other ratios (Portfolio at Risk and Delinquency Ratios discussed below) indicate the amount of risk in the portfolio.

The repayment rate is a good measure for monitoring branch or loan office performance over time if it is calculated correctly, but is less useful for internal financial management.
A micro-finance organization should not use the repayment rate as a comparative measure with other organizations as it is only ever possible to compare repayment rates if they are calculated in exactly the same manner and for the same period from one organization to the next.

Calmeadow 2 (Finance Study Guide Lesson 5), There are many methods used to calculate the repayment rate. Some micro-finance organizations calculate the repayment rate incorrectly:

Repayment Rate = amount received (including prepayments and past due amounts)amount due (excluding past due amounts)
This formula overstates the amount received by the prepayments and past due amounts received. This is why repayment rates can sometimes be greater than 100%. This does not provide useful information about the performance of the outstanding portfolio.

It is important that components which are included in the numerator also be included in the denominator.

Two formulas are suggested:

On-Time Repayment Rate = amount received on time less prepayments total amount due or Repayment Rate = amount received (current and past due) less prepayments total amount due plus past due amounts.

These formulae remove the effect of prepayments and show the actual rate of received payments against expected payments either on-time or taking into account past due amounts. Repayment rates can be useful for cash flow projections as they indicate, based on past experience, what percentage of the amount due to a micro-finance organization can be expected to be received.

2.4 Impact of delinquency

According to Hanning (2006), the borrowers of Microfinance institutions could be charged fees for late repayment hence increasing on the costs of the loan advanced thus Implying clients are never settled that is to say they keep on hiding which of course hampers the continued outreach and social support In form of loans.

Juma (DFCU, 2000), added that the borrowers or clients of Microfinance Institutions could loose security if it was provided at the time of loan application or disbursement if they fail to pay the loan in time.

According to Mugisha (2006), the costs of delinquency to the borrowers could be highlighted as follows; the borrower may loose access to future loans, loss of access to other loan programmes services that is to say health, education and training among others which are very important in the Micro finance institutions lending mechanism methodology Bagonza(2005), observes that Hassle costs in respect to frequent visits by the loan officers and pressure from group members and the negative reputation among the peers are the most influential costs of delinquency to the borrowers, in addition at a thorough investigation should be stripped in order to increase financial penetration

According to Savings and Credit Report of Capital Microfinance (2007), delinquency affects the Micro finance Institutions severely thereby affecting the Microfinance Institutions programmes by; postponing the interest Income and negatively affecting the stages of sustainability of the programme, slowing the portfolio rotation as well as lowering the productivity of assets and lastly it lowers staff morale and highly affects them psychologically hence killing their motivation for their future achievements.

In addition to FIN scope Survey Uganda (2006), delinquency lowers the image of entrepreneurs and clients may loose their reputation and respect for the programme, it can also lead to default that is to say; loss of assets of the institution if the source of funding was from commercial banks and the programme will be limited to expand both locally and international sources of capital are less likely to support the credit programme that has troubled loans.

However, Ultimately the Micro finance Institutions itself is responsible for delinquency (Even when the proximate cause seems external to the Microfinance institutions) because it sets its own principles, promotes its own payment culture, Instills credit discipline in staff and the borrowers, and must plan for events beyond its control. There are many stakeholders in delinquency, but only the Microfinance institutions can do something about it.

2.5 Conclusion

Empirical evidence shows that delinquency is not only caused by internal and external factors but also institutional and organizational factors and yet it is only the institutions that can do something about delinquency because they set their own repayment time as well as borrower selection which of course shows a well established performance of Microfinance Institutions therefore calling for a thorough financial outreach and sustainability indicating a positive on time payment of the loans advanced to different clients.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This Chapter presents the methodology used in the study. It covers the research design, type of data, data sources, data collection methods, data processing and analysis data presentation and limitations of the study.

3.1 Research design

In this research, descriptive survey was employed. Written questionnaires were also administered to management and employees of Capital Microfinance institution. This was to obtain sizeable information about loan delinquency. Qualitative data was sought to interpret oral interviews and open ended questions. Analytical data tools were also used to analyze the situation of the firm given in question.

3.2 Study population

The population of the sample is the total number of permanent employees of Capital microfinance which is 60 employees.

Sample size

The target respondents comprise of 2 branch managers, 5 accountants, 5 loan officers, 15 field officers, 3 cashiers. This was purposive since they are knowledgeable in the areas under study, thus the sample is 30 respondents a 50% of the total population.

Table 1: showing the study population and the sample size

POSITION OF EMPLOYEES	STUDY POPULATION	SAMPLESIZE	METHOD (50%)
Branch managers	4	2	Purposive
Accountants	10	5	Purposive
Loan officers	30	15	Purposive
Cashers	6	3	Purposive
TOTAL	60	30	

3.21 Sampling procedure

The respondents were selected using a purposive method to select employees from the total population because it allows selection of participants who are well informed about the subject under study; it is quick and time saving.

3.2.2 Sampling frame

The sampling frame was composed of Capital microfinance employers and employees consisting of 60 people in total. However, only 30 people were selected to help in carrying out the research. This was because the researcher wanted to use the limited time to collect all the data.

3.2.3 Data collection methods and instruments

Qualitative research was done in the form of field visits were data collection instruments like questionnaires were administered to employees and personal in depth interviews with management was also carried out. The questionnaires were filled and later returned to the researcher for analysis.

Questionnaires

To establish the relationship between loan delinquency and performance of micro finance institutions, the following researcher based instruments were utilized; the face sheet to gather data on the respondents' demographic characteristics (gender, age, education level and working experience) and researcher devised questionnaires was used. These tools have been used in collecting data because they are less expensive, save time and more importantly increase the chances of getting valid information.

The questionnaires possessed both open and closed ended questions. The open ended questions served to attract a free response in respondents' own wards within no close to the answers given which in turn encouraged validity of the responses. The close – ended questions were also included to elicit specific responses which were easy to analyze

Interviews

Here verbal interaction with participants was used to collect the required information. I (the interviewer) explained the purposes of the investigation and explained more clearly the kind of information I was interested in. Interviews were also used as follow - ups and certain respondents to questionnaires for example to further investigate their responses.

For data analysis, the 5 liker scale grading 1= strongly disagree and 5= strongly agree was adopted for this study due to its suitability in measuring perceptions, attitudes, values and behaviors that relate to

3.3 Data validity and reliability

The following measures were taken to ensure validity and reliability of both the methods of data collection.

To ensure construct- validity of data collection tools, the researcher undertook a pilot study in which the researcher tools and instruments were put to test. A test- retest reliability test on the questionnaire was done

3.4 Data processing and analysis.

Information obtained from questionnaires was regularly coded and updated on a coding frame work. Qualitative data was descriptively analyzed while qualitative data was analyzed using frequency and percentage tables.

3.4.1 Presentation of data.

Data was presented in a report form basing on the objectives under study.

3.4.2 Type of data

The data required was mainly primary data and secondary data on the variables under study.

3.5 Sources of data

The study based on primary data from Capital microfinance and secondary data from journal articles, text books, magazines, manuals websites and other sources which were relevant to the variables under study.

3.6 Ethical Considerations

The following strategies were adapted to ensure the moral justification of the investigation.

Authorization: This involved getting clearance from the ethical body and consent of the respondents.

Anonymity and Confidentiality: The names or identifications of the respondents were and information collected from them were treated with utmost confidentiality.

Integrity: The researcher acted honestly, fairly and respectfully to all other stakeholders that were involved in this study.

Ascriptions of authorships: The researcher accurately attributed to the sources of information in an effort to celebrate the works of past scholars or researchers. This was intended to ensure that no plagiarism occurred.

Scientific adjudication: The researcher worked according to generally acceptable norms.

3.7 Limitations of the study.

i) Time limitation, because in addition to research work, there are other theoiy papers to attend to. However, research assistants were used in the field mostly to distribute the questionnaires and to collect them. This enabled the researcher to do other things in order to use the little time as best as possible.

ii) Financial constraints since the whole exercise requires typing, printing, photocopying relevant data and Internet surfing. Despite this constraint, the researcher managed to access financial support through friends, family and personal savings.

iii) Limited access to data with in the university library thus limiting access to enough literature to be used in the study. However, this was overcome by regular visits to the Kampala public library and the internet to collect more data.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This study was carried out to establish the relationship between loan delinquency and performance of financial institutions.

This chapter includes the introduction, the kind of respondents, their gender composition, seniority and age of respondents, qualification of respondents, findings on the causes of loan delinquency, findings on the indicators of delinquency and findings on the Impact of loan delinquency in microfinance institutions.

4.1 Response Rate

A total of 30 questionnaires were distributed to the targeted population which included the managerial staff and some employees. All the 30 questionnaires were returned to the researcher. This represents a response rate of 100%. This percentage was considered sufficient for this study.

4.1.1 Position of respondents

The table below shows the various respondents that took part in the interview with their respective positions in the company.

Table 2: Table showing the position of respondents in Capital micro finance

Position of Respondents	Number of respondents
Branch managers	2
Accountants	5
Loan officers	5
Field officer	15
Cashers	3
Total	30

Source: Primary Data

The table above indicates that there are 2 branch managers, 5 accountants, 5loan officers,15 field officers and 3cashiers. This totals to 30 respondents who can vividly give correct and valid information about the relationship loan delinquency and performance of Capital microfinance.

This implies that the researcher was able to collect valid and correct information on loan delinquency and performance of Capital micro finance.

4.1.2 Duration of service

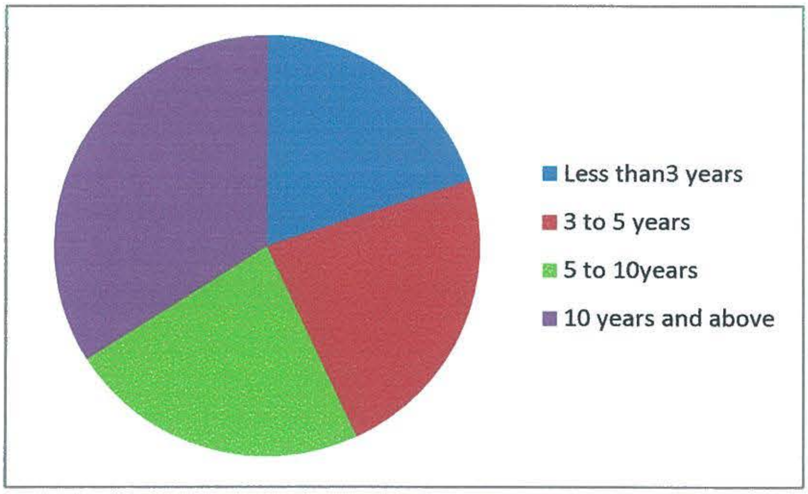
The data below shows the duration for which the respondent has spent in the particular position of the firm.

Table 3: Table showing the duration served by the respondents in Capital micro finance

Years of service	Frequency	Percentage
Less than3 years	6	20%
3 to 5 years	6.9	23%
5 to 10years	6.9	23%
10 years and above	10.2	34%
Total	30	100%

Source: Primary Data

Figure 2: A chart showing the duration served by employees in Capital micro finance



From the table and chart above, 20% served less than 3yrs, 23% between 3-5 years, 14% 5-10 years, 10 years and above 34%. This implies that respondents with the highest percentage (34%) served in the organization for 10 years and above. This shows that the majority of the respondents is well knowledgeable about the activities of Capital micro finance and may therefore be more productive in feedback provision which may not be the case with those respondents who have served the council in the other time durations.

4.1.3 Age of respondents

Table 4: Table showing the age of the correspondents in Capital micro finance

Age of Respondents	Frequency	Valid percent
18-29	5	16.7%
30-39	9	30%
40-49	12	40%
50 and above	4	13.3%
Total	30	100%

Source: Primary Data.

From the tableabove 40% were between 40 to 49years, 30% were between 30 to 39years, 16.7% of the respondents were between 18 to 29years of age, and 13.3% were 50years and above. This implies that respondents with the highest percentage (40%) are aged between 40 to 49 years. This shows that many of the respondents are well knowledgeable about the operations of Capital micro finance and are very productive which may not be the case with those falling in the other age brackets.

4.1.4 Qualification of respondents

Table 5: Table showing the highest education level attained by respondents

Highest education level of Respondents	Frequency	Valid percent
Diploma	1	3.3%
Degree	20	66.7%
Professional	6	20%
Masters	3	10%
Total	30	100%

Source: Primary Data

The results indicated that the majority of the respondents were degree holders (66.7%) while only 3.3% had Diploma, professional course and masters comprised 20%, and 10% of the sample respectively. This therefore indicates that the highest number respondents were degree holders meaning that Capital micro finance recruited more degree holders compared to the other levels of education while the lowest number of respondents were diploma holders this may be due to the limited number of diploma holders required..

4.1 Findings from the respondents

The respondents were employees of the Capital microfinance institution, they comprised of cashiers, accountants loan officers, ledger keepers and field officers. Examples of the user department samples included finance and administration, Human resource, ICT department as well as the welfare department.

4.2 Loan delinquency

Table 6: Table showing causes, indicators and impact of loan delinquency

Constraints	Mean	Interpretation	Rank
Causes of loan delinquency Inadequate managerial skills lead to loan delinquency	3. 69	Very high	1
Diversion of credit for other use is a cause of loan delinquency	3.44	Very high	4
Un favorable economic conditions lead to loan delinquency	3.48	Very high	3
Poor lending methods cause loan delinquency	3.50	Very high	2
Corruption and fraud is also a cause	2.64	High	4

Poor management information systems too lead to loan delinquency	2.55	High	5
Average	3.86	Very high	
Indicators of loan delinquency Failures in meeting financial obligations as they fall due	3.54	Very high	1
Limited communication with the clients	2.75	High	2
Increase in the amount of doubtful debts in the financial statements	2.67	High	3
Fall in organizational liquidity	2.53	High	4
Average	2.87	High	
Impact of loan delinquency Increased legal expenses to bring victims to book	3.29	Very high	1
Increased collection expenses	2.90	High	2
Decrease in financial in flows	2.60	High	3
Distortion of organization-client relationship\	2.52	High	4
Average	2.83	High	
Total average	3.19	High	

Source: Primary Data, 2014

Key for interpretation of means

Mean range	Response range	Interpretation
3.26 - 4.00	strongly agree	Very high
2.51 - 3.25	agree	High
1.76 - 2.50	disagree	Low
1.00 - 1.75	strongly disagree	Very low

Results indicated that loan delinquency is mainly composed of causes, indicators and impact which constitute average mean of 3.86, 2.87 and 2.83 respectively. The results indicated that loan delinquency was caused by inadequate managerial skills 3.69, diversion of credit for other use 3.44, unfavorable economic conditions 3.48, corruption and fraud 2.64, poor management information systems 2.50

With indicators of loan delinquency, the researcher noted that they included failure to meet financial obligations as the fall due 3.54, and limited communication with clients 2.75. Furthermore, it was noted that the increase in amount of doubtful debts indicated prevalence of loan delinquency 2.67 and that this was so with fall in organizational liquidity 2.53.

With the impact of loan delinquency, the researcher noted that it leads to increased legal expenses 3.29, increased collection expenses 2.90, decrease in financial inflow 2.60 and distortion of organization-client relationship 2.52

The causes of loan delinquency 3.86 constituted the highest value with impact 2.83 constituting the least value. This implies that Capital micro finance concentrates more on the causes of loan delinquency and less on its impact, but the overall loan delinquency was high at an average mean of 3.19.

4.4 Significant relationship between loan delinquency and performance of micro finance institutions

The last objective in this study was to establish whether there is a significant relationship between loan delinquency and performance of micro financial institutions. The researcher stated a null hypothesis that there is there is no significant relationship between delinquency and performance of micro financial institutions, to achieve this objective and to test this null hypothesis, the researcher analyzed the results on the causes, indictors and impact of loan delinquency in relation to performance of micro finance institutions and observed that control of loan delinquency improves the performance of micro finance institutions and failure to control it lowered the performance of micro finance institutions, here the stated null hypothesis was rejected basing on these results and hence concluding that sufficient control of loam delinquency contributes to improved financial performance in Capital micro finance

CHAPTER FIVE

5.1 Conclusion

The study also found out that the performance of most Micro finance Institutions has been boasted by the degree of the decision that is being made by Micro finance institutions to accept the level of delinquency Zero percent and this therefore requires the commitment of the whole institution.

5.1 Recommendations.

The general conduct of the research saw a number of loopholes around delinquency and its eventual effect. Therefore the researcher feels there should be improvements in the following areas. Staff should contact the borrower to communicate the message that late payment is unacceptable and to understand the reasons why they have fallen behind. Depending on the particular situation of both the borrower and their community, follow-up procedures may include getting group or village leaders to put pressure on the borrower, visiting the borrower personally or repossessing an asset. Problems loans should be discussed at weekly staff meetings and a course of action agreed.

Repayment commitments should be sufficiently strong to discourage borrowers from defaulting. Consequences could include no further access to loans (for individuals or their group), a bad credit rating, repossession of assets, legal action, visits by debt collectors, financial penalties and perhaps even public announcements.

Micro finance institutions should review credit policies and operations to ensure they comply with basic principles and methodology and evaluate the extent to which lending officers are complying with policies and procedures and identify any shortcomings.

Micro Finance Institutions should Separate the poorest loans from the rest and put them under the management of a specialized collections department, leaving lending staff to focus on their core business with only a modest level of delinquency to manage and reviewing information systems to ensure that staff have access to timely and useful management information for day-to-day control of operations and for implementation of an incentives scheme.

Micro Finance Institutions should set up a control system to measure refinancing requests, delinquent accounts and a sample of on-time accounts against the new policies as well as reviewing the performance of new versus old loans after about six months under new policies. If it is satisfactory, proceed with the following steps. If it is unsatisfactory, repeat the earlier steps (from the start).

The Microfinance institutions should understand the causes and the real problems before developing the solution.

The Microfinance institutions should be in position to develop and instrument that can effectively lead to a prudent borrower selection that is to say the loan size and terms should be designed in a manner that benefits each applicant optimally.

There are no bad borrowers but only bad loans that is to say Microfinance institutions Should make sure that the loan size the terms, do not make repayment difficult, do not base loans on projections and feelings but on the capacity to pay.

Further the Microfinance institutions should establish an incentive that uses both financial and non financial techniques to encourage timely payments from borrowers, these include: lagers loans follow up loans, access to training, interest rebates or penalty fees, no further access to loans, collection of security and legal action among others.

Microfinance institutions should also design an incentive system for field staff or loan officers that includes on time payment as an important variable such approach places the responsibility for the portfolio quality on the shoulders of the loan officers who with support can respond to the repayment problems, it can also motivate officers to look for and eliminate the causes of arrears.

The Microfinance institutions should create an image philosophy that doesn't considers late repayment acceptable. The benefit of creating disciplined borrowers is critical to the success of the Microfinance institutions.

However, clients must value the credit service loan products which should suit the client's needs, the delivery process should be convenient and the clients should be made to feel that the organization respects and cares about them.

5.2 Areas for further research.

In light with the conduct of the research, the researcher feels further research should be carried out in the following areas.

Loan size and customer payments in Micro finance Institutions.

Loan size and loan default in Micro finance institutions.

Client's managerial behavior and delinquency in Micro finance Institutions.

The effect of savings mobilization and delinquency in Micro finance Institutions.

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APPENDICES

APPENDIX I: RESEARCH QUESTIONNAIRES

KAMPALA INTERNATIONAL UNIVERSITY

RESEARCH QUESTIONNAIRES

Questionnaires to the staff and management of Capital Microfinance Institution

Dear respondents,

I am a student of Kampala International University, pursing bachelor's degree in Business administration as required by the university, I am carrying out a study on ASSESMENT OF LOAN DELINQUENCY IN MICROFINANCE INSTITUTIONS

You have been chosen to provide very vital information necessary to this effect in order to collect data that I will analyze and interpret in order to write a report on the findings.

I am therefore humbly seeking your opinion, views and feelings about the topic.

Whatever information you give will be treated with utmost confidentiality and will basically be used for my academic purpose only.

Thank you

INSTRUCTIONS

TICK/FILL APPROPRIATE OPTION IN THE BOX PROVIDED

PART A. BIO DATA

1. What age group do you belong?
   i. 21 – 30 years and below ☐
   ii. 31 – 40 years ☐
   iii. 41 – 50 years ☐
   iv. 50 and above ☐
2. Gender ☐

i. Female ☐ ii. Male ☐

3. a) Highest qualification
   i. Certificates ☐
   ii. Diploma ☐
   iii. Degree ☐
   iv. Post graduate degree ☐
   v. Others ☐

   b) How long have you worked in this company
   i. 0 – 1 years and below ☐
   ii. 1 – 4 years ☐
   iii. 5 – 10 years ☐
   iv. Over 10 years ☐

   c) Please, could you state your job title?

   Manager ☐ Accountant ☐ Cashier ☐ Loans Officer ☐

   d) For how long have you been working with this department/organization?
   i. Less than 3 years ☐
   ii. 3 – 4 years ☐
   iii. 10 years and above ☐

INSTRUCTIONS

Please indicate for the following statements the extent to which you agree or disagree by Ticking 1 for strongly agree, 2 =agree, 3= disagree and 4 for strongly disagree

SECTION B

CAUSES OF DELINQUENCY

NO	QUESTIONS	1	2	3	4
1	Inadequate managerial skills lead to loan delinquency				
2	Diversion of credit for other use is a cause of loan delinquency				
3	Un favorable economic conditions lead to loan delinquency				
4	Poor lending methods cause loan delinquency				
5	Corruption and fraud is also a cause				
6	Poor management information systems too lead to loan delinquency				

SECTION C

INDICATORS OF LOAN DELINQUENCY

NO	QUESTIONS	1	2	3	4
1	Failures in meeting financial obligations as they fall due				
2	Limited communication with the clients				
3	Increase in the amount of doubtful debts in the financial statements				
4	Fall in organizational liquidity				

SECTION D

IMPACT OF DELINQUENCY

		1	2	3	4
1	We incur increased legal expenses to bring victims to book				
2	We incur increased collection expenses				
3	We face decrease in financial in flows				
4	We face distortion of organization-client relationship\				

APPENDIX II: TIME FRAME

		PERIOD	PERIOD	PERIOD	PERIOD
S/NO	TASK				
1	Proposal writing	September			
2	Data collection		October		
3	Report writing			November	
4	Dissertation presentation				December

APPENDIX III : BUDGET

S/NO	ITEM DESCRIPTION	COST (SHS)
1	Transport Service	200,000
2	Stationery	20,000
3	Typing and printing	30,000
4	Binding	25,000
5	Communication	20,000
6	Miscellaneous	20,000
	Total	315,000