# THE EFFECTS OF CREDIT POLICY ON THE PERFORMANCE OF MICRO FINANCE INSTITUTIONS IN KAMULI DISTRICT. A CASE STUDY OF FINCA BRANCH

BY

ISABYRE DERICK

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A BACHELOR'S DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

OCTOBER, 2019

## DECLARATION

I, **ISABYRE DERICK,** do declare that this proposal is my own original work entitled the effects of credit policy on the performance of Micro Finance Institutions, A case study of Finca Uganda-Kamuli branch is my own work, except where acknowledged, it has never been submitted to any institution of learning for any award.

ISABYRE DERICK

SIGNED.......................................DATE:...28.10.2019.........

## APPROVAL

This report titled "The effects of Credit Policy on the performance of Micro Finance Institutions in Kamuli District." A case study of Finca Branch" It has been submitted by Isabirye Derick for examination with my approval as the University Supervisor.

MS. IRAU FLORENCE

(SUPERVISOR)

SIGNATURE.......................................DATE 28th/10/2019..............................

## DEDICATION

This work is dedicated to my father Mr. Kisule, Mum Mrs. Nabirye Harriet for all the sacrifice, patience and commitment inclusive of the challenges you faced in educating and making me more enlightened. May the Almighty God bless you abundantly?

I also dedicate This Piece of Work to My Supervisor, Ms. Irau Florence for providing me with his professional guidance, encouragement and his time during the research process.

Lastly but not least, I also dedicate this piece of work to the entire staff of Finca Bank Kamuli Branch, the staff of Kampala International University especially the college of economics and Management as well as students that gave me a platform which led to the success of this study.

## ACKNOWLEDGEMENTS

First and foremost, I pass a word of thanks to the Heavenly Lord for being there for me always in my academic career for this success I count on today.

In especial way I thank my supervisor Ms. Irau Florence, for the ideal and practical guidance he offered to me to conceptualize and analyze what the research owes me and what I owe to it.

My everlasting respect, love as well as my foremost gratitude goes to my father Mr. Mr. Kisule, my mother Mrs. Nabirye Harriet, and my sisters Matama Winnfred, Bamwange Lillian Basiime and my brother Kazalibwe meddy and Mugeta Keneth who have always been by my side for emotional, moral, material, academic and financial support. Without you guys this will never be possible.

I also wish to express my especial gratitude to all my friends Nakabugo Sanula, Baiswke Samuel and relatives for all their continuous encouragement and helping to provide required materials for the study.

I thank all my friends in and outside studying circles who have always supported me towards the report evolvement and the entire course.

In this special regard I extend special gratitude to the staff of Kampala International University (KIU) specifically college of economics and management whose advice and support have been so much instrumental in my pursue of this course.

I extend my sincere gratitude to the staff of Finca bank Kamuli branch for setting aside their valuable time to respond to the requirement of the research instruments, which has laid a basic ground for the report compilation.

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| | |
|---|---|
| BME | Black and Minority Ethnic |
| CAF | Common Assessment Framework |
| CID | Criminal Investigations Department |
| CSA | Credit standards and analysis. |
| CSA | Case Study Area |
| DFE | Department for Education |
| FIP | Family Intervention Project |
| FMT | Financial Management Theory |
| FOI | Freedom of Information |
| GOL | Government Office for London |
| ILR | Indefinite Leave to Remain |
| MFIs | Micro Finance Institutions |
| IRAS | Integrated Research Application System |
| ISP | Information Sharing Protocol |
| JSNA | Joint Strategic Needs Assessment |
| LHA | Local Housing Allowance |
| MAPPA | Multi-Agency Public Protection Arrangements |
| MARAC | Multi-Agency Risk Assessment Conferences |
| MDI | Micro-finance Deposit Taking Institute |
| MPA | Metropolitan Police Authority |
| MPS | Metropolitan Police Service |

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## ABSTRACT

The study was to establish the relationship between Credit Policies and Performance of the Micro Finance Institutions in Kamuli District, Finca Branch. The study was based on three specific objectives; to find out the relationship between character and performance of MFIs, to establish the relationship between collateral and performance of MFIs and to establish the relationship between capacity and performance of MFIs. It was based on a descriptive survey research design basing on the use of qualitative and quantitative approaches that was adopted to establish the relationship between Credit Policies and Performance of MFIs at Finca bank Kamuli branch. A random sampling system used in the study. Questionnaires were used to collect primary and secondary sources of data from 50 out of 60 respondents, using simple random sampling. Data analysis was done using SPSS's frequencies and percentage means. Finally the report looked at the study results and gave the discussion of each finding. Therefore, here, data analysis, procedures and response rate are focused on. Then the findings conclusions and recommendations are presented. The report also showed the work plan for the whole research, the budget as distributed right from the topic inception up to research presentation, the questionnaire and finally the observation guide. According to the objective one it was noted that, character and performance of Micro Finance Institutions in Finca bank, Kamuli district showed a positive impact to clients in that client do their level best to improve their character with commercial banks at the rate of 59% who strongly agreed and the client's character of being potential to borrow depend on business size at the rate of 51% who agreed which indicate that there is a progress to people who around the place who use this services. According objective two MFIs which indicate collateral and performance of MFIs. It indicated that, summary finding has significant negative impact of Interest Income to Total assets on the bank's performance thus the MFIs benefit from the client's collateral offered by the client at 73% , MFIs confiscate presented collateral in case you fail to repay back the loan and also MFIs have challenges on client's security offered in securing the loans at the rate of 49 % who strongly agreed this indicates the credit policy and performance of MFIs have left people's livelihood in danger that is to say many household's properties have been confiscated from people in Finca bank Kamuli branch. According to objective three about the relationship between capacity and performance of MFIs indicated that, capacity and performance of commercial banks according to the findings indicated credit policy encourage clients to borrow were 73% of the respondents strongly agreed, the policy limit borrower's capacity from borrowing were also 73% strongly agreed this indicated that is progress in the capacity and performance of MFIs in Finca bank, Kamuli district. We obtained the findings and analyzed the data by use of tables and charts which helped to present data and arrive at conclusion and recommendations. I therefore welcome you to have a humble time in reading this work. There are new and knowledge building findings in the work, a lot of inspirations.

# CHAPTER ONE
# INTRODUCTION

## 1.0 Introduction

This chapter dealt with the background to the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope, significance of the study, justification of the study and conceptual frame work.

## 1.1 Background to the study

### 1.1.1 Historical review

A credit policy is an institutional method for analyzing credit requests and its decision criteria for accepting or rejecting applications Craig, R. (2010). A credit policy was important in the management of micro finance institutional accounts receivables. A firm has time flexibility of shaping credit policy within the confines of its practices. It was therefore a means of reducing high default risk implying that the firm should be discretionary in granting loans Churchill, G. (2010). 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 Berry (2010). According to Nirmal (2009), credit policy provides a frame work for the entire management practices. Most micro finance have written credit policies which 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 importance of policies is to ensure operation's consistency and adherence to uniform sound practices. Policies should always 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 policy involves effective initiation analysis, credit monitoring and evaluation. Credit policies are set of objectives, standards and parameters to guide bank officers who grant loans and manage the loan portfolio. Thus, they are procedures, guidelines and rules designed to minimize costs associated with credit while maximizing the benefit from it Ahimbishwe (2002).The main objective of credit policy was to have an optimal investment in debtors that minimizes costs while maximizing benefits hence ensuring profitability and sustainability of microfinance institutions as commercial institutions. The credit policy of an organization may be stringent or lenient depending on the manager's regulation of variables.

There are three main variables namely credit terms, credit standards and credit procedures (Iyer, 2008): Managers use these variables to evaluate client's credit worthiness, repayment period and interest on loan, collection methods and procedures to take in case of loan default. A stringent credit policy gave a credit to customers on a highly selective basis.

Credit policy prior to the adoption in 1992 of the country exposure policy (Document ADBIBD/WP/9219s) the Banks leading operations were conducted on the basis of very broadly defined principle were outlined in the agreement establishing the African Development Bank.(amended in May 1979)which situated that bank should extend leading to borrowing counties paying due regards to the prospects to the borrowing would meet its obligations schedule following African debt crisis in the last 1980s and early 90s during which several ADB borrowing accumulated significant loan arrears it became clear that an explicit credit policy to guide lending to borrowing countries and to manage the bank exposure needed to be developed.

In September 1992 standards to guide the new lending operations aimed at enhancing the soundness of the Banks loan per folio.

Among the new standard calling countries should not exceed15% of the bank portfolio. New many countries stitched away from traditional loans to grants and highly concessional loan to these countries 1.3 in 1993. An exposure monitoring committee was established to oversee the implication of the country exposure policy. However it was not so common because very few countries can manage the 15%.In 1992, Finca Uganda started its operation as a microfinance institute and became popular for its village banking methodology where customers would access loans through group membership. In 2004, it was licensed as a micro-finance deposit taking institute (MDI) to be regulated by Bank of Uganda under the MDI act 2003 and also introducing new technology to reach out to Further Rural Areas in 2010.

In 2012 it had finished 20years of providing life changing financial services and in the same year it also launched ATM service using the Finance Access card to allow customer 24/7 access o their money through a multiplicity of inters witch member banks' across the country, 2014 it offers savings, loans, and money transfer services to its clients across its 27branches countrywide.

In 2015, Finca Uganda acquired and opened its own head office in a magnificent building located on plot 11, Acacia Avenue, Kampala, and in 2016, it became the first financial institution in Uganda to adopt credit scoring a key credit analysis tool that enables the financial institution to make credit decision very fast and in 2017, Finca Uganda marks 25years of providing relevant financial service to her over 200,000 clients hence empowering and impacting community positively.

### 1.1.2 Theoretical perspective

**Transactions Costs Theory**

Transaction cost theory has proven to be an essential framework for decisions on the vertical boundaries of a firm Williamson (2011), indicated that transaction occurs when a good or service is transferred across a technologically separable interfaces. One stage of activity terminates and another one begins. First developed by Schwartuz, R. A., and D. K. Whitcomb,(1974), this theory conjectures that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit worthiness of their clients. Suppliers also have a better ability to monitor and force repayment of the credit. All these superiorities may give suppliers a cost advantage when compared with financial institutions.

A threat to breach the contract can be seen as untrustworthy, since there is no alternative. A lockin of one transaction party leads to a hold up. Low specificity exists, if there is a range of homogeneous services or goods and supply is secured. This theory informs the study in that financial institutions develop credit policies such as credit terms and credit standard procedures to evaluate their customer credit-worthiness and ability to repay credit facilities
Boulding, and Wilson (1978).

### 1.1.3 Conceptual perspective

**A credit policy** is an institutional method for analyzing credit requests and its decision criteria for accepting or rejecting applications Kakuru (2003).

A 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.

**Financial performance** is company's ability to generate new resources, from day- to- day operations, over a given period of time; performance is gauged by net income and cash from operations. A portfolio is a collection of investments held by an institution or a private individual Opio (2010). Financial performance can be measured using the following repayment rate, portfolio quality ratios, arrears ratio rate, portfolio rate and delinquent borrowers. 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.

**Performance** is a systematic approach to improve results through evidence based decisions making the organization to continue lending focusing on the accountability. In the loan sector performance is measured basing on how the bank has been able to recover the borrowed money, how many clients have benefited from the loan, does the bank made profits or losses and what is the number of borrowers.

**Micro finance institutions;** as financial institutions are expected to transfer resources from surplus units to deficit units, they mobilize funds from savers and allocate funds to the deficit units based on their ability to pay principle and interest given associated risks. Funds are allocated to deficit units taking into account depositor's demand and to create a return for the intermediary. For the last number of years, commercial banks have been experiencing poor loan portfolio and they have resorted into investing in treasury bills. As reported in the bank of Uganda annual report 1999/2000, credit to the private sector reduced significantly to 9.2% relative to 29.9% in the previous year which reflected the cautious lending by banks. There were no creditworthy borrowers for commercial banks to invest surplus funds at an attractive interest rate, consequently commercial banks cash reserves have been raising.

### 1.1.4 Contextual perspectives

Finca Bank started in 1984 and it has it is mainly based in Washington D C. It operates in 21 countries and has over 800000 clients in Africa, Eurasia, Greater Middle East and Latin America. Finca bank incorporated in Uganda in 2004. It is one of the forty three (43) banks licensed by the Central Bank of Uganda, the national banking regulator in 1995, when several businesspeople acquired a 60% state in United Bank (Uganda), after paying approximately US$1.23 million (Uganda Shillings 95 million).The bank's headquarters were located in the western town of Kampala. United Bank was in receivership and was under statutory administration by the Central Bank of Uganda, the country's banking regulator. It's paid up capital then, was approximatelyUS$970,000 and it had an asset base valued at approximately US$1.54 million, in 2011 a decision was made to open the bank branch Kamuli district in Eastern Uganda. Over the years, Finca bank has progressively improved its bottom line by growing its customer base and increasing its profitability Griffin, (2010).

## 1.2 Statement of the problem

Credit policy can be realized in the operation efficiency of credit departments. This is due to the reduction of ambiguity over how to proceed in the functions written guidelines allow for clarity and help to provide instruction. Credit policies can also help to improve company's cash flow depending on the policy type, help in governing the lending and credit activities.

Despite the above credit policies, the following disadvantages credit policies can reduce instance of loan defaults and speed up account receivable turnover. Thus increasing cash out flow and it also enforces pressure to the borrower Kareta (2010). Source Lira a business woman was dragged by the management of Finca micro credit bank officers. Judith Angom a four mother pregnant to it police that she was seriously beaten up by the group members on order of the loan official from Finca bank when she failed to complete the borrowed 2.5 million in the period of 6 months which elapsed when she has just paid 1.1 million Jacobson ( 2003).

## 1.3 Purpose of the study

The purpose of the study was to establish the relationship between Credit Policies and Performance of the Micro Finance Institutions in Kamuli District, Finca Branch.

## 1.4 Objectives of the study.

i. To find out the relationship between character and performance of Micro Finance Institutions.
ii. To establish the relationship between collateral and performance of Micro Finance Institutions.
iii. To establish the relationship between capacity and performance of Micro Finance Institutions.

## 1.5 Research question

i. What is the relationship between character and performance of Micro Finance Institutions?
ii. What is the relationship between collateral and performance of Micro Finance Institutions?
iii. What is the relationship between capacity and performance of Micro Finance Institutions?

## 1.6 Content Scope

Theoretically this study concerned with the purpose of establishing the relationship between Credit Policies and Performance of commercial banks while specifically focusing on the impact of credit policies on the performance of commercial banks, the factors affecting credit policies in commercial banks and the factors affecting credit decisions in commercial banks.

### 1.6.1 Geographical scope

Kamuli District is bordered by Buyende District to the north, Luuka District to the east, Jinja District to the south, and Kayunga District to the west. The district headquarters at Kamuli are approximately 74 kilometres (46 miles), by road, north of Jinja, the largest city in the Busoga sub-region.

### 1.6.2 Time Scope

The study took a period of six months from May to October, 2019 through which a descriptive survey design data was collected by the researcher using questionnaires for report writing.

## [.7 Significance of the Study

[he researcher hoped that the findings of this study were useful for understanding the ·elationship between credit policies and performance of micro finance institutions. This possibly ıelped bank managers to take necessary managerial adjustments in relation to credit policies.

[he researcher also hoped that the study was to be formed as a basis for further research on :redit policies and performance of MFI's. This would lead to the generation of ideas for better ınderstanding of credit policies and performance of MFI's especially Finca bank Kamuli )istrict.

[he study was to identify key areas that would enable MFI's to minimize the rate of default rate ınd was to further act as an important element in credit policy performance of MFI's.

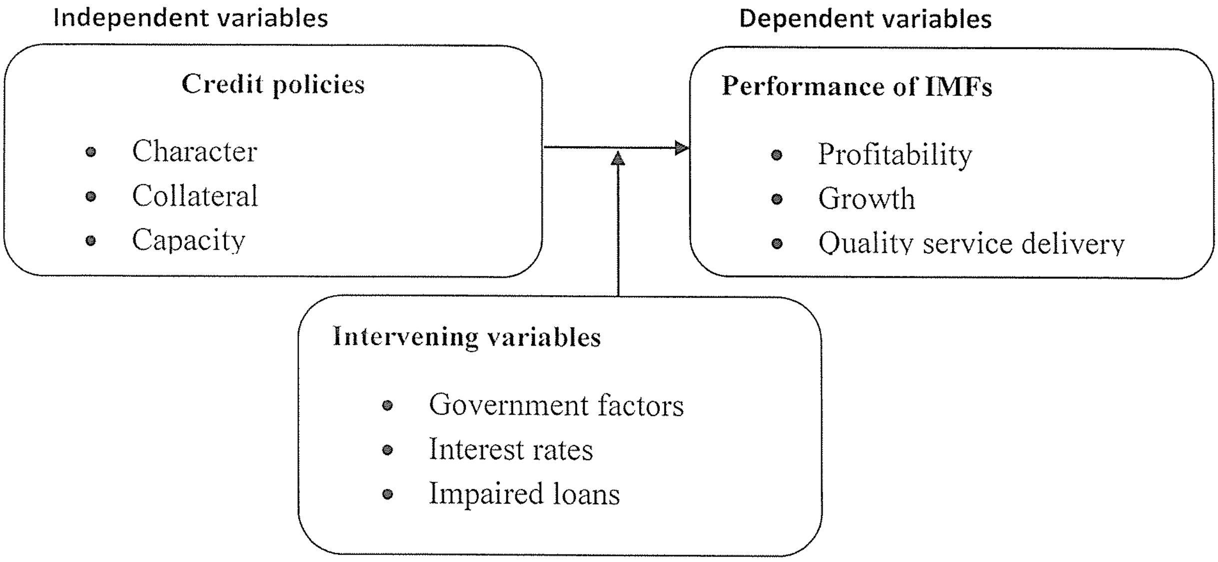
[he study also was to point out the need of capital structure in an organization which embedded ı good credit policy and hoped to improve the performance of MFI's.

[he study equally was to be useful to future researchers with similar interests and the findings :xpected to extend the frontiers of knowledge in the field of finance and accounting.

## l.8 The Conceptual frame work

ndependent variable credit policies, dependent variables performance of MFI's.

**Figure 1: 1.1 Showing the conceptual frame work**




**Adopted by the Researcher from Berry (2010).**

The independent variable was perceived as the credit policy whereas the dependent variable was o be the performance of Micro finance institutions The professed goal of making performance of was to improve the welfare micro finance institutions of people living in Kamuli District Berry (2010).The less number of clients of Finca bank would contribute to less profit gained by the business men in Kamuli district.

Conceptual capacity with high number of people on performance of MFIs institutions in Finca bank would increase on the profit of the business with the performance of improving household ncome in Kamuli area.

The core reason for Finca bank to exist was to improve on the standards of living of the people and as a result, their investments would increase.

## CHAPTER TWO

## LITERATURE REVIEW

### 2.0 Introduction

This chapter reviewed the effects of Credit Policy on the performance of Micro Finance Institutions in Kamuli District. A case study of Finca Branch. It consists of existing literature on credit policy by different scholars/research studies from magazines, text books, journals and newspapers.

### 2.1 Theoretical review

#### Transactions Costs Theory

Transaction cost theory has proven to be an essential framework for decisions on the vertical boundaries of a firm. Williamson (2000), indicated that transaction occurs when a good or service is transferred across a technologically separable interfaces. One stage of activity terminates and another one begins.

First developed by Schwartz and Whitcomb, (1974), this theory conjectures that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit worthiness of their clients. Suppliers also have a better ability to monitor and force repayment of the credit. All these superiorities may give suppliers a cost advantage when compared with financial institutions.

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**Micro Finance Institutions;** as financial institutions are expected to transfer resources from surplus units to deficit units, they mobilize funds from savers and allocate funds to the deficit units based on their ability to pay principle and interest given associated risks. Funds are allocated to deficit units taking into account depositor's demand and to create a return for the intermediary. For the last number of years, commercial banks have been experiencing poor loan ıortfolio and they have resorted into investing in treasury bills. As reported in the bank of Jganda annual report 1999/2000, credit to the private sector reduced significantly to 9.2% elative to 29.9% in the previous year which reflected the cautious lending by banks. There were ıo creditworthy borrowers for commercial banks to invest surplus funds at an attractive interest ate, consequently commercial banks cash reserves have been raising.

### :.2.1Credit Standards and Analysis

\ccording to Foundation of financial management, 10th Edition (1999) by Stanley B. Block and Jeoffrey A. Hurt, (2002) page 186-190; Credit standards refer to financial strength and :reditworthiness a customer must exhibit in order to qualify for credit. It is a basic stage in ending process. It's a process by which the financial institutions establish the credit worthiness ›f a customer. It involves the appraisal of customers to identify possible risks in lending as well ıs establishing the customers capacity to repay the loan. The successful credit standards and ınalysis will require the use of the standard credit application form looking for characters, which ndicate the possibility of risk and other relevant information for credit analysis. Setting credit ;tandards requires a measurement of credit quality which is defined in terms of the probability of ı customer's default. The probability estimate for a given customer is for the most part a ;ubjective judgment.

### Credit Terms

A Credit term is a contractual stipulation under which a firm grants credit to customers Wamasembe (2002), furthermore, these terms give the credit period and the credit limit. The irm should make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing organizations risk. Credit terms normally stipulate the credit period, interest rate, method of calculating interest and frequency of loan installments. It is evaluated by the position of the client as indicated by the ratio analysis, trends in cash flow and looking at capital position Christen & Rosenberg (2000). Maturity of a loan, this is the time period it takes a loan to mature with the interest there on. Cost of loan, by understanding the borrower, the risk premium can be ascertained and the profit erosion from bad debts can be decreased hence increasing bank performance.

Collection policy

According to Rajedom (2010), financial management theory and practice, 4th Edition Collection policy refers to the procedures the banks or firms use to collect past dues accounts or receivable. A collection policy is needed because all customers do not pay the firm bills in time. Some customers are slow payers while others are not payers. The collection efforts should therefore aim at accelerating collection from slow pay and reducing bad debt losses. The firm's collection policy is measured by its toughness or laxity in following up slow paying accounts. Attaining a high rate of loan collection was a necessary condition for micro finance institutions to become self-sustainable, losses have been the largest cost borne by banks and the principal causes of insolvency and in liquidity. This emphasize the fact that loans not paid decreases the funds available to lend, make it difficult to assure sale deposits and to attract savings, absorb scarce marginal time, undermine the financial integrity of the lender and tarnish the intermediary's reputation. When an individual does not pay loan, the process of creating debt capacity is reserved and repayment capacity destroyed.

### 2.2.2 Consumer Bank Credit

Muelle & Henry (1976) Credit doctrine for the lending office, New York Citicorp defines credit policy as a tool that provides framework for the entire credit management process. A credit policy or Credit Management System (CMS) is aimed at optimizing the efficiency of credit management of commercial banks and other related credit institutions. The banks must gain an acceptable level of confidence to extend the loans facilities at the lowest possible risk of loss since the bank's funds are committed for returns.

From Finca bank, Kamuli district credit operation manual Director Report and accounts (2005); Credit management system specifically supports credit assessment and analysis, loan disbursement and credit monitoring. Also credit policy guides loan or credit officers in balancing quality and quantity in support of the bank's earnings objectives. It ensures consistent approach to credits and a uniform lending style. Credit doctrine for lending office (2007). According to introduction to financial management, third Edition, by Lawrence Schall and Charles Haley page 518; Customer attributes that credit managers base their evaluations on the risk in extending risk ın their assessments of the attributes of particular customers. This can be seen in 5 C's' that is Character, collateral, capacity, capital and conditions Kareta (2010).

**mportance of Credit**

According to Ssenoga Richard (2001), designing and delivering a saving product for micro inance institutions in Uganda, the micro finance banker, volume 9 No. 2, page 5-7; The principal function of credit in MFIs is to transfer the property from those who own it to those who wish to use it, as in the granting of loans by banks to individuals who plan to initiate or expand their business venture. The transfer is temporary and is made for a price known as nterest which varies with the risk involved and also with the demand for and supply of credit.

## !.3 Character and performance of micro finance institutions

Character is the general impression you make on the prospective lender or investor. The lender formed a subjective opinion as whether or not you are sufficiently trustworthy to repay the loan or generate a return on funds invested in your company. Your educational background and experience in business and in your industry was considered. The quality of your references and the background and experience level of your employees also reviewed Rajedom (2010).

### 2.3.1 Assessing client character as a potential business borrower

The weight given to lender's assessment of borrower's character can vary between lending institutions and between individual lending officers. Many small businesses have found more success "selling" their reputation and good character to smaller community banks that may be more directly affected by the economic health of the sounding community.

Many bankers consider the amount of investment the owners themselves are committing to the business as evidence of borrowers "character" on top of that, many commercial lenders want the owner to finance 25 percent to 50 percent of the projected cost of startup business or new project. If your investment is considered insignificant, a lender may consider it a lack of both owner confidence and deduction to the business. (Strategiccfo.comlwikicfo/5-cs of credit policy)

The world of business is not an exact science where decisions are always carefully calculated. Many decisions are based on a level of trust between individuals, honestly between two parties often gives a boast to a good business partnership. In this case of lack of trust, business relation becomes extremely difficult and offers go nowhere.

The same rule applies when banks are lending money. The first element in importance when they evaluate a potential client is the character of the borrower, that is to say, the quality of management and their will to reimburse. A business that has good administration with good reputation was an easier time to exchange with banks and have access to credit. After all, on a medium and long-term, accompany that is passing through a rough time but is managed by a competent administration has a better chance to succeed than a successful company managed by unqualified people. The character of a borrower also integrates the year of experience references of other business partners, advertising, employee turnover history (for example was there any fraud) and the ethical code Moira (2010). This qualitative element is the first step for a business relationship and goes in front of any quantitative data Rajedom (2010).

### 2.4 Collateral plays an important role in many models of bank behavior.

According to Besanko (1987), building on the exante screening model by Rajan, Raghuram G. / Winton, Andrew (1995), interpret collateral as a signal which allows a bank to solve the adverse selection problem inherent in debt financing under asymmetric information. In a model with two types of projects, high and low risk, a separating equilibrium is shown to exist. Low-risk borrowers generally choose contracts with a high level of collateral. High-risk borrowers, in contrast, prefer to have loans with no collateral. The signaling models thus predict a negative correlation between loan risk and collateral.

Note that the signaling model is concerned with the pre-contractual stage. Once the contract has been concluded, however, the informational problem is resolved in principle, and the economic function of collateral in a multi-period, dynamic setting remains to be explored.

A second class of models focuses on the ex post monitoring function of banks. Bester (1994) develops a model of debt renegotiation that predicts a positive correlation between default risk and collateralization. In this model, a creditor cannot distinguish between strategic default (i.e.

he borrower is cheating), and default due to a bad state realization of the world. Therefore, the rovision of (outside 2) Collateral will reduce the debtor's incentive for strategic default. In a node with inside collateral, Winton (1995), analyze the case in which the collateralization lecision of an inside bank can be observed by less informed outsiders thereby transforming rivate information on borrower quality into public information. The inside bank will be ompensated for the externality by a more senior debt position. Since the lender tends to ollateralize loans with high risk borrowers, there is again a positive association between risk nd collateral implied. Finally, the prediction of a positive correlation between project risk and ollateral corresponds to conventional wisdom in banking, which views collateral as a means to ower the risk exposure of a bank.

The incidence of collateral, as well as the extent of collateralization, is an increasing function of orrower default risk

Ve now turn to the role of relationship lending as a determinant of the collateral decision.

3oot/Thakor (1994), develops a model of relationship lending as an infinitely repeated moral azard game. Loan contract terms, notably the interest rate and collateralization, are determined imultaneously. Collateral, which is outside collateral in this model, is a binary ("all or nothing") ariable. In the relationship equilibrium, for borrowers without a positive track record, the bank harges high interest rates and requires the provision of collateral. After privately observing the uccess of the borrower, the bank is willing to lower the interest rate and is no longer requiring ollateral. This leads to a negative association between relationship intensity and collateral.

In a seminal study, Berger/Udell (1990), empirically analyzed the risk-collateral relationship. They used data from the 1988 "Survey of Bank Lending Terms" in the US and found a consistently positive relationship between risk and collateral. The authors use two alternative proxies for credit risk. The first is the fraction of borrowers with non-performing loans of each of their sample banks, i.e. an ex post measure for borrower quality. The drawback of this risk proxy is that the analysis is not on the level of individual borrowers but on an aggregate bank level. Their second risk proxy is the mark-up of contracted interest rates on loans over a risk-free reference rate. This is an indirect and potentially biased measure of exante risk since the spread s determined by several factors of which a borrower's default risk is only one (see Harhoff Körting (1998) & Elsas/Krahnen (1998), for empirical details).

Berger/Udell (1995), extends this analysis to aspects of relationship lending and the financing of mall firms by using data from the 1988 "National Survey of Small Business Finance".

They use balance sheet ratios (e.g. leverage, profit margin) as risk proxies and duration as a proxy for relationship intensity. The authors claim that their findings support a positive risk collateral correlation, though leverage is the only significant explanatory variable out of eight isk measures. Duration, as it turns out, has a significant negative coefficient, thereby implying decreasing collateral requirements for more intensive bank-borrower relationships.

Furthermore, all of these empirical findings with respect to relationship lending are based on the nterpretation of duration as an adequate measure for relationship lending. This assumes that duration is to some extent associated with information intensity. Recent empirical evidence disputes the validity of this assumption. Ongena/Smith (1997), finds no significant influence of contract duration on the likelihood of relationship termination for the Norwegian market. This finding is not consistent with the idea of a lock-in effect for debtors with a strong relationship, unless duration is no measure for relationship intensity Wendel (2003). Find no significant difference in the mean contract duration between their subsamples of house bank and non-house bank relationships. Additionally, duration is not significant in either of the authors' regressions, though Elsas/Krahnen find evidence for distinct behavior by relationship lenders as providers of liquidity insurance.

### 2.5 Capacity and performance of micro finance institutions

Capacity refers to ability to repay a loan and how much debt you can comfortably handle. Commercial banks need to be able to determine whether you can afford to pay off your loan, commercial banks look to see if you have been working consistently in a job that is likely to provide enough income to support your borrowing. Past income and employment history are good indicators of your ability to repay. Income streams are analyzed along with any other obligations that could interfere with repayment. Commercial banks used the debt-to-income ratio to measure Show likely you are to repay the loan. They want to know what your monthly income is and any supplementary income from bonuses, dividends or rental income. The debt to income atio is calculated by summing up all your existing monthly debts such as your rent or mortgage ayments, car loan payments, or credit card payments including the monthly payment for item ou're trying to finance. This total number is then divided by your income.

Most banks would be uncomfortable if more than 35% to 40% of your income is spent on debt ervicing Schmittlen (2010), most commercial banks have stipulated minimum requirements for oan application, the more you earn in a year, the more qualified you are likely to be. But even if re a high income earner, if your debts are equally large, lenders may hesitate to lend you more noney. Capacity to repay was the most critical of the five factors of lending. It is the primary ource of repayment cash. The prospective lender wanted to know exactly how you intend to epay the loan; the lender considered the cash flow from business, the timing of the repayment nd the probability of successful repayment of the loan. Payment history on the existing credit elationship, personal or commercial is considered an indicator of future repayment performance. Potential lenders also will want to know about other possible sources of the repayment Nimi Akinkugbe (2012 & 2014) and Wells Fargo (1999-2015).

Efficient management is another most important factor behind the Performance of all banks. Management efficiency of the bank includes its administrative ability to react in diverse circumstances. The term management efficiency involves the capability of management in generating business and maximizing profits. A focal term 'administrative proficiency', which essentially indicates the capacity of a bank to increase benefits or minimize costs under given situations. With increased competition in the Pakistani banking sector, the efficiency and effectiveness become the rule as banks constantly strive to improve the productivity of their employees. Presently the banks have extended their working hours. By the use of latest technology banks have improved their operating system. Management efficiency is a useful for the bank performance. Above all it is a qualitative factor which is applicable to institutions individually or can jointly use as an indicator of management efficiency. Expense ratio, earnings per employee, loan size and cost of unit per lent money is used as an alternate of the management efficiency. By the use of technology they are able to provide quick service in a short time, so now they are attracting customers and compete with each other on the basis of quickly and comfortably Wendel & Harvey (2003).

In the CAMEL model this parameter has an important position. It shows the management efficiency of the banks for better financial performance. The ratios which are used in this part are involved subject analysis to measure the efficiency and effectiveness of bank management. Bank management takes difficult decision depending on its risk perfection. Administration's effectiveness is calculated as Assets turnover. The higher the proportion the higher administration efficiency is. As administrators make progress toward more profit, it is likely that they would expand the expense of intimidation, which would upgrade profits.

The two main questions are "what drives performance", and "what contribute to performance" are headed in the minds of managers. Finding or highlighting the source of better performance and adoption of right management strategies is very important to the managers. The performance of the management based upon the availability of useful information for decision making, measuring the performance gave the idea that what was their current performance level and what can be done to enhance their performance. By using this information to check what the current performance is thus can focus on those areas in which they are weak or the resources should be allocated. The focus has shifted to analyze the management performance over the last decade. While the management analyzes that how well the boards of directors are functioning, the diversity of its technical knowledge and its ability for making flexible and effective decisions.
Effective management is a required for the success of financial organization. It is difficult to make any comment related to the management efficiency on the basis of quantitative data because generally it is qualitative in nature. The management efficiency is most important for the ensuring the bank stability and strength. Past studies are devoted to the evaluation of the performance of banks, due to the qualitative parameter it is not used to measure. More indicators should be used to evaluate the efficiency of management like operating expenses as percentage of assets, personal expense to average assets, and cost to income ratio.

Managing asset efficiency is very important because of its impact of the debt service ability of an organization. Better deployment of financial resources can generate more profits. However the methods of administration proficiency are not same in past studies. There is a good spread among techniques which are used by different researchers in management efficiency. It is exciting to see that either the researchers have assumed or ignored the independence or interrelations while evaluating the execution of banks. Dave and Bhatt highlight the importance of the complex interrelation among the components, there was no good attempt was made to measure these types of interrelations. Monetary segment performance is reliant on management proficiency Mutebile (2010).

Olweny and Shipho suggest that the perceived notion that higher expenditure results with lower profits may not be straightforward as it seems, because higher amounts of expenses may be associated with higher volume of banking activities and therefore higher revenues The Management has been empirically evaluated by non-interest expense to the sum of net interest income and non-interest income, personal expenses to average assets and cost to income ratio Ibe SO (2013).

**Admin expenses to interest income ratio:** The expenses that an organization incurs not directly tied to a specific function such as manufacturing/production or sales. These expenses are related to the organization as a whole as opposed to an individual department; also referred to as 'administrative cost"(Investopedia) De B (2012).

'Overhead expenses also include selling & administrative expenses are those expenses that are incurred whether the firm produces any revenues or not". The common concept is that a high Cost Income Ratio is equal to low productivity and low efficiency. Karim states that larger banks tend to be more cost efficient Bhatt & Sumangala (2012).

Administrative expenses as percentage of total assets have a negative impact on bank performance. The negative sign shows that the lack of ability in expense management in banks. If administrative costs are managed properly, if expenses, increase it will increase the interest margin of the banks and raise income. The coefficient sign which is negative shows that banks are incapable to pass its expenses to customers because of the competition Silviana, Rocky (2013).

Related to the cost to operate a business and are not directly attributable to the production of goods or services. The Administrative expenses are linked to the business as a whole. It is not assigned to the individual section as a complete. These expenditures are essential costs which are associated with the administrative, clerical, and overall functions of the corporate. Rent of the building, utilities or salaries of the employees are the type of administrative expenses and these are not involved in production of goods. These expenses incurred in controlling and directing as a business, but cannot be easily identified with the financing, marketing or production operations. The salaries of top level management (executive cost of services) an example of managerial expenditure. Admin overheads usually include the costs, which offer a wide benefit to the business. Cost of utilities is the most common example of administrative expenses. Olweny & Shipho (2011).

**Gross advances to total deposit ratio:** Gross advance amount means the sum payable to the payee or for the payee's account as consideration for a transfer of structured settlement payment rights before any reductions for transfer expenses or other deductions to be made from such consideration. The aggregate estimation of private home loan credits progressed by social orders in the period, including advances for house buyers, further advances, remortgages and so on Nagamani & Williams (2015).

A commonly used statistic for assessing a bank's liquidity by dividing the banks total loans by its total deposits. This number, also known as the limited ratio, is expressed as a percentage. If the ratio is too high, it means that banks might not have enough liquidity to cover any un-foreseen fund requirements; if the ratio is too low, banks may not be earning as much as they could be (Investopedia).

Operation ineffectiveness is also positive and significantly related to loan-to-deposit spreads banks with higher costs apparently tend to operate with higher margins Saleem Q, Rehman RU (2011), the coefficient to the loan-to-deposit ratio (L/D) carries a positive sign and is statistically significant in all of the specific expense items equations and it is significant at the one percent level in the overall expense equation.

# CHAPTER THREE
# RESEARCH METHODOLOGY

## 3.0 Introduction

This chapter presented the research design, study population, sampling design, sampling size, data collection methods, validity and reliability instruments, ethical consideration and limitation of the study.

## 3.1 Research Design

The researcher used a descriptive survey research design basing on the use of qualitative and quantitative approaches that would adopt to establish the relationship between Credit Policies and Performance of the MFI's at Finca bank, Kamuli district Muganda, & Mugenda (2003), this design was used for profiling, defining, segmentation, estimating, predicting, and examining associative relationships. A descriptive survey research design studies easily was used in providing a quick snapshot of what's going on with the variables for the research problem. A random sampling system was used in the study.

## 3.2 Study Population

Due to poor performance of some indigenous banks in Uganda and out of 60 respondents who included managers, loan officers credit officers, credit rating officers, and other authorized employees a survey was used to carry out research with loans and credit offers of Finca bank, Kamuli district to relate their views with the credit policy and the performance of MFIs. The study was conducted only in Kamuli district area.

The target population for this study comprised of 7 managers of Finca bank Kamuli district, 7 loan officers 10 credit officers, 15 credit rating banking officer, 21 clients / customers making a total population of 60. It will be from these that the sample size will be selected.

### 3.3 Sample size

This refers to the number of respondent to who you obtain the required information of the study. The sampling frame work was drawn from the list of clients of micro finance institutions of Finca bank Kamuli district where all the members of the study population had equal and independent chance of selection in a sample.

The study involved 60 respondents. This sample size is assumed by the researcher to be representative enough of the entire population.

By using Solver's Formula.

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

Where;

n = the required sample size

N = the known population size

e = the level of significance, which is fixed at 0.05

$$n=\frac{60}{1+60(0.05)^2}$$

$$n=\frac{60}{1+60\ (0.0025)}$$

$$n=\frac{60}{1+0.195}$$

$$n=\frac{60}{1.195}$$

$$n=50$$

**Table 1: 3.1 Representing sample population in percentages**

| **Categories of the population** | **Population size** | **Sample** | **Techniques** |
|---|---|---|---|
| Managers | 7 | 6 | Purposive |
| Loan officers | 7 | 6 | Purposive |
| Credit officer | 10 | 9 | Purposive |
| Credit rating officer | 15 | 10 | Simple random |
| Clients | 21 | 19 | Purposive |
| Total | 60 | 50 | |

**Source: Primary Data 2019.**

## 3.4 Sampling

### 3.4.1 Sampling design

The study mainly used a simple random sampling methodology.

## 3.5 Sources of data

Data is defined as facts, opinion, and statistics that have been collected together and recorded for reference or for analysis (Saunders et al. 2009).The source of data is from primary source that is the use of questionnaires.

A combination of primary and secondary data sources was used to extract data in an attempt to establish the relationship between Credit Policies and Performance of the Micro Finance Institutions in Kamuli District, Finca Branch.

## 3.6 Data collection method

To obtain data about the research variables, primary and secondary data source was used as elaborated below. The researcher applied the use of self-administered questionnaires Kothari (2014).

**Primary:** This involved use of first-hand information obtained from the field using questionnaires. The type of data included social- demographic characteristics of the respondents (age, gender, level of education etc) and perception of solid waste management.

**Secondary:** This included the already existing literature about the credit policies and performance of MFIs. This information is collected from reports, circulars, newspapers, magazines and internet.

## 3.6 Data Collection Instruments

### 3.6.1 Questionnaires Method

Data collected was used by structured questionnaires designed by the researcher. The questionnaires were sent to the department heads, staff and other subordinate staff. This technique will be used because all the respondents were literate. The merit of this method ncluded; free of biased information and enough time for the respondent to consider his points carefully.

### 3.6.2 Response rate

Respondents were given two weeks to complete the questionnaires. The researcher submitted 50 questionnaires at Finca bank, Kamuli district. However, by the end of the data collection process, 41 questionnaires were returned posing a respondent rate of 82% and non- respondent rate of 18% as shown in the table 2 below. It implied that more than half of the target population participated in the process giving high level of precision to the findings.

## 3.7 Measurement of variables

### 3.7.1 Validity of instruments

Validity is the efficiency or the degree to which a method, a test or a research tool actually measures what is supposed to be measured. It refers to the accuracy of the research data. For this case, the validity of the questionnaires was tested using the Content Validity Index Test (CVI). (Carole, 2008) This involved item analysis to be carried out by the supervisors and an expert who were knowledgeable about the theme of the study. This process involved examining each item in the questionnaire to establish whether the items bought out was expected to be brought. Item analysis was conducted using the scale that runs from relevant (R), Neutral (N), to irrelevant (I). CVI = <u>No. of items regarded relevant by judges</u>

Total No. of items

41/50 x 100 = **82%**

### 3.7.2 Pre-testing

In order to ensure and maintain a high level of consistency in this study, the researcher used the following: A questionnaire will be pre-tested. An ambiguous question which were made clear and irrelevant to be detected. The researcher used an accurate question which was open-ended and closed ended questionnaires. The questions to be set had enough space to give appropriate response.

### 3.7.3 Reliability of instruments

Reliability means the degree of consistency of the items, the instruments or the extent to which a test, a method, or a tool gives consistent results across a range of settings or when it was administered to the same group on different occasions. The reliability of research questionnaire was tested for its internal consistency to measure research variables Winterstein (2008).

### 3.7.4 Data validity

An introduction letter was obtained from the College of Economics and Management to solicit approval to conduct the study from respective departments in Finca bank Kamuli district. When it's approved the researcher secured a list of the qualified respondents from the bank authorities in charge and selected through systematic random sampling from this list to arrive at the minimum sample size Ahamed, R. (2010).

## 3.8 Data processing and Analysis

Data collected was edited 'and analyzed by using percentages, tables and graphs and simple statistical modules, frequency distribution to assess the effects of Credit policy and performance of MFIs institutions. Quantitative data analysis was performed in relation to research question. Statistical findings were interpreted in light of the objectives of study and conclusion was made based on the literature review to attach more meaning. This was done to determine the response rate, qualitative and quantitative form of analysis was administered using the SPSS Field (2005).

## 3.9 Ethical considerations

It was important during the process of research for the researcher to make respondents to understand that participation was voluntary and that participants were free to refuse to answer any question and to withdraw from participation at any time they are chosen. Another important consideration, involved getting the informed consent of those going to be met during the research process involved observations on issues that are delicate to some respondents; the researcher had to bear with this seriously in mind. Accuracy and honesty during the research was very important for academic research to be protected. Personal confidentiality and privacy was very important since the report wouldn't for public. If individuals are to be provided with information, it was be important for their privacy to be respected. If private information was accessed then confidentiality was maintained by all respondents were therefore, re-assured of this before being involved.

### 3.10 Limitation of the study

The researcher in carrying out the research work was limited in the following ways; the research was limited by time period. The researcher had only six months to carry out the research.

Due to this limit the study could not cover all the components of credit policy affecting the performance of micro finance institutions and posed difficulties to compile all the necessary information about the effects of credit policy on the performance of micro finance institutions due to time limit.

Most operators of micro finance institutions were uneducated and this made it difficult to get valid information from them about the effects of credit policy on the performance of their businesses.

Worse still the business owners were busy attending to their customers and rarely spared time for the researcher.

Financing the research study was too costly in terms of transport costs, feeding and processing of the proposal.

# CHAPTER FOUR

# DATA PRESENTATION, ANALYSIS AND INTERPRETATION

## 4.0 Introduction

The chapter involves presentation, analysis and interpretation of the study results. Data presented, analyzed and interpreted according to the research objectives. It is presented in the form of tables and figures basing on the responses got from the study respondents that were selected during the process of data collection.

The discussion of findings has been arranged in accordance with demographic characteristics of respondents' and objectives of the study as were formulated in chapter one of this report. The findings were from both primary and secondary sources. The findings are presented in the gist of the three objectives that the study was set to achieve; to find out the relationship between character and performance of micro finance institutions, to establish the relationship between collateral and performance of micro finance institutions and to establish the relationship between capacity and performance of Micro Finance Institutions.

The analysis was based on the objectives of the study and the presentation and the interpretation done with the help of tables, pie charts and narrative text as follows;

## 4.1 Response rate

The researcher submitted 50 questionnaires at Finca bank, Kamuli district. However, by the end of the data collection process, 41 questionnaires were returned posing a respondent rate of 82% and non- respondent rate of 18% as shown in the table below. It implied that more than half of the target population participated in the process giving high level of precision to the findings.

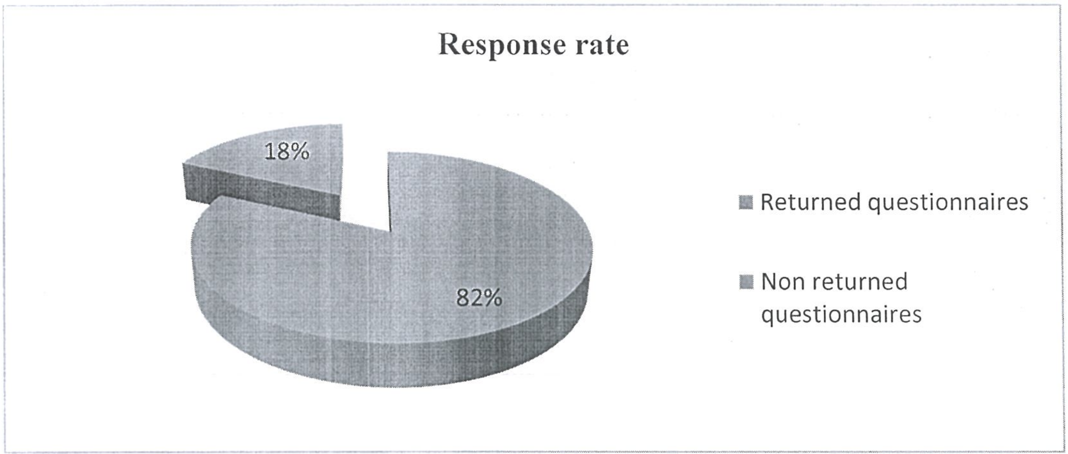
**Table 2: 4.1 Response rate**

| **Questionnaires distributed** | **Frequency** | **Percentage** |
|---|---|---|
| Respondents | 41 | 82% |
| Non response | 9 | 18% |
| **Total** | **50** | **100** |

**Source: Primary Data 2019.**

The feedback received from the pilot study showed that more respondents took time to fill in the questionnaires and the discrepancy of 9(18%), could be caused by the respondents who failed to get time to fill the questionnaires.

**Figure 2:4.1 Showing the response rate**




**Source: Primary Data 2019.**

**4.2 Background characteristics of the respondents**

These include age, sex, education level and marital status. Findings on the age of the respondents revealed the following information/results.

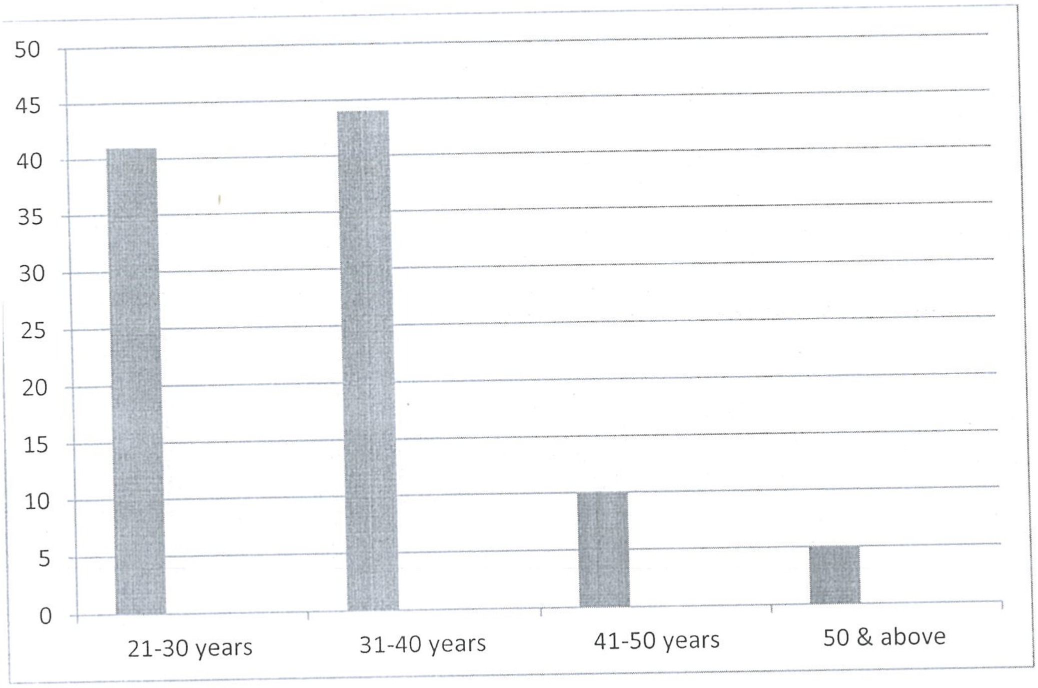
**4.3 Age of the respondents**

**Table 3: 4.2: Findings on the age of respondents**

| Response | Frequency | Percentage |
|---|---|---|
| 21-30 years | 17 | 41% |
| 31-40 years | 18 | 44% |
| 41-50 years | 4 | 10% |
| 50 and above | 2 | 5% |
| **Total** | **41** | **100** |

**Source: Primary Data 2019.**

**Figure 3: 4.2 showing the Age of the respondents**




**Source: Primary Data 2019.**

Table and Figure 4.2 as can be seen from above, 17(41%), of the respondents range between 21-30 years, 18(44%), was between 31-40 years, 4(10%) were between 41-50 years while 2(5%), were above 50 years. This meant that most of the small scale businesses were operated by people who were between 50 and above years.

### 4.4 Response on the level of education of the respondents.

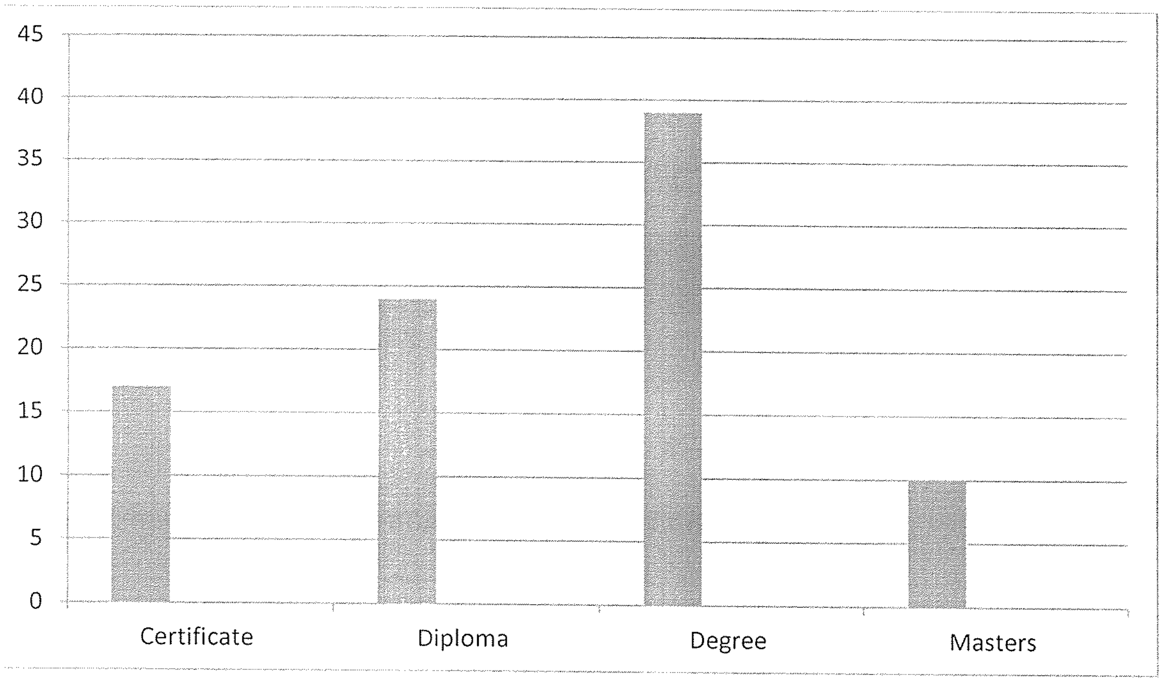
Here respondents were asked about their highest level of education that is those with certificates, degree, diploma and others. The results were as follows;

**Table 4: 4.3: Findings on the level of education**

| Level of education | Frequency | Percentage |
|---|---|---|
| None | 4 | 10% |
| Certificate | 7 | 17 % |
| Diploma | 10 | 24% |
| Degree | 16 | 39% |
| Masters | 4 | 10% |
| Total | 41 | 100 |

**Source: Primary source 2019.**

**Figure 4: 4.3 Showing the Findings on the level of education**




**Source: Primary Data 2019.**

Table and Figure 4.3 as can be seen from above, 4(10%) had not attained any level of education, 7(17%), had certificates, 10(24%), had diplomas, and 16(39 %), had acquired degrees while 10% had completed other levels of education like professional accreditations such as CPA (U). This means that the majority of respondents were literate and able to understand and internalize the contents of the questionnaires distributed to them.

## 4.5 Findings on the gender of respondents

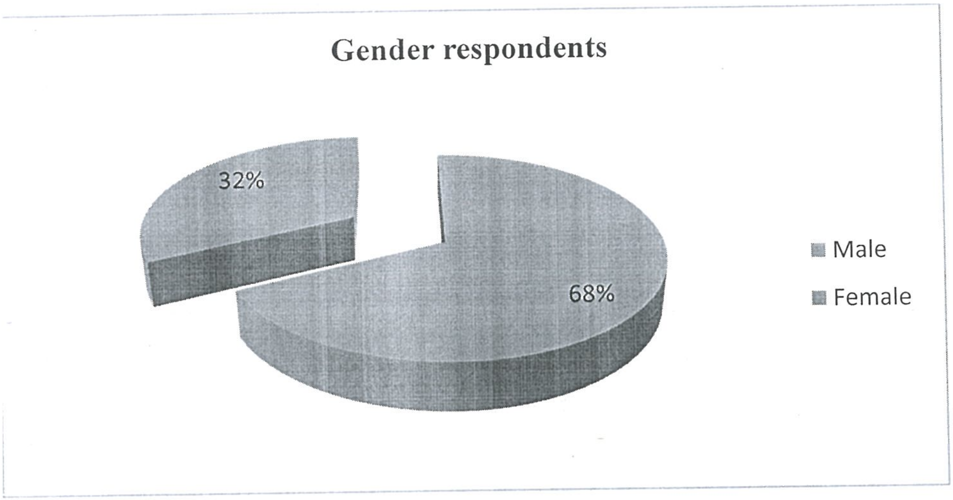
Here respondents were asked their gender whether male or female and the following results were obtained.

**Table 5: 4.4: Showing Gender of respondents**

| Gender | Frequency | Percentage |
|---|---|---|
| Male | 30 | 73% |
| Female | 11 | 27% |
| Total | 41 | 100 |

**Source: Primary Data 2019.**

Figure 5: 4.4 Showing the gender of respondents




**Source: Primary Data 2019.**

Table and Figure 4.4 as can be seen from above, majority of the respondents, 30(73%), were male while 11(27%), were female. This means that most of the performance of MFIs at Finca Bank Kamuli Branch was operated by male.

### 4.6 Findings on the marital status of the respondents

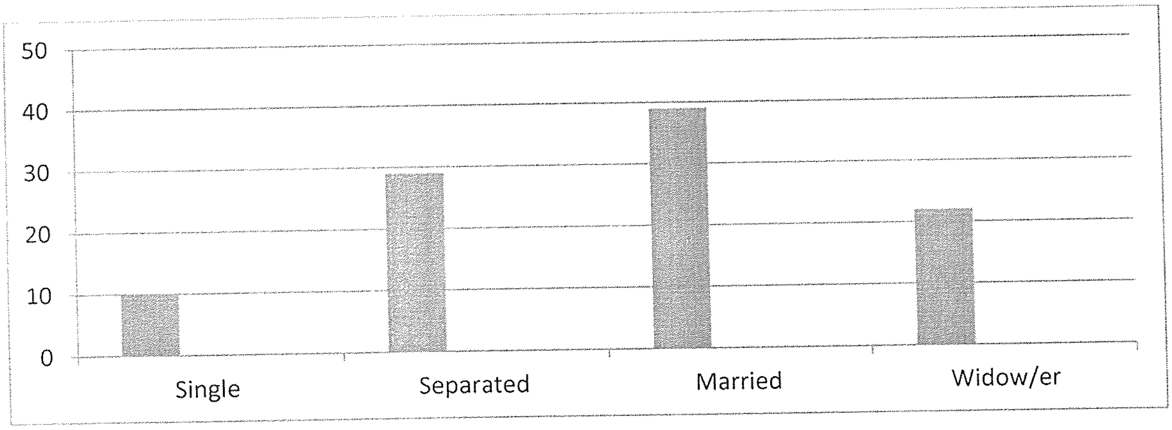
Here respondents were asked if they were married, single, separated widow and the results were as follows;

**Table 6: 4.5: Showing Marital status of the respondents**

| Marital status | Frequency | Percentage |
|---|---|---|
| Single | 4 | 10% |
| Separated | 12 | 29% |
| Married | 16 | 39% |
| Widow | 9 | 22% |
| **Total** | **41** | **100** |

**Source: Primary Data 2019.**

**Figure 6: 4.4 Showing the Marital status of the respondents**




**Source: Primary Data 2019.**

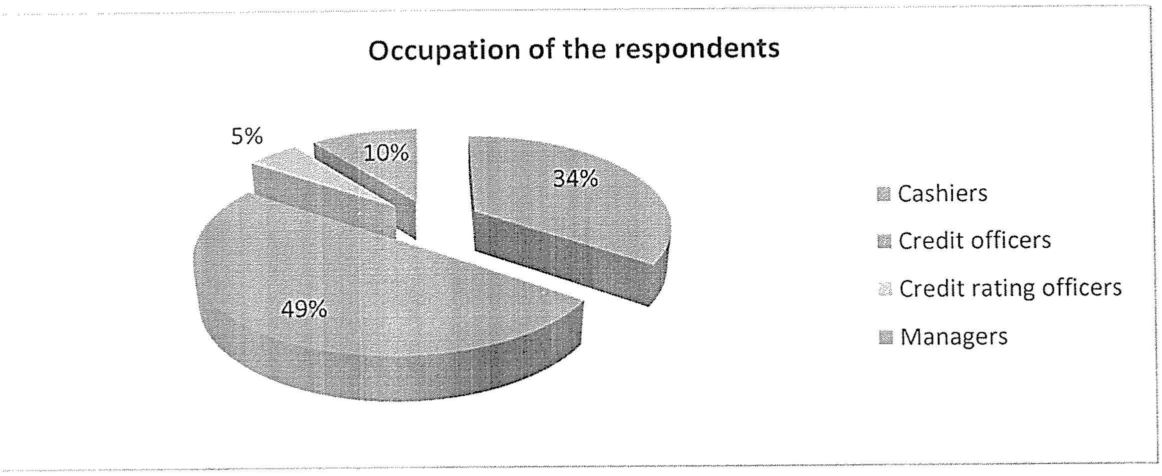
Table and Figure 4.5 as can be seen from above, 4(10%), was single, 12(29%), were separated, and 16(39%), were married while 9(22%), were widowed. This implies that most of the performance of micro finance institutions at Finca Bank Kamuli Branch was operated by married people, widowed and separated. This finding is related to the pressing domestic responsibilities that compel people to find out avenues of funding for their families including opening up performance of micro finance institutions at Finca Bank Kamuli Branch.

**Table 7 : 4.6 Showing Occupation of the respondents**

| **Occupation of the respondents** | **Frequency** | **Percentage** |
|---|---|---|
| Cashiers | 14 | 34% |
| Credit officer | 20 | 49% |
| Credit rating officer | 2 | 5% |
| Managers | 4 | 10% |
| **Total** | **41** | **100** |

**Source: Primary Source 2019.**

Figure 7: 4.6 Showing the Occupation of the respondents




**Source: Primary Source 2019.**

Table and Figure 4.6 as can be seen from above, 14(34%), was cashiers, 20(49%), were Credit officer, and 2(5%), were Credit rating officer while 4(10%), were Managers. This implies that most of the performance of MFIs at Finca bank Kamuli branch was operated by credit officers. This finding is related to the pressing field responsibilities that compel people to find out avenues of funding for their employees including opening up performance of micro finance institutions at Finca Bank Kamuli branch.

## 4.7 To find out the relationship between character and performance of Micro Finance Institutions

The first research objective was to find out the relationship between character and performance of micro finance institutions. The data collected from the field presents findings that can be interpreted as follows.

**Table 8: 4.7 Showing the relationship between character and performance of Micro Finance Institutions**

| CHARACTER | Strongly Agree | | Agree | | Disagree | | Strongly Disagree | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | F | % | F | % | F | % | F | % | F | % |
| Customer characters affect commercial bank operations. | 21 | **51** | 14 | **34** | 2 | **5** | 4 | **10** | 41 | **100** |
| Client's characters of being potential to borrow depend on business size. | 28 | **68** | 8 | **20** | 1 | **2** | 4 | **10** | 41 | **100** |
| Clients do their level best to improve their character with commercial banks. | 24 | **59** | 12 | **29** | 2 | **5** | 3 | **7** | 41 | **100** |
| MFIs institutions assess client's character as potential business borrowers. | 19 | **46** | 10 | **24** | 4 | **10** | 8 | **20** | 41 | **100** |
| MFIs offer credit even if you have bad character towards repayment. | 17 | **41** | 15 | **37** | 3 | **7** | 6 | **15** | 41 | **100** |
| MFIs asses' character depending on the success of prior business experience. | 21 | **51** | 14 | **34** | 2 | **5** | 4 | **10** | 41 | **100** |
| Customers consider bank reliability offered by credit depending on their trustworthiness character. | 23 | **56** | 12 | **29** | 2 | **5** | 4 | **10** | 41 | |
| **Total** | **153** | **372** | **85** | **207** | **16** | **39** | **33** | **82** | **287** | **600** |
| **Average** | **21** | **53** | **12** | **30** | **2** | **6** | **5** | **12** | **41** | **85.7** |

**Source: Primary Data 2019.**

Table 8 above presented finding on the relationship between character and performance of microfinance institutions in finance bank Kamuli district. The data collected was based on the Likert scale of strongly agreed, agreed, disagreed and strongly disagreed.

The finding revealed that customers character affects MFI's operations indicated the highest as strongly agreed with 21(51%) of the respondents, followed by 14(34%) who agreed, 4(10%) strongly disagreed and the lowest of 2(5%) who disagreed with the findings.

The finding on client's character of being potential to borrow depend on business size indicated the smallest as 1(2%) of the respondents who disagreed while 28 (68%) was the biggest for strongly agree and 8(20%) and 4(10%) for agree and strongly disagree respectively.

The study findings also indicated that client do their level best to improve their character as a potential business borrower indicated the highest as strongly agree with 19(46%) followed by 10(24%) for agree, 8(20%) for strongly disagree and 4(10%) respondents who disagreed with findings.

About MFI's offer you credit even if you have bad character towards repayments indicated that only 3(7%) disagreed with the findings which is the smallest and also 6(15%) strongly disagreed while 15(37%) agreed and the highest was 17(41%) of the respondents who strongly agreed.

The study findings that MFI's bank assess your character depending on success of prior business experience indicated 21(51%) respondents for strongly agree, 14(34%) for agree, 4(10%) for strongly disagree and 2(5%) for disagree which was the lowest figure of respondents.

The study findings indicated that customers consider bank reliability offered by credit depending on their trustworthiness character indicated 23 (56%) respondents for strongly agree, 12 (29%) for agree, 2 (5%) for strongly disagree and 4 (10%) for disagree which was the highest figure of respondents.
The findings on the relationship between character and performance of Micro Finance Institutions in Finca bank, Kamuli district showed a positive impact to clients in that client's characters of being potential to borrow depend on business size at the rate of 69% who strongly agreed and clients do their level best to improve their character with IMFs at the rate of 59% who agreed which indicate that there is a progress to people who around the place who use this services.

According to Arishaba, S. (2011), it relates to the borrower integrity, responsibility and credit worthiness based on past insure. One's inherent character cannot be change overnight; hence this actor is very important in starting off a debt relationship. This indicates that MFIs do not assess client's character as a potential business borrower at Finca Bank, Kamuli District.

**4.7.1 Extent to which Character affects performance of MFIs**

| **Response** | **Frequency** | **Percentage %** |
|---|---|---|
| Strongly Agree | 22 | **53** |
| Agree | 12 | **30** |
| Disagree | 2 | **5** |
| Strongly Disagree | 5 | **12** |
| **Total** | **41** | **100** |

**Source: Primary Data 2019.**

The result in table 4.7 above indicated the extent to which character affects performance of MFLs in Kamuli district. From the average findings 22 (53%) represented a strongly disagree response followed by 12 (30%) with agree. The respondents who disagreed include those of strongly disagree and agree represented by 2 (5%) and 5 (12%) respectively.

**4.8 To establish the relationship between collateral and performance of Micro Finance Institutions**

The second research objective was to establish the relationship between collateral and performance of Micro Finance Institutions. The study was presented based on the findings from the field as presented in the values assessed below.

**Table 9:4.8 Showing the relationship between collateral and performance of commercial banks**

| COLLATERAL | Strongly Agree | | Agree | | Disagree | | Strongly Disagree | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | f | % | f | % | f | % | f | % | f | % |
| Clients have collateral for securing loans. | 29 | **71** | 9 | **22** | 2 | **4.9** | 1 | **2.4** | 41 | **100** |
| The MFIs benefit from the client's collaterals offered. | 30 | 73 | 4 | **9.8** | 4 | **9.8** | 3 | 7.3 | 41 | **100** |
| MFIs have challenges on client's security offered. | 20 | **49** | 10 | **24** | 7 | **17** | 4 | **9.8** | 41 | **100** |
| MFIs take customer's collateral when they fail to pay back in time. | 30 | 73 | 6 | **15** | 4 | **9.8** | 1 | **2.4** | 41 | 100 |
| Clients have collateral for securing loans. | 30 | 73 | 6 | **15** | 4 | **9.8** | 1 | **2.4** | 41 | 100 |
| | 24 | **59** | 12 | **29** | 2 | **4.9** | 3 | 7.3 | | |
| MFIs confiscate presented collateral in case you fail to repay back the loan. | 22 | **54** | 13 | **32** | 3 | 7.3 | 3 | 7.3 | 41 | 100 |
| **Total** | **185** | **451** | **60** | **146** | **26** | **63.4** | **16** | **39** | **246** | **600** |
| **Average** | **26** | **64** | **9** | **21** | **4** | **9** | **2** | **6** | **35** | **85.7** |

**Source: Primary Data 2019.**

The finding on clients have collateral for securing loans indicated strongly agree with the biggest number of respondents which is 29 (71%), 9 (22%) which was agree and was the second biggest, disagree had 2 (5%) and strongly disagree had 1 (2%) which is the smallest number of respondents.

The study indicated MFI's banks benefit from the client's collateral offered and from the results those who strongly disagreed where few with 3 (7%) of the respondents while those who strongly agreed where more with 30 (73%) of the respondents while agree and disagree had the same figure of 4 (10%).

The study findings that MFI's banks have challenges on client's security offer revealed that strongly agree has the largest figure of 20 (49%), agree has 10 (24%), disagree has 7(17%) and strongly disagree is the lowest with only 4 (10%) of the respondents.

The findings on commercial banks take customer's collateral when they fail to pay back in time indicated that the biggest number of the respondents strongly agreed with the findings with 30 (73%) and then 1(2%) strongly disagreed with the findings while 6(15%) agreed and 4(10%) disagreed.

The finding that MFI's confiscate presented collateral in case you fail to repay back the loan, finding revealed that strongly disagree has the lowest number of respondents of 1(2%) and strongly agree has the largest number of 30(73%) of the respondents while agree and disagree had 6(15%) and 4(10%) respectively.

The study finding that you ever presented any of your collateral to MFI's before you were offered credit indicated that 22(54%) strongly agree, 13(22%) agreed, while those who disagreed and strongly disagree were the same with 3(7%) each which was the smallest number of respondents.

The importance of Credit policy and performance of MFIs at Finca bank, Kamuli district show a negative impact on the relationship between collateral and performance, Kamuli district that MFIs benefit from the client's collateral offered by the client at73%,73% MFIs confiscate presented collateral in case you fail to repay back the loan and also do MFIs have challenges on client's security offer at the rate of 49 % who strongly agreed this indicates the credit policy and performance of MFIs have left people's livelihood in danger that is to say many household's properties have been confiscated from people in Finca bank, Kamuli district when people fail to pay back the money given to them and interests on that money and this is caused by failure of the banking institutions such as Finca bank, to monitor programmes and businesses that people are going to invest in money or even failing to know what people are to use the money for.

This leads to confiscation of people's property such as land, houses, cars and other properties which has left people homeless and in viscous circles of poverty Kareta, B.(2010)

There is a significant negative impact of interest income to total assets ratio on the bank's performance. The present study shows that the way in which collateral influences performance depends on the prevalence of bank monitoring initiatives.

Where there is an absence of monitoring activities, the disciplinary effect may imply that entrepreneurs take less risk when bank contracts include the provision of collateral. When monitoring activities are in place, the lazy bank effect can overcome the disciplinary effect.

Our first observation is that land mortgages are the only collateral to have a significant effect on performance, which means that the issue of collateral incentives might be particularly critical for farming and especially for activities which require a significant investment in land.

According to Osayameh (1986), "securities are particularly relevant in our sit nation in this country, where banking education and habits are still relatively low. Loan should not be disabused until a customer has satisfied all security formalization and no disbursement should be granted again anticipatory approval".

**4.8.1 Extent to which collateral affects performance of MFIs in Kamuli district**

| **Response** | **Frequency** | **Percentage %** |
|---|---|---|
| Strongly Agree | 26 | **64** |
| Agree | 9 | **21** |
| Disagree | 4 | **9** |
| Strongly Disagree | 2 | **6** |
| **Total** | **41** | **100** |

**Source: Primary Data 2019.**

The result in table 4.8 above indicated the extent to which character affects performance of MFLs in Kamuli district. From the average findings 26 (64%) represented a strongly disagree response followed by 9 (21%) with agree. The respondents who disagreed include those of strongly disagree and agree represented by 2 (6%) and 4 (9%) respectively.

## 4.9 To establish the relationship between capacity and performance of micro finance institutions

The third research objective was to establish the relationship between capacity and performance of micro finance institutions.

**Table 10: 4.9 Showing the relationship between capacity and performance of Micro Finance Institutions**

| CAPACITY | Strongly Agree | | Agree | | Disagree | | Strongly Disagree | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | F | % | F | % | F | % | F | % | F | % |
| The policy limits borrower's capacity from borrowing. | 30 | 73 | 6 | 15 | 4 | 10 | 1 | 2 | 41 | 100 |
| The MFIs consider the client's capacity and reliability of loan repayment. | 20 | 49 | 10 | 24 | 7 | 17 | 4 | 10 | 41 | 100 |
| The credit policy encourages clients to borrow. | 30 | 73 | 4 | 10 | 4 | 10 | 3 | 7 | 41 | 100 |
| Finca branch conduct review on its credit policy. | 22 | 54 | 13 | 32 | 3 | 7 | 3 | 7 | 41 | 100 |
| You have ever been denied to be offered a loan because of low capacity to repay. | 30 | 73 | 4 | 10 | 4 | 10 | 3 | 7 | 41 | 100 |
| MFIs allow you to obtain credit even if you have no capacity. | 15 | 37 | 10 | 24 | 5 | 12 | 11 | 27 | 41 | 100 |
| **Total** | **147** | **359** | **47** | **115** | **27** | **66** | **25** | **60** | **246** | **600** |
| Average | 24 | 60 | 8 | 19 | 5 | 11 | 4 | 10 | 41 | 100 |

**Source: Primary Data 2019.**

Table 4.9 above presents information regarding to establish the relationship between capacity and performance of micro finance institutions in Finca bank, Kamuli district.

The data collected was based on the Likert scale of strongly agreed, agreed, disagreed and strongly disagreed.

The findings indicated that the policy limit borrower's capacity from borrowing as indicated the highest response 73% of the respondents strongly agreed, while the 2% which is the lowest strongly disagreed and 15% of the respondents agreed and 10% of the respondents disagreed.

The findings represented that MFI's consider the client's capacity and reliability of loan repayments as indicated by the response, 49% was the highest, 24% the second, 17% the third and the lowest was 10% for strongly agree, agree, disagree and strongly disagree respectively.

The study finding indicated that credit policy encourages clients to borrow revealed that 7% strongly disagreed with the finding and this was smallest numbers, agree and disagree presented the same percentage of 10% and strongly agree presented 73% the highest number of respondents.

The study findings also indicated that Finca bank Kamuli branch conduct review on its credit policy with 22(54%) strongly agree, 13(32%) agreed, 3(7%) was for disagree and also strongly disagree has 3(7%).

The studies revealed at customers are denied to be offered a loan because of low capacity to repay. The result revealed that 73% strongly agree and it was the highest, agree and disagree showed 10% and the lowest was 7% for the respondents who strongly disagreed with the findings.

The study findings on MFI's allow you to obtain credit even if you have no capacity revealed that 27% strongly disagreed, 34% strongly agreed, 24% agreed and 12% disagreed with the findings.

Concerning the relationship between capacity and performance of MFIs according to the findings indicated credit policy encourage clients to borrow were 73% of the respondents strongly agreed, Does the policy limit borrower's capacity from borrowing were also 73% strongly agreed this indicated that is progress in the capacity and performance of micro finance institutions in Finca bank, Kamuli district.

Iowever, some of the respondents were not well conversant with the criteria of the financial nstitution how it conducts its service thus MFIs do not consider the client's capacity and eliability of loan repayment it targets only highest bidders.

### 4.9.1 Extent to which capacity affects performance of MFIs

| Response | Frequency | Percentage % |
|---|---|---|
| Strongly Agree | 24 | **60** |
| Agree | 8 | **19** |
| Disagree | 5 | **11** |
| Strongly Disagree | 4 | **10** |
| **Total** | **41** | **100** |

**Source: Primary Data 2019.**

The result in table 4.9 above indicated the extent to which capacity affects performance of MFLs in Kamuli district. From the average findings 24 (60%) represented a strongly disagree response followed by 8 (19%) with agree. The respondents who disagreed include those of strongly disagree and agree represented by 5 (11%) and 4 (10%) respectively.

### 4.10 Data analysis and findings

With this observation therefore, it is evident that the current credit risk practices employed by the micro finance institutional banks are inadequate to militate against credit losses arising from the lending business. This trend also means that there is very high demand for the commercial banks loans as a result of increased membership in these institutions. There has been no change in credit policy formulation strategy that would respond to the challenges of lending in a highly competitive lending environment by balancing between high interest income and less of bad loans. All the independent variables were also individually linearly related with the dependent variable thus a model of three predictor variables could be used to rate the performance of micro finance institutions in Finca bank, Kamuli branch.

The study found out that there exist a significant effect between Character, Collateral, and Capacity and credit policy formulation influence on the performance of micro finance institutions with the key determinants being; credit policy formulation on the financial performance.

From the observation, it is evident that the current credit policy formulation employed by the micro finance institutions is inadequate to militate against credit losses arising from the lending business. This trend also means that there is very high demand for the SACCOs loans as a result of increased membership in these institutions. There has been no change in credit policy formulation strategy that would respond to the challenges of lending in a highly competitive lending environment by balancing between high interest income and bad loans.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.0 Introduction

This concluding chapter of the dissertation presented the key findings of the research based on the discussions and interpretations on both the surveys and the management interviews. Previous chapters have detailed the research question, extant literature, research methods, results, and discussions. While the linkage of the results and academic literature were discussed in the previous chapter, this chapter focused on some limitations to the research and further nuances that have to be studied and addressed (Carihis and Ademba 2011). Despite these limitations, the conclusions from this research are sufficiently robust to draw some strong lessons for the guidance of management involved in these projects and these implications are also discussed in this chapter. It also presents recommendations for further research.

## 5.1 Summary of findings

The research had a relatively significant relationship between MFI's finance and lending policy. Credit policy was the independent variable in determining the asset quality of micro finance institutions. Better management of policy on credit results in better finances of Microfinance. The findings of the research agree with the Owizy (2013), who found out that credit is so costly to financial institutions as they influence the profits of microfinance institutions. His study further stresses that losses have been the largest cost borne by financial intermediaries and the principal cause of insolvency, and increased reliance on state bailout thus affecting the organization profitability.

### 5.1.1 Character and performance of micro finance institutions

The findings on the first objective provided the relationship between character and performance of micro finance institutions.

The findings on the relationship between character and performance of micro finance institutions in Finca bank, Kamuli district showed a positive impact to clients in that client do their level best to improve their character with MFIs at the rate of 59% who strongly agreed and the client's character of being potential to borrow depend on business size at the rate of 51% who agreed which indicate that there is a progress to people who around the place who use this services.

According to Adekanye and Femi (2010), it relates to the borrower integrity, responsibility and credit worthiness based on past insure. One's inherent character cannot be change overnight; hence this factor is very important in starting off a debt relationship. This indicates that MFIs do not assess client's character as a potential business borrower at Finca Bank, Kamuli District

### 5.1.2 Collateral and performance of micro finance institutions.

The second research objective was to establish the relationship between collateral and performance of micro finance institutions.

The importance of Credit policy and performance of MFIs at Finca bank, Kamuli district show a negative impact on the relationship between commercial banks at Finca bank, Kamuli district that MFIs benefit from the client's collateral offered by the client at 73% , 73% MFIs confiscate presented collateral in case you fail to repay back the loan and also do MFIs have challenges on client's security offer at the rate of 49 % who strongly agreed this indicates the credit policy and performance of MFIs have left people's livelihood in danger that is to say many household's properties have been confiscated from people in Finca bank, Kamuli district when people fail to pay back the money given to them and interests on that money and this is caused by failure of the banking institutions such as Finca bank, to monitor programmes and businesses that people are going to invest in money or even failing to know what people are to use the money for.

This leads to confiscation of people's property such as land, houses, cars and other properties which has left people homeless and in viscous circles of poverty Kareta, B.(2010)

There is a significant negative impact of interest income to total assets ratio on the bank's performance. The present study shows that the way in which collateral influences performance depends on the prevalence of bank monitoring initiatives.

Where there is an absence of monitoring activities, the disciplinary effect may imply that entrepreneurs take less risk when bank contracts include the provision of collateral.

When monitoring activities are in place, the lazy bank effect can overcome the disciplinary effect.

Our first observation is that land mortgages are the only collateral to have a significant effect on performance, which means that the issue of collateral incentives might be particularly critical for farming and especially for activities which require a significant investment in land.

### 5.1.3 Capacity and performance of Micro Finance Institutions

The third research objective was to establish the relationship between capacity and performance of Micro Finance Institutions.

The summary findings indicated that; concerning the relationship between capacity and performance of commercial banks according to the findings indicated credit policy encourage clients to borrow were 73% of the respondents strongly agreed, the policy limit borrower's capacity from borrowing were also 73% strongly agreed this indicated that is progress in the capacity and performance of micro finance institutions in Finca bank, Kamuli district.

However, some of the respondents were not well conversant with the criteria of the financial institution how it conducts its service thus commercial banks do not consider the client's capacity and reliability of loan repayment it targets only highest bidders.

## 5.2 Conclusion

### Objective one

In accordance with the first research objective, was to find out the relationship between character and performance of Micro Finance Institutions. The study concluded that, increase in credit risk control leads to increased financial performance of MFIs. This shows that terms of credit had significant positive relationship with financial performance of the MFIs.

### Objective two

In accordance with the second objective of the study which was to establish the relationship between collateral and performance of micro finance institutions. In addition, Credit policy was statistically significant in explaining financial performance of the MFIs. This indicated how securities are confiscated from customers' by the MFIs in case they fail to pay back in time as the case of "Judith Angom", Lira a business woman who was dragged by the management of Finca micro credit bank officers. The study indicated a negative decrease in collection policy would result to a decrease in financial performance of micro financial institutions.

**Objective three**

In accordance with the third research objective was to establish the relationship between capacity and performance of Micro Finance Institutions, indicated that client appraisal were statistically significant in explaining financial performance of the MFIs. Thus a unit increase in client appraisal would lead to an increase in financial performance.

## 5.3 Recommendations

**Objective one**

According to the first objective of the study which was to find out the relationship between character and performance of Micro Finance Institutions should consider the personality of clients before it declares a potential business borrower and assess the character of clients depending on the success of prior business experience before it issues loans to their client that means there was need of deploying more field officers to do more survey on its clients who come to these banks to acquire loans Rajedom, R. (2010).

**Objective two**

According to the second objective which was to establish the relationship between collateral and performance of Micro Finance Institutions. Micro Finance Institutions should depend mostly on the indemnity of the customer's before issuing loans to clients and that the collateral should be of benefit from client's collateral offered. This will help in improving their financial performance.

**Objective three**

According to the third objective which was to establish the relationship between capacity and performance of micro finance institutions. The study therefore recommends that the MFIs enhance their credit policy controls by creating profile assessment database of prospective and current borrowers and guarantors that can be shared among the MFIs to help minimize non-performing loans.

**Annual review:** Every loan account should be revised annually. A borrower makes lending decision on certain assumptions. So, it is necessary to hold those as good throughout the continuance of the advances. Annual review provides an insight view of the borrower's general and financial conditions.

Banks should finance on the basis of a total study of the borrower's operations rather than only security considerations.

The borrowers should be asked to arrange for long-term funds to replace bank borrowing.

Company's hard core part of the working capital with a strong financial position should be separated and put on a formal term-loan basis for a repayment schedule.

Application cum-acknowledgment form of banks should be comprehensive to include rate of interest, manner of charging interest, process fees and other charges, panel interest rates, pre-payment options, and any other matter which effects the interest of the borrower, so that a meaningful comparison with that of other banks can be made and informed decision can be taken by the borrower.

## 5.4 Limitations of the study

The verification of the collected data was almost impossible, because the reliability of the data depended on the source. Some of Micro Finance Institutions had been in operation for only one year and therefore getting data was quite difficult from them since they are still coming up in business.

The research confined to the use of secondary data which raises the reliability problems of the data used. Relying on the secondary data meant that any error in the source was also reflected in the research. The error and assumptions not disclosed in the source documents was also occurred in the research.

The researcher only assumed credit policy in coming up with the findings. Character, collateral and capacity are affected by other external factors which need to be looked into in details.

The researcher found it difficult to get information from other institutions due to their refusal to release information, which resulted to the small sample collected.

The researcher also found out that some institutions books are not well kept to reflect all the items as required, only a few could provide all items.

## 5.5 Areas for Further Research

There is further research that needs to be done on this research to find out how the credit policies are implemented to the organizations. This will help to explain if the financial performance is affect with the implementation of the credit policy to the organizations.
There is also a large percentage of other factors that affects financial performance of deposit taking SACCOs which should be put into consideration since this research show that credit policy have a minimal impact on performance of micro finance institutions. Therefore the other factors should be researched on.

This study suggest further research on deposit taking SACCOs to strategically place themselves in the market so as to be able to increase their financial performance and be able to be highly operation since even if they have a good credit policy there are other many factors affecting them.

The researchers should find out how deposit taking SACCOs can strategically position themselves in the market.
Research should also be done on other financial institutions apart from Finca bank, Kamuli branch that deal with giving out loans and have credit policies since Finca bank is just a part of financial institutions. This leads to easy comparison and make research done earlier more realistic.
Future researches should encourage development of the institution and not benefit of the researcher, relevant authorization should be encouraged and the researcher should aim at a relatively big sample.

The researcher is challenged to communicate to the institution on their books not well kept to reflect all the items as required so that they can improve if given an opportunity.

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# APPENDICES

## APPENDIX I:

## QUESTIONNAIRE FOR GENERAL INFORMATION

Dear respondent,

I **Isabyre Derick** Reg. No. **1153-05014-02787** a student of Kampala International University undertaking a Bachelor's Degree of Business Administration. Currently am carrying out a research study on the effects of Credit Policy on the performance of Micro Finance Institutions in Kamuli District. A case study of Finca Branch as part of the requirements for a ward of Bachelor's Degree of Business Administration. This questionnaire is therefore intended to seek information on the above subject matter. The information is purely for academic purposes and all the answers will be handled with utmost confidentiality. I therefore humbly request that you complete this questionnaire correctly in the spaces provided or options given. (Please, tick the appropriate answers where options are given).

### SECTION A

**Demographic characteristics of respondents**

1. Sex of respondents

Male ☐

Female ☐

2. Age of respondent

Below 18 years ☐

19-40 ☐

Above 40 years ☐

3. Period of stay in the company

Less than 1 year ☐

1-5 years ☐

6-10 years ☐

Above 10 years ☐

**SECTION B:** To find out the relationship between character and performance of Micro Finance nstitutions.

Please evaluate the following statements by ticking under the appropriate figure basing on the scale below:

| Questions | Agree | Strongly agree | Neither agree nor disagree | Strongly disagree | Disagree |
|---|---|---|---|---|---|
| **Character and performance of micro finance institutions** | | | | | |
| Customer characters affect commercial bank operations. | | | | | |
| Client's characters of being potential to borrow depend on business size. | | | | | |
| Clients do their level best to improve their character with commercial banks. | | | | | |
| MFIs institutions assess client's character as potential business borrowers. | | | | | |
| MFIs offer credit even if you have bad character towards repayment. | | | | | |
| MFIs asses' character depending on the success of prior business experience. | | | | | |
| Customers consider bank reliability offered by credit depending on their trustworthiness character. | | | | | |

**SECTION C: To establish the relationship between collateral and performance of Micro Finance Institutions.**

Please evaluate the following statements by ticking under the appropriate figure basing on the scale below:

| **Relationship between collateral and performance of micro finance institutions.** | **Agree** | **Strongly agree** | **Neither agree nor disagree** | **Strongly disagree** | **Disagree** |
|---|---|---|---|---|---|
| Clients have collateral for securing loans. | | | | | |
| The MFIs benefit from the client's collaterals offered. | | | | | |
| MFIs have challenges on client's security offered. | | | | | |
| MFIs take customer's collateral when they fail to pay back in time. | | | | | |
| Clients have collateral for securing loans. | | | | | |
| MFIs confiscate presented collateral in case you fail to repay back the loan. | | | | | |
| You ever presented any of your collateral to commercial banks before you were offered credit. | | | | | |

**SECTION D: To establish the relationship between capacity and performance of Micro Finance Institutions.**

Please evaluate the following statements by ticking under the appropriate figure basing on the scale below:

| **Capacity and performance of micro finance institutions** | **Agree** | **Strongly agree** | **Neither of all** | **Strongly disagree** | **Disagree** |
|---|---|---|---|---|---|
| The policy limits borrower's capacity from borrowing. | | | | | |
| The MFIs consider the client's capacity and reliability of loan repayment. | | | | | |
| The credit policy encourages clients to borrow. | | | | | |
| Finca branch conduct review on its credit policy. | | | | | |
| You ever been denied to be offered a loan because of low capacity to repay. | | | | | |
| MFIs allow you to obtain credit even if you have no capacity. | | | | | |

*Thank you for your valuable time*

KAMPALA INTERNATIONAL UNIVERSITY

Ggaba Road, Kansanga* PO BOX 20000 Kampala, Uganda
Tel: +256 777 295 599, Fax: +256 (0) 41 - 501 974
E-mail:josephk@gmail.com,

## COLLEGE OF ECONOMICS AND MANAGEMENT
## DEPARTMENT OF ACCOUNTING AND FINANCE

12th/06/2019

To whom it may concern

Dear Sir/Madam,

**RE: INTRODUCTORY LETTER FOR ISABIRYE DERICK 1153-05014-02787**

This is to introduce to you the above named student, who is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Business Administration Accounting and Finance, Third year Second semester.

The purpose of this letter is to request you avail him with all the necessary assistance regarding his research.

**TOPIC: -** **THE EFFECT OF CREDIT POLICY ON THE PERFORMANCE OF MICRO FINANCE INSTITUTIONS IN KAMULI DISTRICT**

**CASE STUDY: -** **FINCA BRANCH**

Any information shared with him from your organization shall be treated with utmost confidentiality.

We shall be grateful for your positive response.

Yours truly,

KAMPALA INTERNATIONAL UNIVERSITY
12 JUN 2019
COLLEGE OF ECONOMICS AND MANAGEMENT
P.O. BOX 20000, KAMPALA

**DR. JOSEPH B.K. KIRABO**
**HOD – ACCOUNTING AND FINANCE**
**0772323344**