

# **KAMPALA INTERNATIONAL UNIVERSITY**

**SCHOOL OF BUSINESS AND MANAGEMENT**



**TITLE**

**LOAN RECOVERY AND CREDIT POLICY IN MICROFINANCE  
INSTITUTIONS.**

**A CASE STUDY: FINCA, BUGANDA ROAD BRANCH, KAMPALA, UGANDA**

**A RESEARCH REPORT SUBMITTED TO KAMPALA INTERNATIONAL  
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REQUIREMENT FOR THE AWARD OF BACHELOR OF BUSINESS  
ADMINISTRATION**


**BY**

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## DECLARATION

I, Maeda Janet declare that, this research report is my own work. No part of this report has been reproduced. This report has not been submitted for similar degree or advanced diploma in any other University or Higher Learning Institution.

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Date: 08<sup>th</sup> August . 06 .....

## APPROVAL

This is to certify that this report has been submitted to Kampala International University, School of Business and Management with my approval as partial requirement for the award of Bachelor of Business Administration at Kampala International University.

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## **DEDICATION**

This dissertation is dedicated to my parents, my mum Mrs. M.L.H Maeda and my late dad Mr. H.G.W Maeda for all their sacrifices, guidance, and encouragement they made, and for teaching me to keep my head up. Your encouragement was magical. Your belief in me was miles ahead my own self belief.

This made me not only dream but dream big, trust myself and tackle any obstacle with confidence even mathematics which I could not imagine if I could make it. I am what I am today because you wanted me to be.

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## **LIST OF ABBREVIATIONS**

MFI            Micro Finance Institution

FINCA        Foundation for International Community Assistance



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## **ABSTRACT**

The research was carried out to assess loan recovery and credit policy of clients of Micro Finance Institutions, with Foundation for International Community Assistance (FINCA) as a case study. The researcher decided to carry out this study because of reported decline in loan recovery of FINCA's clients as a result of high interest rates charged on the loans. This study is therefore to investigate the credit policy of MFI's.

A survey research design was used in an effort to describe events and explain the relationship between loan recovery and credit policy of clients of MFI's. The respondents were selected using random sampling and the major instrument used for data collection was a questionnaire. The questionnaire was distributed to staff and clients of FINCA.

The findings showed 35 respondents representing 77.8% of the sample size. The socio-Demographic characteristics of the respondents were investigated. Majority of the respondents were found to be female as compared to men counter parts. Any one can be offered a loan regardless of sex. Marital status was investigated it was found out that the married were more as compared to others.

Majority of the respondents were between age brackets 31-40. Most of them had acquired loan from FINCA. The education background showed that the majority had acquired formal education at least to primary level. However there was a problem in interpreting the questionnaires given to them.

In conclusion, the findings confirmed that there is a positive correlation between credit policy and loan recovery of FINCA. The study therefore recommended that in order to attain good performance of loan recovery will depend on the availability of good credit policy techniques applied.

## **CHAPTER ONE**

### **1.0 BACKGROUND OF THE STUDY**

Micro-finance institutions commonly known as (MFI's) are defined as non-governmental institutions, savings and credit co-operatives that provide savings and micro loans to individuals, enterprises or group of individuals. (Legderwood, 1998). Such persons have experienced difficulties in accessing financial services from the formal banking sector for the purpose of engaging in viable economic activities. (Walugembe, 2000)

The MFI's are a recent development in Uganda and licensed under various laws such as the Non-governmental organization statute (1993), companies under the company Act of Uganda (1954), or Savings and Credit Co-operatives with ministry of trade and industry or co-operative society statute (1991).MFI's can be non-governmental organizations (NGO's), saving and loan co-operatives, credit owners, government banks, commercial institutions. (Wamasense 2001).

In Uganda, some of the MFI's include the following among others PRIDE, FINCA,UWFT, FOCCAS FAULU, CERUDEB, UGAFODE, UWESO, to mention but a few MFI's are limited by liquidity, hence unable to provide their clients with big sum of credit for a long period and clients. (Ministry of Finance Policy Unit, 2003).

However, even though women are more served by MIF's industry, this does not necessary mean that all the rural people in rural areas are reached, Most of the MIF's are located in urban centers with good infrastructures, which implies that majority of people in rural areas are not served (Ministry of finance journal, 2003). It's estimated that some 43% of Ugandan population have no access to financial services, with the un met need being greatest in the rural areas.



MFI's are working to become more responsive to the real needs of their clients thereby contributing to the economic advancement of low income in Uganda. MFI's uses credit policy towards the extension of such loans to the individual borrowers. The credit policy is used to analyze credit requests and as a result, the credit application may be accepted or rejected (Edmnister, 1980)

Foundation for International Community Assistance referred to as (FINCA), is one of the institutions developed with the aim of availing loan services to the poor with particular emphasis on women. It was founded in 1992 under the inspiration of the government of Uganda and the USA government. (Nsambu, 2003). It's a company limited by guarantee, registered as non-governmental organization registration board (1993)

FINCA Uganda helps rural and urban families increase their households income, provision of small working capital inform of loans especially to women, and implements a saving culture so as to guarantee the loans granted (Status Report, 1998)

However, though micro-finance institutions are set to provide the poor individual access to small loans easily than through commercial banking sector, the modalities and credit policies used by MFI's towards small-scale loan borrowers in is not favorable. The repayment period and the interest on such loans are so high compared to the activities to which such borrowings are put. ( Nsambu, 2003). Most MFI's give loans to women. Though there has been some success to access this loan by local business population, the interest charged on these loans is very high. Its due to such policies that the researcher found it necessary to analyze the loan recovery of MFI's and credit policy of FINCA clients.

Aoehsch Wender ( 1986) defined credit policy as the criteria used to extend loans and other sources and how to keep on track of what you are doing so that you learn from your experience and improve your assistance based on it and the changing needs of the people and their enterprise.

Credit policy includes, credit standards, credit terms, collection effort, interest, eligibility criteria, credit delivery procedures, reports and monitoring incentives and functions.

Loan recovery is how loan disbursed to clients is paid back. Loan payments can be made on an installment basis (weekly, monthly or in lump sum) at the end of the loan term

depending on the cash pattern of the borrower. The frequency of the loan repayment depends on the needs of the clients and the ability of MFI's to ensure repayment.

### **1.1 STATEMENT OF THE PROBLEM**

FINCA (U) has continuously failed to recover loans extended to her clients. The institution has tried to use the collateral group method which emphasizes peer pressure on to the credit clients not to avail the institution damaging the relationship between the clients and the organization has sized assets of defaulters. Many business dealing with credit clients have ended up in courts of law than having irregular flow of receivables from credit clients to organization within the allowed credit period (Mboningaba 1998).

The above scenario raises numerous questions about the credit policy being practiced by this organization. For instance what are implications of the criteria being used to select customers for credit extension, the stipulations under which the firm grants credit to these clients and the efforts applied in order to accelerate collections from slow paying clients or non paying clients.

### **1.2 PURPOSE OF THE STUDY**

The purpose of the study is to establish the relationship between loan management and credit policy.

### **1.3 OBJECTIVE OF THE STUDY**

- i. To examine the credit policy used by FINCA in her extension of credit to client.
- ii. To examine the loan recovery system with FINCA as an institution.
- iii. To establish the relationship between credit policy practiced and loan recovery.

#### **1.4 RESEARCH QUESTIONS**

- (i) What is the state of the credit policy used by FINCA?
- (ii) What is the state of the method of loan recovery used by FINCA?
- (iii) What is the relationship between credit policy and loan recovery practiced by FINCA?

#### **1.5 SCOPE OF THE STUDY**

The study was carried out in FINCA Uganda, Buganda Road in Kampala. It was carried out to get information on credit policy and loan repayment of clients of FINCA, an MFI. The study involved the analysis of information that was provided by the clients who have benefited from the short-term loans.

#### **1.6 SIGNIFICANCE OF THE STUDY**

The findings will be the basis upon which appropriate policies for credit extension especially with Micro finance institutions will be formulated.

The finding will provide up date literature for academicians in Business School in Kampala international University who are interested in learning more in the field of loan recovery and credit policies of MFI's and therefore expand more on the research.

The findings will be expected to highlight areas of credit policies that may need to be modified by FINCA (Uganda)

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

This chapter will presents a review of selected existing literature on credit policy and loan recovery in Micro finance institutions and in so doing, the subject of the inquiry will be extracted in light of previously conducted research and scholarly work.

#### **2.2 MICRO FINANCE DEVELOPMENT**

Micro finance institutions were introduced in Uganda as a means of meeting the financing gap of the poor and most viable strategy for economically empowering the poor overtime. This was meant to break dependency of government and donors completed with poor investment decisions low repayment rates made by the development institutions unable to sustain their lending programs. It was also assumed that poor people find great difficulties in obtaining credit and are charged high interest rates by monopolistic lenders.

The success Grameen Bank in Bangladesh promoted the world through World Bank to change its opinion about MFI's. Grammen Bank lends 1.8 million people, 94% women and with a repayment rate of 98% (Ledger, 2000).

The government committed in eradicating poverty through private sector development of Micro and small business enterprise especially in rural areas has culminated into increased number of MFI;s.

#### **2.3 THE CONCEPT OF MICRO-FINANCE INSTITUTIONS (MFI's)**

MFI's are non-government institution, savings and credit co-operation that provides micro-loans to poor individuals, enterprises or group (Ledgerwood, 1998).

There are group of persons who have experienced difficulties in accessing financial services form the formal sectors for the purpose of engaging in viable economic activities.

According to Walugembe (2000), micro finance is the provision of savings and credit services to self employed, low-income people to enable them start up or expand their small income generating businesses. Jordan (2001), simply states that MFI's offers financial services to small businesses which have limited or no access to commercial banking. From all the above definition, it bring out the fact that MFI's are crucial for development of low income generating households and aims at improving standard of living of the poor majority.

#### **2.4 ROLES OF MICRO FINANCE INSTITUTIONS (MFI's)**

It's important to note that different MFI's exist and therefore, each has its own specific objectives. However, most of the MFI's play a great role in poverty reduction and often put more emphasis on the poorest segment of the population. (Dutcher, 1999)

Unlike government credit programmes and traditional bank credit that emphasizes large loan for long payments periods, micro-finance provides small loans that are repaid within a short period of time. Kabir, 2002) .They are essentially used by low-income individuals and households who have few or do not have any asset that can be used as collateral and are too poor to qualify for traditional bank loans.

The idea behind micro-finance is to provide a vehicle that would enable very poor people to become self-employed so that they can generate their own income thereby allowing them to care for themselves and their families. The aspect of micro-finance that has contributed to its success is its integration with the development of community organization, leadership and skills of training, entrepreneur management and financial management. The success and sustainability of micro-finance programme has depended up to its ability to integrate those aspects. (Kabir, 2002)

The main objective of MFI's is to increase national savings mobilization level, and reduce on the rural urban transfer of financial resources through re-investment in local communities, (Chen, 1999)

MFI's can benefit participating communities in many ways. (Jordan, 1999). It empowers women and other disadvantaged population and reduces rural dependence on draught prone crops through diversification of their income generating activities.

It also encourages the development of new business and helps existing business or diversifies their activities. One way to increase the productivity of the poor is through broad based economic growth. Such growth ensures participation in development by providing wide spread employment opportunities. (Khandker, 1998).

Based on the roles above, Micro-finance providers select a target market in order to address a specific client population. (Labong, 1999). Ledger wood (1999), states that target markets can be identified by the characteristics of the clients or their poverty level. It mostly includes business activities it wishes to support.

Ledger wood (1999), argues that if a customer is not making a daily profit, the institution should not be over expected to be repaid the loan and the customer to expand. MFI's risk targeting a segment of population that has no access to business opportunities because of lack of market, inputs, and demand. Productive credit is of se of such people without other inputs that cannot be served by the formal banking industry.

Namatovu (1999), also states that MFI's in Uganda concentrate mainly on serving women community due to their ability and commitment to repay the micro-loans. Studies have shown that women in rural areas tend to plan more for the family's future and spend more of their earnings on their families than their male counter parts.

The key objective of the policy on micro-finance is to improve access of the poor to financial services. It is estimated that about 40% of Ugandans still live below the poverty line.(Walugembe,2000).

It's true, that firms use credit policy as a marketing tool for expanding sales as asserted by Pandey (1993). Furthermore, consideration numbers of persons are still seen to be poor and leaving below poverty line. The main issue, which still remains unclear, is whether the credit policies and methodologies used by MFI's are sufficient for capturing a larger clientele despite their existence. In Uganda there is need for a clear system of

identification among the rural poor in order to assist MFI's make prudent lending decision, identify respective outreach scale, and provide them with the necessary short term credits, (Labongo, 1999)

However, MFI's have not yet proved themselves as sole providers of small credits to reduce poverty. Other aids to poverty alleviation have emerged for example the Entandikwa scheme (Walugembe, 2000).

Based on the roles above, Micro-finance providers select a target market in order to address a specific client population. (Labong, 1999)

## **2.5 OPERATIONS OF MICRO-FINANCE INSTITUTIONS (MFI's)**

MFI's have branch offices in the rural areas to serve as field level operational units. The branch offices play a predominant role in the operations and management of MFI's and is the most important operational units. The branch offices reports performance of the MFI's to the head office, but it should be noted that most MFI's operations are limited within urban centers.

MFI's are able to serve the needs of the poor in a way, which commercial banks cannot by addressing the key issue of collateral, and risk in an unconventional ways. (Jordan, 2001). One of the eligibility criteria for loan is that the clients should have collateral as a credit guarantee, which is proved to be effective. Furthermore, the client should be unable to access the financial services from any other formal financial institution. MFI's uses both social and chattel collateral.

Social collateral is the most common alternatives, which is used in two main types of lending schemes that is, the village banking and solidarity group lending.

Prompt payment is rewarded by access to higher loan amounts. According to FINCA Uganda, village banking comprises of 25- 30 people who guarantee each other's loan and run a democratic organization. Meetings are highly participatory. Members elect their own leaders, design their own rules and regulation, keep the books, manage the funds and are fully responsible for loan supervision including enforcement of penalties for non-compliance. (FINCA Status Report, 1998)

Solidarity group lending is less formalized, involving groups of typically 3-10 people who guarantee each other's loan. Each group member's performance affects the others according to the standard rules and policies established by the MFI.

Group lending gives the poor dignity and self esteem that comes from knowing that with a little help, they can work towards bettering their lives as well as their lives as well as that of their children. Mostly group lending gives the poor hope and the possibility of improving their lives through their own labor.

Chattel collateral are items which may not have a high value in terms of money, but has a higher personal value to the individual in the context of his or her economic activities. (Jordan, 2001)

Some micro-lending programmes lend relatively higher amount of investment capital to individual for start up of businesses due to the availability of the chattel collateral. Most of these lenders do not use social collateral but require chattel items to be put up against the loan. The credit delivery mechanism of MFI's is quite and differs from the modes of traditional financial institutions. It's unique in that their delivery mechanism odes of traditional financial needs of small-scale producers more efficiently and cost effectively, than the traditional financial institutions. MFI's make use of self helps groups and local leadership to ensure appropriate selections of borrowers and timely repayments of loans. Village heads may be used to determine credit worthiness of individuals in the community. (Yaron, 1994)

In a country like Uganda, where economic activities are basically agricultural and micro in nature, the role of MFI's cannot be emphasized. Majority of the rural poor (70%) access credits from individual money lenders and informal associations in rural areas of Uganda with only 23% accessing from both traditional institutions and credit agencies including government initiated agencies. (Okumu, 1996). Most of the lending carried out in Uganda is got from individuals but not micro finance institutions. (Mugenyi, 2003)

Due to the existing literature, MFI's have sufficient reasons to grow. MFI's in Uganda should grow in order to reach the poor. Micro-finance activities can support income generation for enterprises operated by low low-income households. MFI's can help build



financially self sufficient, subsidy free, often locally managed institutions. It sometimes mimics traditional system such as rotating savings and credit associations. They provide the same services in similar ways but with greater flexibility at a more affordable price to micro-enterprises and on a more sustainable basis. This can make micro-finance services very attractive to a large number of low-income clients.

The extent to which MFI's in Uganda today have attained sole purposes is datable because most of them charge interests on loans given to their clients. The success of micro finance programme greatly depend on the degree of net working incorporated into the programme both within the community in which it operates under external agencies and institution that can help its development. Good net working and information gathering system results in better informed decisions and understanding of market operations. (Garso.1998).

## **2.6 CREDIT POLICY**

Kakura (2000) states that, it is a set of policy action designed to minimize costs associated with credit while maximizing the benefit from it. The objective of this policy is to have optimal investment in debtors. A credit policy may be lenient or stringent. A lenient credit policy tends to give credit to customer on very liberal terms and standards. Credit granted for longer periods even to those customers whose credit worthiness is not fully known or whose financial position is doubtful. Credit is granted at high discount rates.

Stringent credit policy gives credit on a highly selective basis only to those customers whose credit worthiness has been ascertained and who are financially strong. The credit periods are shorter and discounts are lower. This may be advantageous in the sense that low costs involved may be determined to sales returns (clients). The above credit policy alternatives are to extremes and undesirable. In practice firms follow credit policies ranging in between the two. There is need to formulate a credit policy which is optimum.

Pandey (1995), defined credit policy as the only-way in which the financing manager can affect the volume of credit sales and collection period.

Credit policy can also be defined as an institution's method of analyzing credit request and its decision criteria for accepting or rejecting application. (Edminister, 1980)

## **2.6. 1 ELEMENT OF CREDIT POLICY**

The term credit policy is used to refer to the combination of the three decisions variables, which include:-

- (i) Credit standards
- (ii) Credit terms
- (iii) Collection efforts/procedures

### **2.6.1.1 Credit Standards**

Kakuru (2000), states that credit standard is one of the elements of credit policy. Credit standards are the criteria, which the firms follow in selecting customers for credit extension in order to analyze customers and credit standards. Two aspects should be considered:-

- a) The average collection period (ACP) that is, the period in which the debts remain out standing.
- b) Default rate, this is the ratio of uncollected receivables from this ratio; the firm is able to determine that the customer will not meet his credit obligation.

Taking the works of Kakuru (1998), sound lending to individuals evaluate their clients basing on the tradition 5C's. This is character, capacity, condition, capital and collateral. Character mainly concerns the moral aspects of the borrower and credibility. Capacity is the ability of customer to pay the credit advanced to them. Condition stands for the assessment of prevailing economic and other factors like social and political, which may affect the customer in his business. Collateral is the security against failure to pay. It can be inform of land title post dated cheques, among others.

However, when lending to groups collateral is substituted by well organized community group or guarantees.

Though MFI's have adopted alternative forms of collateral in a bid to attract clients who have no access to formal banking sector, what remains unanswered is whether collateral

alone can depict leniency in the standard set by MFI's. According to Ledgerwood (1999), the appropriate loan amount is dependent on the purpose of the loan and the ability of the clients to repay the loan. When determining the debt capacity of potential, it is necessary to consider their cash flow as well as the degree of risk associated with this cash flow, and other claims that may come before repayment of a loan to the MFI. (Page 134)

Pandey (1993) emphasizes the fact that if credit standards are loose, the firm may have larger sales, but will have to carry larger receivables. On the contrary, if a firm extends credit to those most reliable and financially strong customers, the firm may not be able to expand sales, but no bad debts losses will result.

A predetermined percentage of the loan is usually retained and controlled by MFI's as saving to be used as security or loan insurance fund (Assimwe, 1997)

Ledger wood (1999), also states that in addition to the provision of credit, MFI's mobilize savings. These savings are either compulsory or voluntary. Compulsory savings represents the funds that must be contributed by the borrowers as a condition for receiving the loan. These savings serve as additional guarantee mechanism to ensure repayment.

MFI's have a maximum loan size for first time borrowers, which increases with each loan. This is designed to decrease risk to the MFI's and to enable the clients develop a credit history. Most MFI's also desire that their clients open up savings accounts to act as collateral for repayment of the loan.

#### **2.6.1.2 Credit Terms**

This focuses on conditions under which credit is to be extended and it answers the question," under what conditions should credit be extended? (Kakuru, 2000). Credit term is the period of time during which the entire loan must be repaid. A firm lengthens credit period in order to increase its operating profits through expanding sales. Loan term is the most variable in micro-finance. The loan term affects the repayment schedule, the revenue to the MFI, the financing costs of the clients, and the ultimate suitability of the loan. (Ledger wood, 1999)

Pandy (1995), defined credit terms as stipulation under which the firm sells on credit to customers, the stipulations include the credit period.

The decision to extend credits to a customer is followed by a discussion regarding the terms of credit. The “term of credit” determines how much credit has to be extended, for what period, and what cost and concession if any is to be allowed. (Brealey&Myres, 1988).

#### **2.6.1.3 Credit Period**

This stipulates the length of time for which credit is extended. This could be say “45” days (Kakuru, 2000)

Van Horne (1980) stated that, a firm on the objectives of the firm. It can lengthen the credit period, on the other hand, the firm may tighten the credit period if customers are defaulting too frequency and had debit losses are build up.

#### **2.6.1.4 Collection Procedure/effort**

Kakuru (2000) defines collection procedures as efforts applied in order to accelerate collections from paying customers and to reduce bad debt losses. Collection procedures should be defined for each customer. To collect dues from slow paying or non-paying customers, the following step-by-step procedure is essential like remainder. A programme of remainder should be worked out systematically to ensure customer retention as well as efficiency and timely collection.

Heifert (1997) cautions firms on their collection procedures. This is because a tight collection policy may offend and send away customers while a lenient one would increase receivables, bad debts losses hence affecting profits.

#### **2.6.1.5 Interest Rates**

Pandey (1995) defines interest rate as the price for loan capital. Donal (1976), describes interest rate as an economic factor that affects loan recovery.

Balunywa (1995) argues that high interest rate increases loan default rate. The rate of return generated is not adequate to pay interest charges. Brigham and Louis (1997), tend

to agree with Balunywa, when the duo argues that the high interest rates, which are ultimately borne by borrowers increase the banks credit risk. Highly leveraged borrowers will be less able to service their loan.

## **2.7 CREDIT POLICY IN MICRO FINANCE INSTITUTIONS**

### **2.7.1 Eligibility Criteria and loan use.**

Finances are available for productive activities that contribute to the economic development of the society by utilizing indigenous materials and adding value to them or by reducing the need for importance. Enterprises that form a vital link in the economic chain. Enterprise that fulfills a definite need in the rural area and also those that provides repairs and maintenance services. The owner also showed is eligible when requesting the loan (Hochschwender, 1986).

Financial scheme particularly those using individual methodology require customer to be operating full time in business to be eligible for loans and to be in manufacturing. He argues that since it is desirable to encourage more of the poor, including women, into activities with higher returns one should not be buried on the premise of activity. What really matters is the ability of the customers to pay the loan. (Best practices Manual, 2000). Holt (1991) argues that targeting the use of credit is not justified in terms of sustainability, administering and monitoring loan use is time consuming and difficult while the repayment rates does not seem affected. He further urges that it is rather important to ask. If the loan use and eligibility certain meet the credit needs of the poor who may need to utilize their loans for a variety of purpose (consumption and investment) rather than specific targeted use.

### **2.7.2 Loan application and approval**

Hospes (1998), states that poor people more often than the well-off face temporary crises or set backs needing rapid access to credit. There may be a business opportunity that is limited in time. It is therefore considered best practice that small loans should be approved in not more than one week. Grammeen bank has found that emergency loan

approved in 24 hours is very popular with the poor (Coulin, 1997). It is therefore important to ask if management can approved in a time that meets the needs of the poor people.

### **2.7.3 Collateral and guarantees**

MFI's lend to low-income clients who often have very few assets, consequently tradition collateral such as property, land, machinery and other capital assets is often not available. Various innovative means of reducing the risk of loan loss have developed, including collateral substitutes and alternative collateral like character lending. One of the most common collateral substitutes its peer pressure, either on its own or jointly with group guarantee (Ledger wood, 2000).

Johnson and Regaly, (1997) argued that many MFI's facilitate the formation of groups whose members jointly guarantee each other loan. Some MFI's requires members to a group guarantee fund, which is used if one or more borrowers fail to repay. Incase the group guarantee fund is managed by the MFI the fund is seized to the extent of the defaulted loan, with other group members making up any short fail. Failure to do so means that the entire group no longer has access to credit.

### **2.7.4 Loan disbursements**

This is the method of how loan is given to the client once a loan application has been reviewed and a decision has been made, there is need to notify the client and disburse the loan. The procedure will differ according to the nature of our relationship with other financial institution (Best Practices Manual, 2001)

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter represent a description of the methodology that was used in carry out and analyzing this study. The chapter describe the research design that was used, the survey population, sampling data collection, analysis and constraints encountered in the study.

#### **3.2 RESEARCH DESIGN**

The study was carried out discipline design to collect as much information as possible from the credit clients. Cross-sectional investigating a single point in time the relationship between the credit policy practiced by FINCA (U) and her loan recovery process.

#### **3.3 TARGET POPULATION**

The researcher was administering questionnaires to credit clients and conduct guided interviews with top managers and credit officers.

#### **3.4 SAMPLE DESIGN AND PROCEDURE**

##### **3.4.1 Sample design**

The researcher used random sampling and purposive sampling because the population consists of elements with nearly the same characteristics (the credit clients). The top managers and credit officers were chosen because their unique features and knowledge about credit policies and recovery

### **3.4.2 Sample Size**

The sampling size of the study:

40 credit clients

2 top manager, and

3 credit officers

In total they will be (45 respondents)

### **3.4.3 Sampling procedure**

Simple random sampling is ultimate sampling technique which was used in all random sampling techniques.

In simple random sampling all the elements in the study population was listed down on pieces of papers. The pieces of paper was folded and put into the container. The folded pieces of paper were thoroughly chummed. For elements to be included in the sample a piece of paper was picked from the container at a time until the required sample size reached.

For the research into the views and opinions of top managers and credit officers about credit policy and loan recovery, purposive sampling will be used, where one top manager, 2 credit officers respond.

### **3.4.4 Source of Data**

Data were collected from primary and secondary sources. Primary data was obtained from the direct encounter with the respondent. Secondary data was institutional records such as organizational manuals and magazines. However, emphasis was put on primary data.

### **3.4.5 Data collection**

An interview schedule and guide was the questionnaires which have both ended and close ended questions. This enabled a researcher to save time.



#### **3.4.6 Data collection procedure**

The researcher got an introductory letter from Kampala International University to present to the chief Executive officer FINCA (Uganda) who introduced me to the general manager FINCA (U). I was then introduced to different credit officers and credit clients with who interviews and questionnaires were advanced respectively.

### **3.5 DATA PROCESSING, PRESENTATION AND ANALYSIS**

#### **3.5.1 Data Processing**

The researcher processed the data both during and at the end of the visit to FINCA (U), so long as the researcher had relevant data to enable her executive the processing in order to come up with acceptable information.

#### **3.5.2 Data presentation**

Data was presented according to the research findings after processing. This is mainly in form of tables, graphs and charts.

#### **3.5.3 Data analysis**

Data was analyzed both qualitatively and quantitatively. By qualitative analysis, explanations and companions were made. By quantitative analysis, the tables was used.

### **3.6 LIMITATIONS OF THE STUDY**

The researcher faced the following problems that limited the study:

#### **(i) Financial constraints**

The whole study was costly right from the very beginning to the end. Cost was including transport costs, typing, photocopy, binding costs among others.

#### **(ii) Time**

The time offered was not enough yet research requires a lot of time.

**(iii) Language barriers**

Language barriers as some respondent was not understand English, which was posed an interpretation problem.

**(iv)** Lack of corporation from correspondent. Some of them were not provide the necessary information.

## CHAPTER FOUR

### PRESENTATION ANALYSIS AND DISCUSSION OF THE FINDINGS

#### 4.1 INTRODUCTION

This chapter deals with the presentation, discussion analysis and findings obtained from the field using the methodology described in chapter three. The analysis of data was based on the credit policies applied by FINCA Uganda and how they affect loan recovery. The variables together with their frequencies and percentages were also stated.

The research was guided by the following objectives:

- a) To examine the credit policy used by FINCA in her extension of credit to clients.
- b) To examine the loan recovery system within FINCA as an institution.
- c) To establish the relationship between the credit policy practiced and loans recovery.

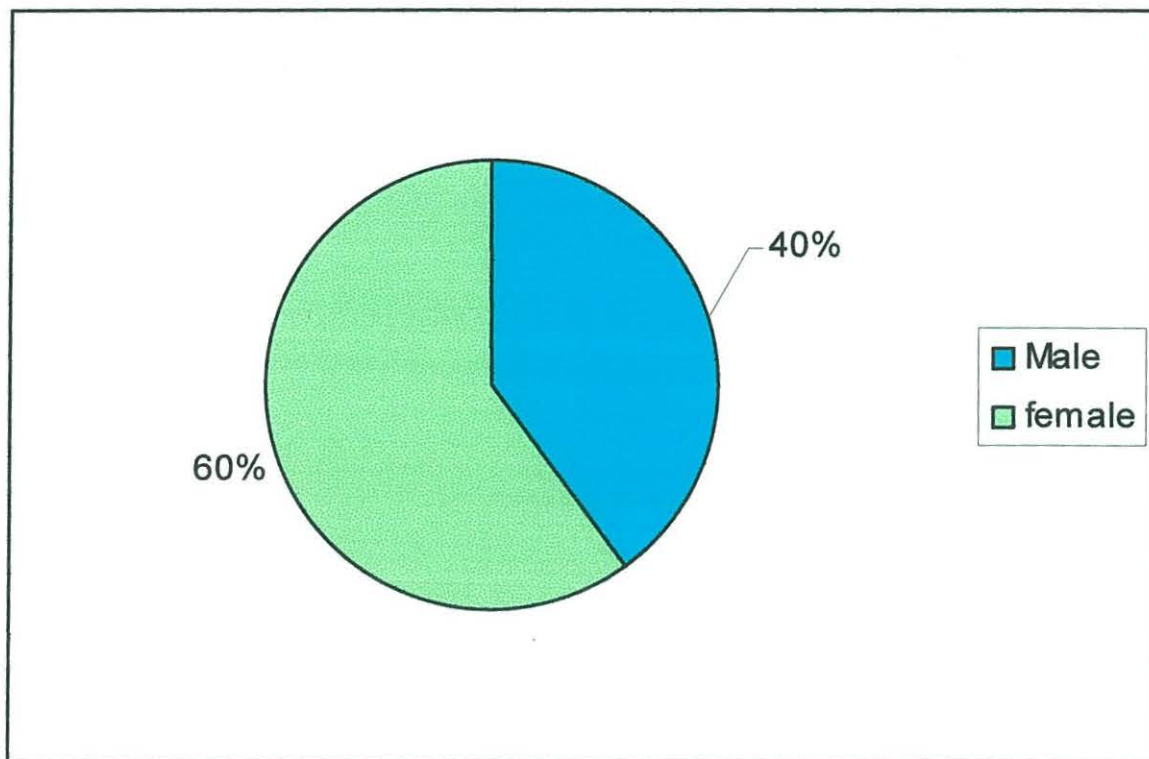
#### 4.2 BACK GROUND INFORMATION

**Table 1: showing sex composition of the respondents**

Table 2 Sex	Frequency	Percentages (%)
Male	14	40
female	21	60
<b>Total</b>	<b>35</b>	<b>100</b>

**Source: Primary data**

**Figure 1: showing sex composition of the respondents**



Sex was investigated to find out the ratio of female to male that FINCA offers its loans. The above table shows that 40% of the respondents were male while 60% were female. This implies that both men and women obtain loans however more female get loans than men.

**Table 2: Showing marital status of the respondents.**

<b>Marital status</b>	<b>Frequency</b>	<b>Percentages (%)</b>
Married	12	34.3
Single	5	14.3
Separated	8	22.8
Windowed	10	28.5
Total	35	100

**Source: Primary data**

**Figure 2: Showing marital status of the respondents.**



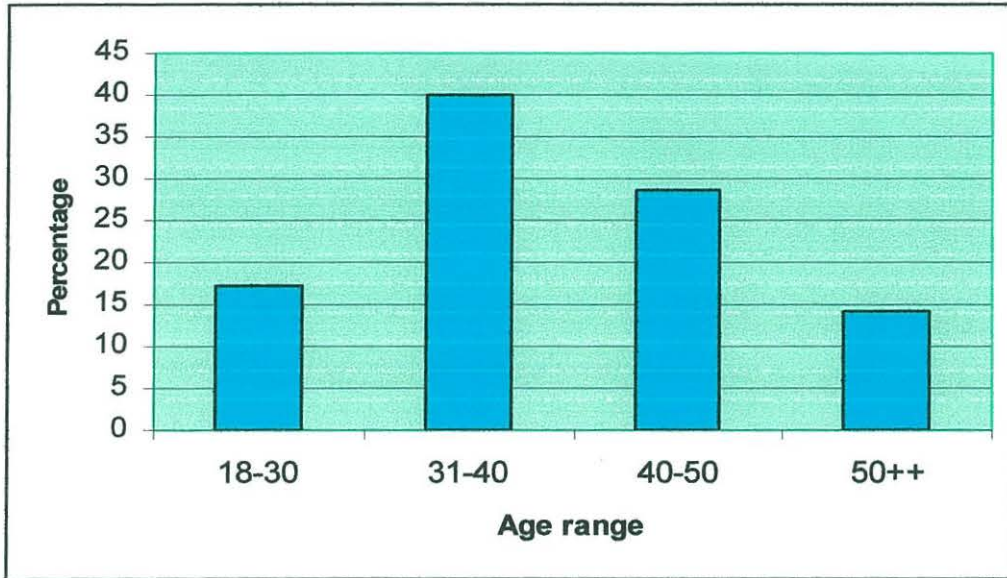
The above table shows that 34.3% of the respondents were married, 14.3% were single, 22.8% separated and 28.5% were windowed.

**Table 3: Showing age bracket of the respondents**

Age bracket	Frequency	Percentages (%)
18-30	6	17.1
31-40	14	40
40-50	10	28.6
50++	5	14.3
<b>Total</b>	<b>35</b>	<b>100</b>

**Source: Primary data**

**Figure 3: Showing age bracket of the respondents**



The research reveals that 17.1% of the respondents are in age bracket between 18-30, 40% between 31-40, 28.6% between 49-50, and 14.3% above 50 years.

**Table 4: Showing education level of the client**

Marital status	Frequency	Percentages (%)
Married	12	34.3
Single	5	14.3
Separated	8	22.8
Windowed	10	28.5
<b>Total</b>	<b>35</b>	<b>100</b>

**Source: Primary data**



**Figure 4: Showing education level of the client**



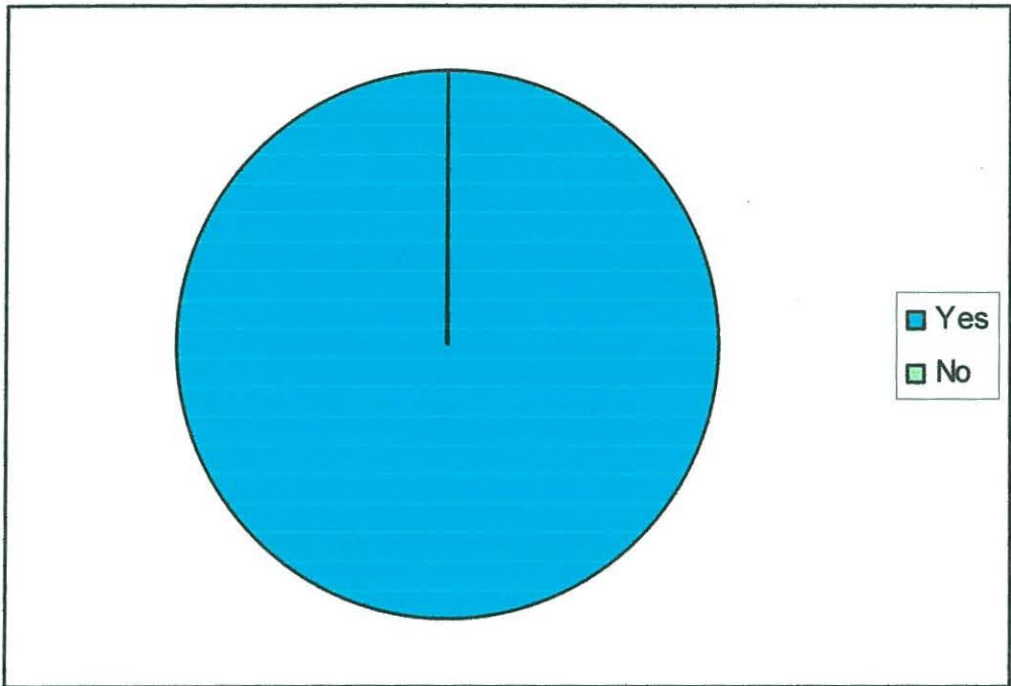
According to the above table majority of the respondents have attained formal education. 40% have reached primary level, 17.1% Secondary level, 14.3% tertially, 8.6% University and 20% has not attained any level of education. Those who had no education and those who had reached primary had a problem of interpretation the credit policies. And also had a problem of keeping the books of accounts for their business.

**Table 5: Showing clients have loans from FINCA Uganda**

Loan Type	Frequency	Percentages (%)
Yes	35	100
No	-	0
<b>Total</b>	35	100

**Source: Primary data**

**Figure 5: Showing clients have loans from FNCA Uganda**



From the table above shows that all the respondents had loans from FINCA Uganda that is 100%.

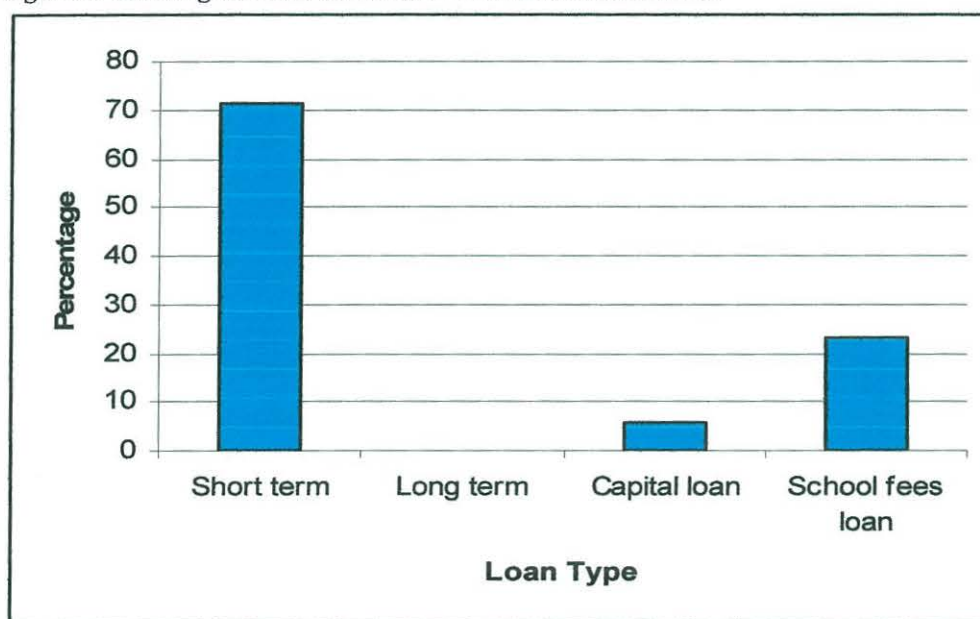
**Table 6: Showing the kind of loan the client have from FINCA**

Loan Type	Frequency	Percentage (%)
Short term	25	71.4
Long term	-	-
Capital loan	2	5.7
School fees loan	8	22.9
<b>Total</b>	<b>35</b>	<b>100</b>

**Source: Primary data**



**Figure 6: Showing the kind of loan the client have from FINCA**



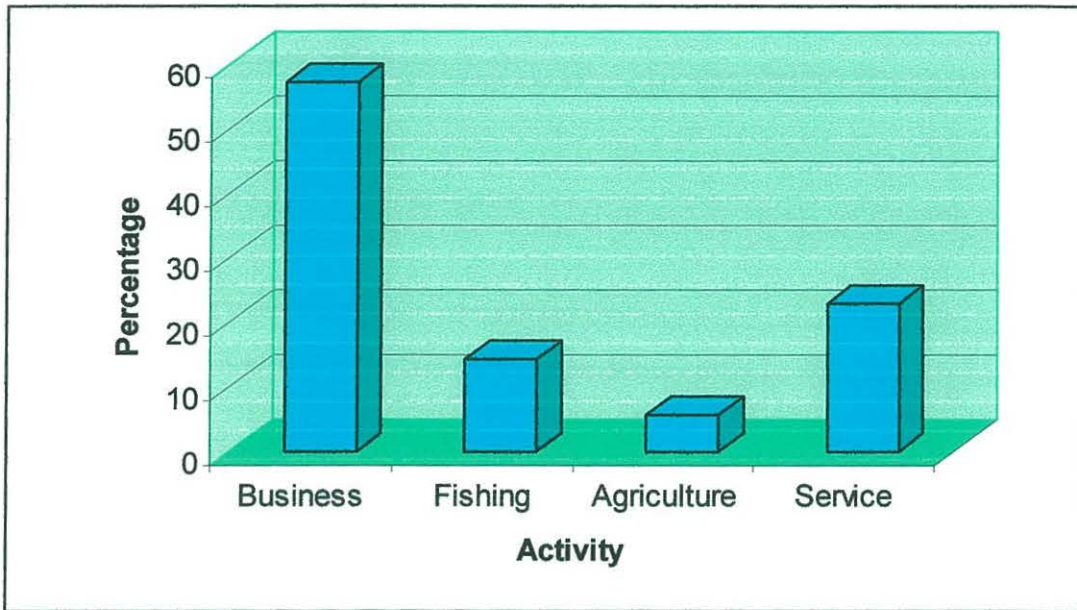
From the table above it was established that 71.4% of the clients had short-term loans, 5.7% had capital loans and 22.9% had school fees loans.

**Table 7: Showing the activity which the client is performing**

ACTIVITY	FREQUENCY	PERCENTAGES(%)
Business	20	57.1
Fishing	5	14.3
Agriculture	2	5.7
Service	8	22.9
<b>Total</b>	<b>35</b>	<b>100</b>

**Source: primary data**

**Figure 7: Showing the activity which the client is performing**



According to the above table 57.1% of the respondents carry out business, 14.3% deal in fishing sector, 5.7 on agriculture and 22.9% in service sector. At least very respondent had something she or he is doing.

### **4.3 FINDINGS ON THE CREDIT POLICY**

The researcher found out that FINCA (Uganda) uses a number of credit policies before extending credit to its clients. These include; consideration of Character and integrity, asking for collateral before extending credit, determination of credit period, size of the loan, interest charges among others.

#### **4.3.1 Finding on character and integrity.**

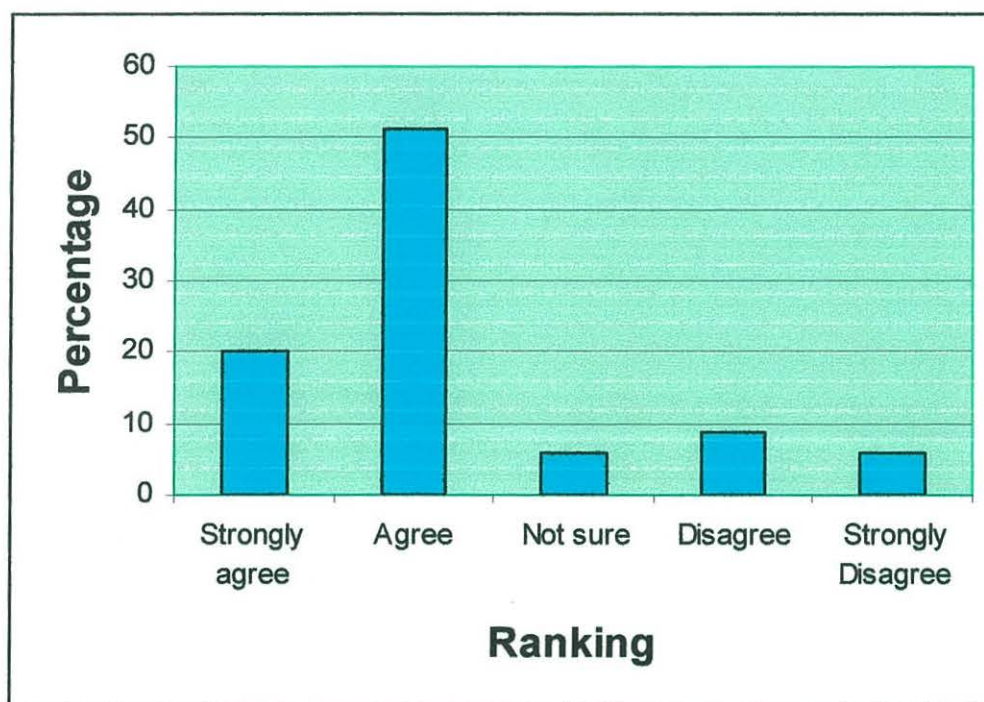
The clients were asked whether their character and integrity is considered when evaluating them for loans that they are given and below was the responses.

**Table 8: Findings on whether Character and integrity are considered when evaluating a client?**

Ranking	Frequency	Percentages(%)
Strongly agree	7	20
Agree	18	51.4
Not sure	2	5.7
Disagree	3	8.6
Strongly Disagree	2	5.7
<b>Totals</b>	<b>35</b>	<b>100</b>

Source: primary data

**Figure 8: Findings on whether Character and integrity are considered when evaluating a client?**



The data above shows that 71.4%, 5.7% not sure and 14.3% disagrees. This implies that FINCA is in position to recover loans extended. The interviews conducted with the credit officers found out that character is looked at as a consideration which is important in that

it reveals the clients willingness to pay. However some of the clients default and fail to pay back the loan.

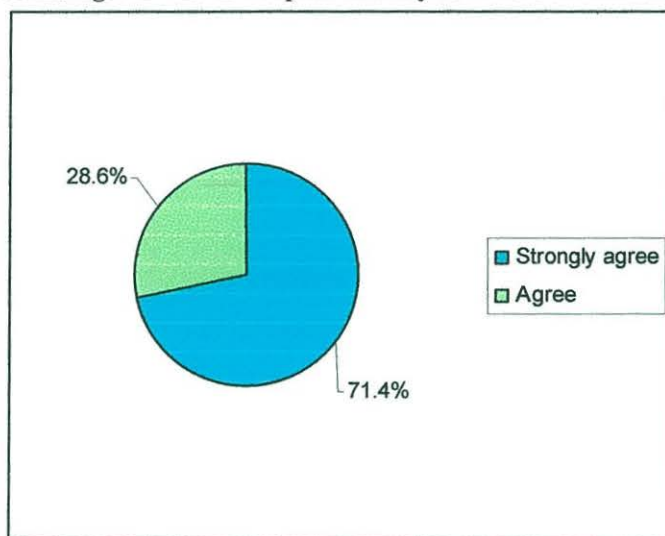
#### 4.3.2 Findings on initial capital contribution

In this part, the researcher intended to find to find out whether initial capital contribution in business by the client was required when getting a loan. The discussion is as shown below;

**Table 9: Findings on whether capital initially contributed in business is required when getting a loan**

Ranking	Frequency	Percentages (%)
Strongly agree	25	71.4
Agree	10	28.6
Total	35	100

**Figure 9: Findings on whether capital initially contributed in business is required when getting a loan**



According to the table above 71.4% of the respondents strongly agreed and 28.6% agreed that initial capital contribution is required when getting a loan. This implies that the



clients will be able to repay the loan. Management said that before a credit client gets a loan he/she should have initial capital for the business the loan given is an additional. However some clients to not have initial businesses.

### 4.3.3 Finding on Collateral/ security

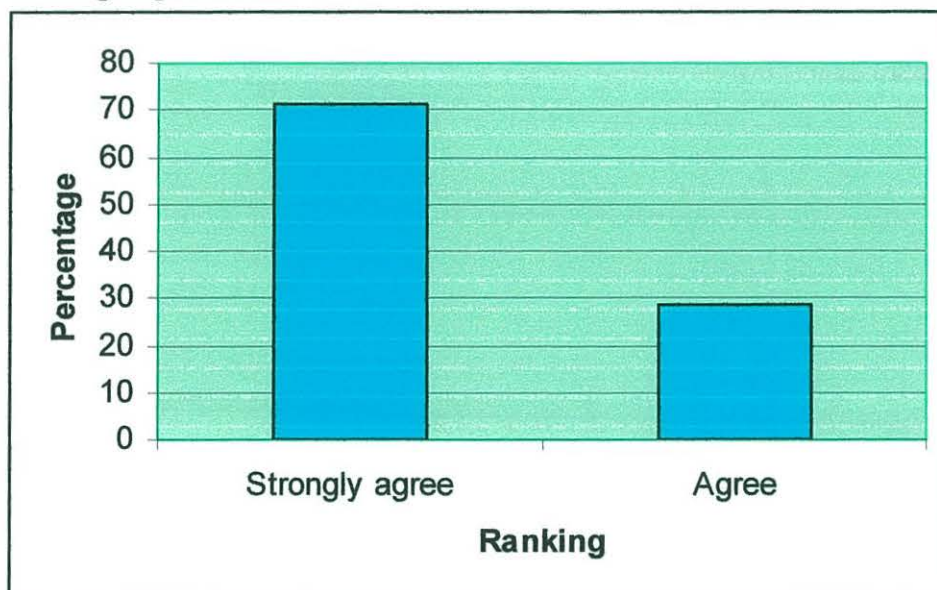
The question in this part was whether FINCA always asks the client for security as collateral before extending loans to them. The findings are shown on the table below.

**Table 10: Findings on whether FINCA Uganda always asks respondents for loan security as collateral before giving them loan.**

Ranking	Frequency	Percentages (%)
Strongly agree	25	71.4
Agree	10	28.6
Totals	35	100

Source: primary data

**Figure 10: Findings on whether FINCA Uganda always asks respondents for loan security as collateral before giving them loan.**



According to the above table 71.4% strongly agreed and 28.6% agreed.

This implies that FINCA would be able to recover the loans extended. Further analysis showed that, since the majorities are poor the major collateral is the peer group guarantee and some of the property of the clients like furniture, television among others. Management revealed that at times the property given as security is not sufficient to cover up the loan when default this shows that there is a problem in the credit management system.

#### 4.3.4 Finding on Credit period.

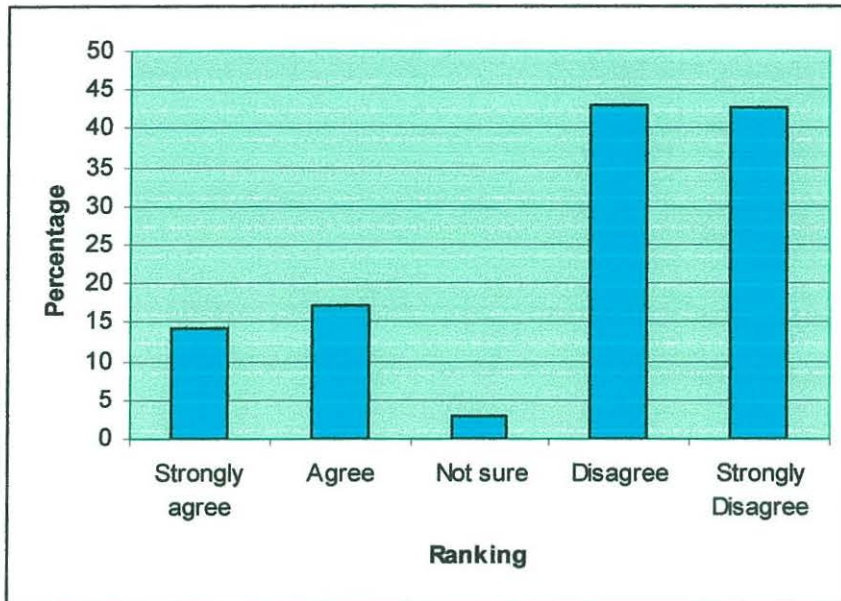
In this part, the researcher intended to find out whether the credit period given to the clients encourages them to repay the loan. The findings are below:

**Table 11: Findings on whether the credit period encourages clients to repay loans.**

<b>Ranking</b>	<b>Frequency</b>	<b>Percentages(%)</b>
Strongly agree	5	14.3
Agree	6	17.1
Not sure	1	2.9
Disagree	15	42.9
Strongly Disagree	8	42.8
Totals	35	100

**Source: primary data**

**Figure 11: Findings on whether the credit period encourages clients to repay loans**



As shown in the table above, the credit period given to the respondents does not encourage them to repay back the loan that is represented by 65.7% disagreed and 31.4% agreed. This implies that the credit period is short for the respondents hence FINCA may fail to recover the loans extended. The four months given to clients to pay does not favor the slow paying projects and those with low profits in their initial stages. Interview with management however revealed that the credit period given is sufficient enough since they get short term loans. However this was a challenge since the respondents are unable to meet their obligations time given is too short to pay back the loan.

**4.3.5 Finding on size of the loan**

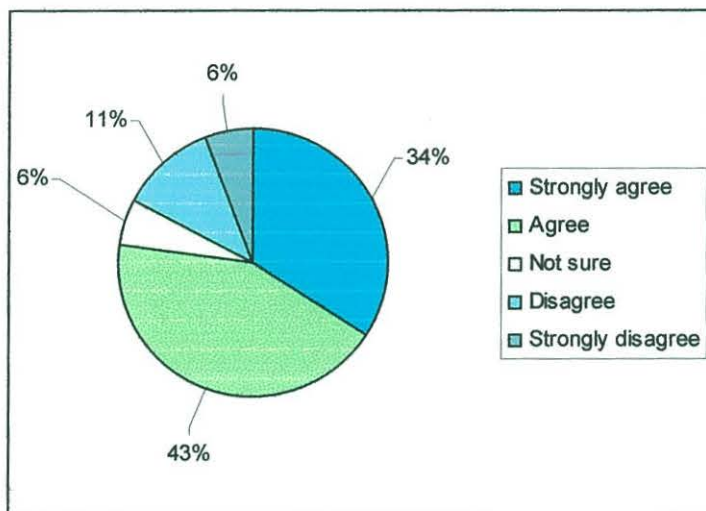
In this part the researcher sought to find out whether the size of the loan given out to clients is within the set standard to that the clients pay back the loan in time the findings are discussed below;

**Table 12: Findings on whether FINCA has maximum amount to lend to clients**

Ranking	Frequency	Percentages(%)
Strongly agree	12	34.3
Agree	15	42.9
Not sure	2	5.7
Disagree	4	11.4
Strongly disagree	2	5.7
<b>Total</b>	<b>35</b>	<b>100</b>

**Source: Primary data**

**Figure 12: Findings on whether FINCA has maximum amount to lend to clients**



As shown in the above, 77,2% of the respondents agreed, 5.7% were not sure, 17.1% disagreed. Discussed with management showed that there is need to provide the maximum amount to clients as most of them do not need the same amount.

According to the findings FINCA has maximum amount it can lend to clients according to the type of loan got from the clients. The minimum amount is 150,000/= for new clients, 300,000/= loan for second time borrowing, then proceeding loans range between 500000/= to 2,000,000/=



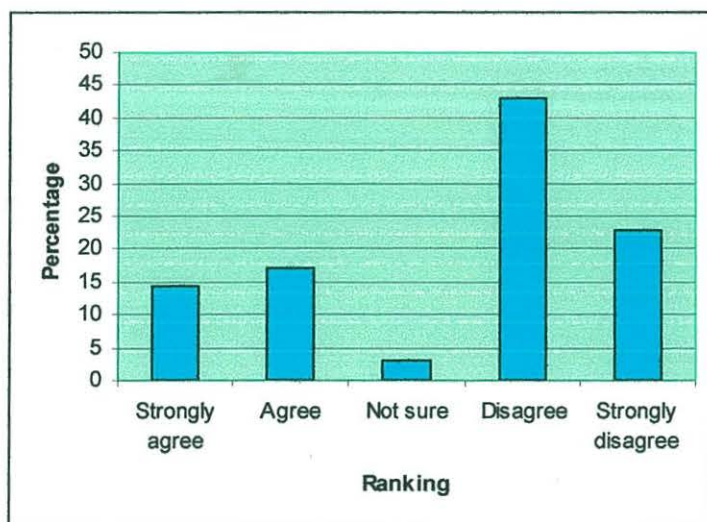
4.3.6 Findings on clients satisfied with the size of the loan given by FINCA (Uganda). The researchers sought to find out whether clients are satisfied with the size of the loan that FINCA always gives. This is shown below.

**Table 13: Findings on whether clients are satisfied with the size of the loan given by FINCA Uganda.**

Ranking	Frequency	Percentages (%)
Strongly agree	5	14.3
Agree	6	17.1
Not sure	1	2.9
Disagree	15	42.9
Strongly disagree	8	22.9
<b>Total</b>	<b>35</b>	<b>100</b>

**Source: Primary data**

**Figure 13: Findings on whether clients are satisfied with the size of the loan given by FINCA Uganda.**



As shown in the table above, 42, 9% disagree with the loan size, 17.1% agreed with the loan size and 2.9% were not sure. This implies that the size of the loan got from FINCA may pose problems of recovery. Further discussion with management revealed that the

amount given should be in line with the business or activity carried out by the clients. It is a must that the clients are first given 150000/= as the first loan advance given and this is not satisfactory to the clients.

#### 4.4.6 Findings on Interest charges

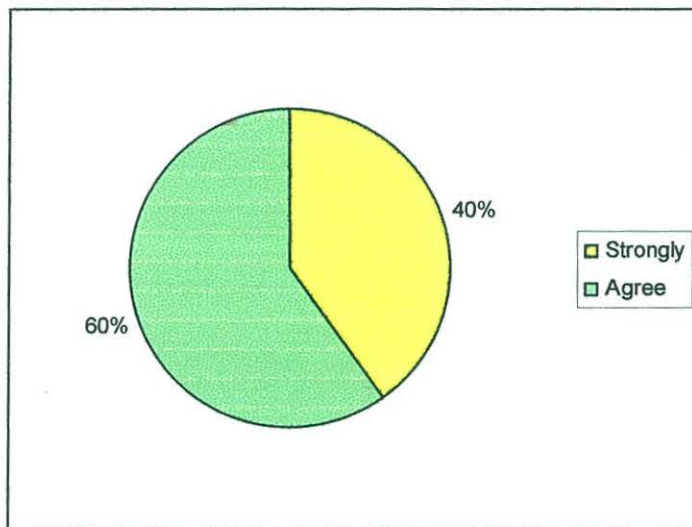
The researchers sought to find out whether interest is charged on loan to ensure that the clients will pay back the loan on time. This is discussed below:

**Table 14: Findings on whether FINCA always charges interest on its loans.**

Ranking	Frequency	Percentages (%)
Strongly	14	40%
Agree	21	60%
<b>Totals</b>	35	100

**Source: Primary data**

**Figure 14: Findings on whether FINCA always charges interest on its loans**



As shown above, 40% of the respondents strongly agreed that interest rate is charged on loans and 60% agreed. This implies that FINCA gains from the borrowers but if the interest charged is high FINCA may not recover the loans extended. Management said that the loans have to be charged with interest in order to cover administrative costs and

other costs associated with the loan given out. The interest is regarded as a price for the loan. The researcher further examined whether the interest rates are favorable or not.

**4.4.7 Findings on interest rates are high as compared to other financial institutions.**

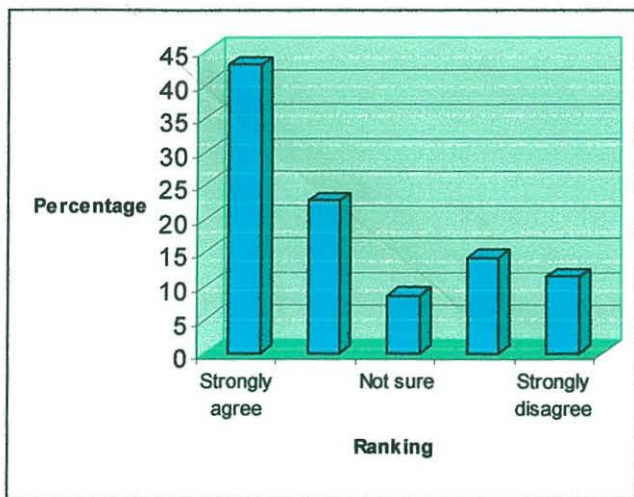
The researcher wanted to find out if interest rates are high as compared to other financial institutions

**Table 15: Findings on whether Interest rates are high as compared to other financial institutions.**

Ranking	Frequency	Percentages (%)
Strongly agree	15	42.9
Agree	8	22.8
Not sure	3	8.6
Disagree	5	14.3
Strongly disagree	4	11.4
<b>Total</b>	<b>35</b>	<b>100</b>

**Source: Primary data**

**Figure 15: Findings on whether Interest rates are high as compared to other financial institutions.**





As shown in the table above FINCA Uganda changes high interest rates this is reflected by 65.7% agreed 8.6% aware not sure and 25.7 disagreed. This implies that clients may fail to pay back the interest and the principle. Management however revealed that interest rate charged is moderate compared to the costs of the loan given out.

#### 4.4.8 Finding on loan repayment and high interest rates.

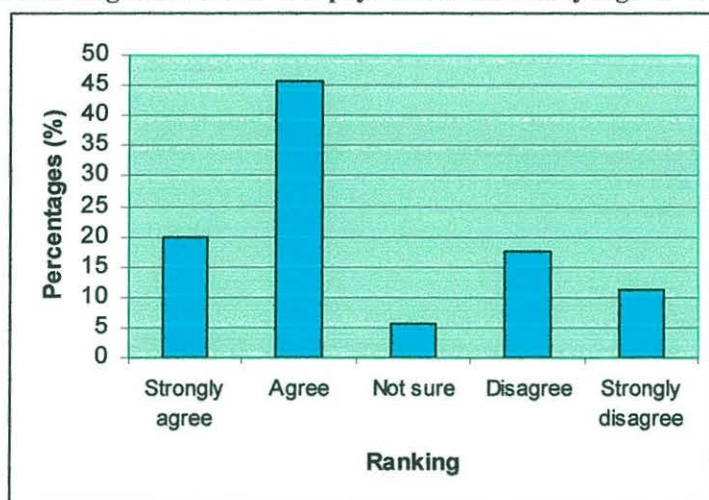
The researcher sought to find out whether payment is affected by the high interest rates as discussed below

Table 16: Findings on whether loan payment is affected by high interest rates,

Ranking	Frequency	Percentages (%)
Strongly agree	7	20
Agree	16	45.7
Not sure	2	5.7
Disagree	4	17.4
Strongly disagree	4	11.4
<b>Totals</b>	<b>35</b>	<b>100</b>

Source: Primary data

Figure 16: Findings on whether loan payment is affected by high interest rates



The study showed that 85.7% of the respondents agreed, 5.7% were not sure, 28.8% disagreed. This implies that loan repayment is affected by high interest rates. The

management said that high interest rate is a big challenge to clients and it has a negative impact on loan repayment.

#### 4.5 FINDINGS ON LOAN RECOVERY

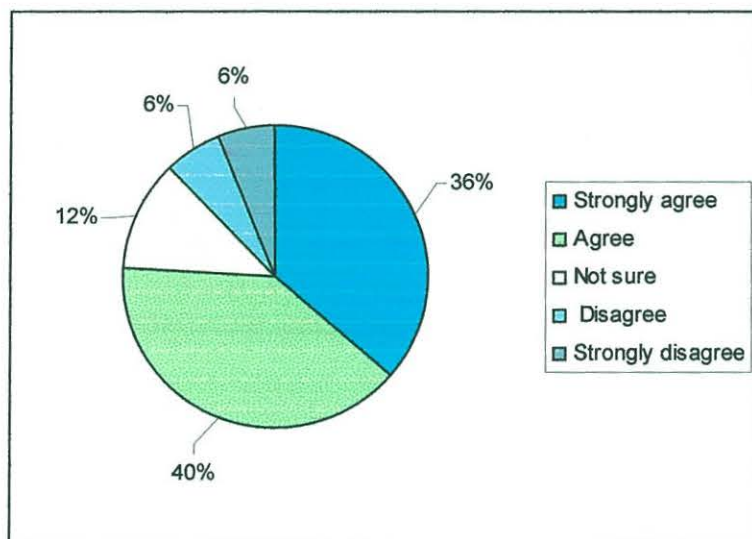
The researcher sought to find out loan recovery methods that FINCA uses to ensure that the client will pay back the loan in time as shown below:

**Table 17: Findings on whether FINCA Uganda has procedures for collecting for collecting loans from the clients.**

Ranking	Frequency	Percentages (%)
Strongly agree	12	34.3
Agree	13	37.1
Not sure	4	11.4
Disagree	3	5.7
Strongly disagree	3	5.7
<b>Totals</b>	<b>35</b>	<b>100</b>

Source: Primary data

**Figure 17: Findings on whether FINCA Uganda has procedures for collecting for collecting loans from the clients.**



As shown in the above table, 71.4% agreed that FINCA has procedures for collecting loans from the 8.6% were not sure and 11.4% disagreed. This implies that FINCA always recovers the loans extended to her clients. The collections procedures include, sending letters to the defaulter, in case he or she fails to turn up for two proceeding weeks. Co-guarantors have to look for the defaulter from his place of resident in order to get him to payment or seize up the property attached as security. This is a very tiring procedure at times the property seized may not meet the amount required.

#### 4.5.1 Findings on interest and principle

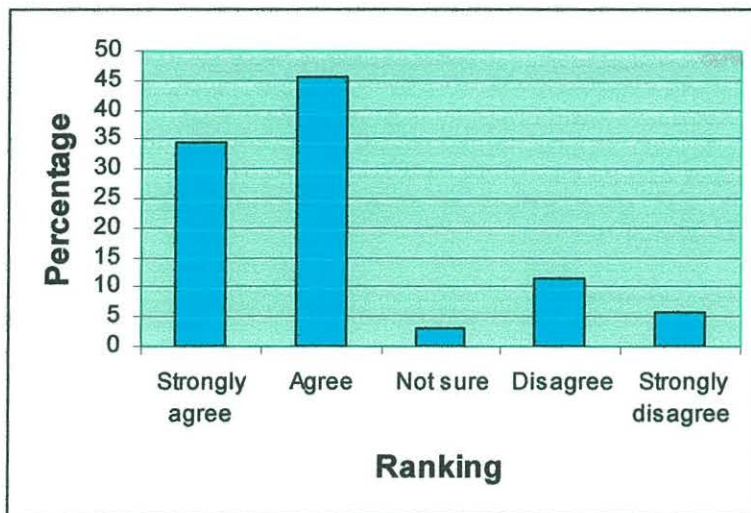
This part was intended to find out whether FINCA collects both the principle and the interest as shown below:

**Table 18: Findings on whether both interest and principle is collect from the client.**

<b>Ranking</b>	<b>Frequency</b>	<b>Percentages (%)</b>
Strongly agree	12	34.3
Agree	16	45.7
Not sure	1	2.9
Disagree	4	11.4
Strongly disagree	2	5.7
<b>Totals</b>	<b>35</b>	<b>100</b>

**Source: Primary data**

**Figure 18: Findings on whether both interest and principle is collect from the client.**



As shown above, 80% agreed that both interest and principle are collected from the clients, 27.1% disagreed and 2.9% were not sure implying that loses are minimized on recovery of loans extended. Management revealed that the principle is not only collected but it is calculated together with the interest so when payment is due both are charged together.

**4.5.2 Findings on Savings from clients**

The researcher wanted to find out whether FINCA takes savings from clients in case they fail to pay. This was discussed below:

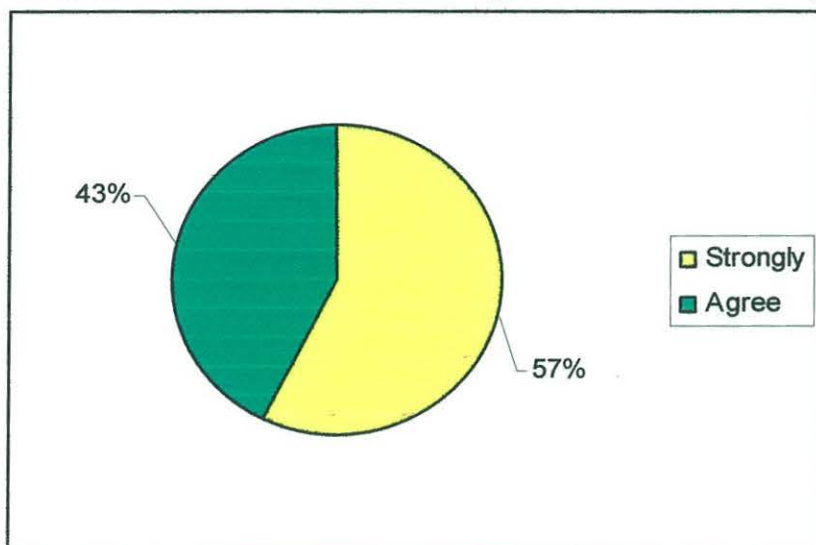
**Table 19: Findings on whether FINCA takes savings from members in case they fail to pay the loan.**

Ranking	Frequency	Percentages(%)
Strongly	20	57.1
Agree	15	42.9
Totals	35	100

**Source: primary data**



**Figure 19: Findings on whether FINCA takes savings from members in case they fail to pay the loan**



As shown from the table above, 57.1% agreed that FINCA removes savings from group members in case one fails to pay the loan and 42.9% agreed. This implies that savings made by clients who have not defaulted has to be taken away by the management in order to meet the amount out standing. Management said that this helps them to recover then amount though at time the saving may not be enough leading to a loss to an institution.

**4.5.3 Findings on clients visited by loan officers.**

The researcher wanted to find whether clients are frequently visited by the loan officers in order to pay back the loan. This is shown as below:

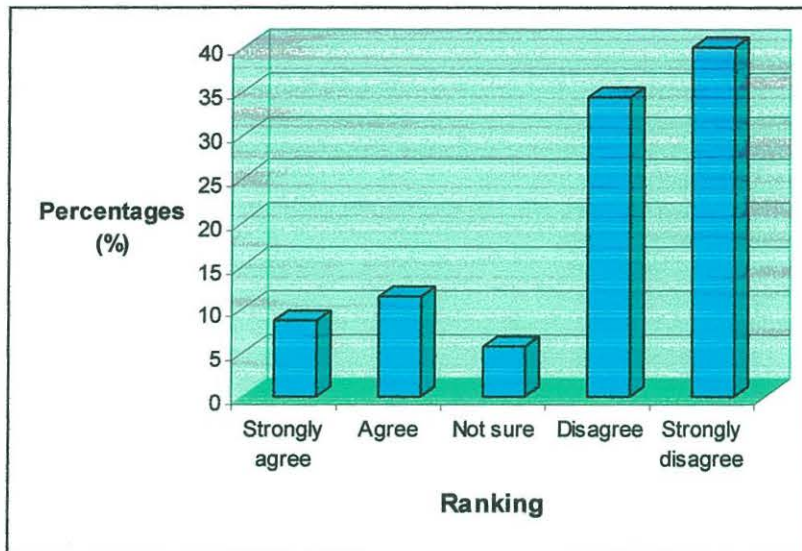
**Table 20: Findings on whether Clients are frequently visited by the loan officers to pay back the loan.**

Ranking	Frequency	Percentages (%)
Strongly agree	3	8.6
Agree	4	11.4
Not sure	2	5.7
Disagree	12	34.3
Strongly disagree	14	40
<b>Totals</b>	<b>35</b>	<b>100</b>

**Source: Primary data**



**Figure 20: Findings on whether Clients are frequently visited by the loan officers to pay back the loan.**



The above table shows that 8.6% strongly agreed, 11.4% agreed, 5.7% were not sure 34.3 disagreed and 40% strongly disagreed,. This shows that loan officers don't frequently visit clients from where they carry out their business. Management also revealed that visiting clients is mandatory. The officers are supposed to do so but at times they are occupied with other duties and is also affects loan repayment.

#### **4.5.4 Finding on credit of FINCA encourages paying back the loan.**

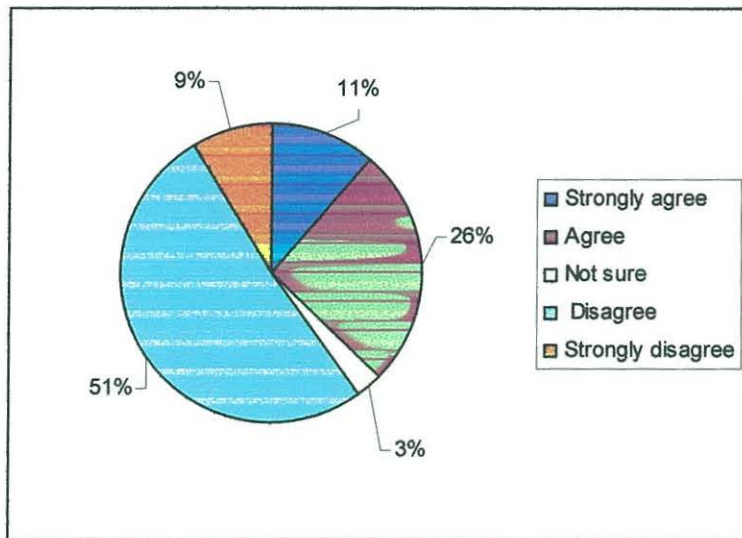
The researcher wanted to find out whether the credit from FINCA encourages clients to pay back the loan. This is discussed as below

**Table 21: the credit of FINCA encourages paying back the loan**

<b>Ranking</b>	<b>Frequency</b>	<b>Percentages (%)</b>
Strongly agree	4	11.4
Agree	9	25.7
Not sure	1	2.9
Disagree	18	51.4
Strongly disagree	3	8.6
<b>Totals</b>	<b>35</b>	<b>100</b>

**Source: Primary data**

**Figure 21: The credit of FINCA encourages paying back the loan**



The research revealed that 97.1% 2.9% were not sure and 51.4% disagreed. This shows that clients are made to pay hence minimizing losses to FINCA. This is because the credit is not big enough to carry out the intended purpose effective and the credit terms are not convenient. The Credit officers also revealed that the credit given has to be paid irrespective of what ever the client is going through. This brings a problem in loan repayment.

#### **4.6 FINDINGS ON THE RELATIONSHIP BETWEEN THE CREDIT POLICY AND LOAN RECOVERY**

The respondents were asked to assign weights according to extent that effective credit policy leads to rates to loan recovery in FINCA.

The following were responses received.

Table 22: showing how loan recovery is related to credit policy

Elements	Credit	Credit term	Interest rates	Collection procedures
Credit Policy, X	79	40	90	88
Loan recovery, Y	92	93	96	

Source: Primary Package

Table 23: Result from use of Spearman's rank correction coefficient;

X	Y	Rank X(Rx)	Rank Y(Ry)	D =Rx-Ry	D2
79	92	2	2	0	0
40	38	1	1	0	0
90	93	4	3	+1	1
88	96	3	4	-1	1

Source: SSP Package

Using Spearman's coefficient of rank correlation;

$$\begin{aligned}
 P &= 1 - \frac{6 \sum D^2}{n(n^2-1)}, \text{ where } n = \text{number of pairs} = 4 \\
 &= 1 - \frac{6 \times 2}{4(16-1)} \\
 &= 1 - 0.2 \\
 &= 0.8
 \end{aligned}$$

spearman's coefficient of rank correlation is +0.8 implying that there is a strong positive relationship between credit policy and loan recovery.

The more effective the credit policy, the higher the rate of loan recovery.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION, RECOMMENDATION AND ISSUES FOR FURTHER RESEARCH**

This chapter deals with summary, conclusion, recommendations and issues for further research basing on the objectives of the study.

#### **5.1 SUMMARY OF THE FINDINGS.**

This section presents a summary of the findings from the study. The findings relates to 35 respondents representing 77.8% of the sample size.

The socio-Demographic characteristics of the respondents were investigated.

Majority of the respondents were found to be female as compared to men counter parts. Any one can be offered a loan regardless of sex. Marital status was investigated it was found out that the married were more as compared to others.

Majority of the respondents were between age brackets 31-40. Most of them had acquired loan from FINCA. The education background showed that the majority had acquired formal education at least to primary level. However there was a problem in interpreting the questionnaires given to them.

#### **5.2 OBJECTIVES I: CREDIT POLICY USED BY FINCA IN EXTENSION OF CREDIT TO CLIENTS**

Study findings revealed that the credit policy was found to be unfavorable especially the credit standards and credit terms. Credit standards were considered in evaluating the clients and yet some credit clients tend to default. They also indicate that the credit terms particularly that credit period was too short and not favoring their projects. Respondents were not happy with the collection procedures which require them to meet weekly which tends to be time consuming.

The researcher also discovered that the loan amount was not satisfactory with short term loan because they do not favor their projects and pay back period especially to those whose rate of turn over was low.

The researcher also discovered that the clients are charged high interest rates and this affects their loan repayment patters.

### **5.3 OBJECTIVES 2: THE LOAN RECOVERY SYSTEM WITH IN FINCA AS AN INSTITUTION**

The researcher found out the repayment period are too short for the respondents especially those who were operating show growing projects. Credit policy affects loan repayment pattern. The clients make weekly meeting in order to avoid defaults.

Majority of the respondents said that weekly meeting s were time consuming and expensive and hence unfavorable.

The researcher also found out that, the loan recovery system is not user friendly. FINCA removes savings from group members in case one fails to pay the loan. This is very big challenges to respondents because they have to pay back the money they have not used.

### **5.4 OBJECTIVES 3: TO ESTABLISH THE RELATIONSHIP BETWEEN CREDIT POLICY AND LOAN RECOVERY.**

From the study it was found that credit policy and loan recovery are positively correlated (as shown by the spearman's coefficient of rank correlation of 0.8 indicating a strong positive relationship.

In order to attain good performance of loan recovery will depend on the availability of good credit policy techniques applied.

## **5.5 RECOMMENDATIONS.**

The following are recommendations of FINCA Uganda in order to improve on their credit policy and loan recovery.

FINCA Uganda should re-examine the ways of extending service to their client.

The most affected group are those with slow paying projects. There is need to provide medium loan term and long-term loans and also increases on the pay back period in order to accommodate slow moving projects.

Under taking market research to discover what preferences the clients have and whether the institution can service their needs.

FINCA should have frequent visits to their clients so that they could easily monitor the clients of how they use the money. Not necessarily only when they are giving them loans and when they have defaulted.

They should also consider giving loans to individuals in order to reduce the problem of acquiring co-guarantors.

The MFIs should work closely with other MFIs to break the network of defaulters who move from one MFI to another.

The clients of MFIs need to improve or grow given the fact that they are small-scale business. Therefore interest on loans should be reasonable especially by comparing it to the turnover of such business.

Clients with special or genuine problems such as affected by natural problems such as sickness should be given special treatment. This can be in form of extending repayment periods.

## **5.6 ISSUES FOR FURTHER RESEARCH.**

The study covered the relationship of credit policy and loan recovery in Micro finance institutions.

The study has not been exhaustive and conclusive enough; because the study did not critically analyze how much does the poor credit policy affects loan recovery. It based on elements of credit policy like credit standards, credit terms and collection procedures.

Therefore there is need for further research in the following; the effects of credit policies on Micro finance institution on small-scale entrepreneurs

The impact of credit policies on the growth trend of Micro finance institutions.

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## **APPENDICES**

### **APPENDIX A**

#### **INTERVIEW GUIDE**

##### **Interviews for the management**

- (i) How often do the credit officers visit clients?
- (ii) In your own opinion comment on the credit policies in place at FINCA (U) and her loan recovery process.
- (iii) Do credit officers visit clients to check on their projects?
- (iv) What relationship exists between the efforts applied in FINCA (U) in order to accelerate repayments from slow of none paying customers and her loan recovery?
- (v) What approaches do you use when issuing the credit?
- (vi) How effective are your credit policies in relation to loan recovery?
- (vii) What type of loan does FINCA (U) gives to the customers?
- (viii) What relationship exists between the type of loan extended to clients and their repayment?
- (ix) Do your clients invest the money in when you give those loans?
- (x) What relationship exists between the criteria FINCA (U) employ in selecting customers for credit extension and loan recovery process?

**SECTION A**  
**INTERVIEW FOR CLIENTS**

1) Sex

Male

Female

2) Marital status

Married

Single

Separate

Widowed

3) Highest level of education

Primary

Secondary

Tertiary

University

None of the above

4) Age

18-30

31-40

41-50

50++

5) Do you have a loan with FINCA (U)?

Yes

No

6) If your answer is No.5 is YES, what kind of loan do you have?

Short term

Long term

Capital loan

School fees loan

7) From which sector are you grouped into?

Business                  Fishing                  Agriculture                  Services  
 Non of the above     

**SECTION B  
 CREDIT POLICY**

The following scale will be used in this section. (Please tick where appropriate)

- Strongly disagree (SDA)    1
- Disagree                    (DA)    2
- Not sure                    (NS)    3
- Agree                        (A)      4
- Strongly agree            (SA)    5

(8) My character and integrity is considered when evaluating me for a loan

SA	A	NS	DA	SDA

(9) My capital initially contributed in my business is called for when am getting a loan.

SA	A	NS	DA	SDA

(10) My initial contribution in my business is required when am getting a loan.

SA	A	NS	DA	SDA

(11) FINCA Uganda always asks me for security as collateral before giving me a loan.

SA	A	NS	DA	SDA

(12) The condition is favorable when getting a loan.

SA	A	NS	DA	SDA

(13) I am happy with the way I 'm evaluated before given a loan.

SA	A	NS	DA	SDA

(14) I am encouraged to service and repay the loan because of the way I'm evaluated.

SA	A	NS	DA	SDA

(15) The credit period given to me encourages me to repay back the loan.

SA	A	NS	DA	SDA

**LOAN AMOUNT GIVEN TO A CLIENT**

(16) FINCA (U) has a maximum amount to which it can lend to clients.

SA	A	NS	DA	SDA

(17)What is the maximum amount the institution can lend to you?

Explain .....

(18) I am satisfied with the size of loan I get from FINCA Uganda.

SA	A	NS	DA	SDA

(19) I am encouraged by the loan size given to me by FINCA to pay back.

SA	A	NS	DA	SDA

### INTEREST RATES CHARGED ON LOANS

(20) FINCA (U) always charges interest on its loans

SA	A	NS	DA	SDA

(21) Interest rates are high as compared to other financial institutions

SA	A	NS	DA	SDA

(22) My loan payment is affected by high interest rates.

SA	A	NS	DA	SDA

(23) The interest rates for FINCA (U) encourage me to serve and repay the loan.

SA	A	NS	DA	SDA

## PROCEDURES FOR COLLECTING LOANS

(24) FINCA Uganda has procedures for collecting loans from me in case I fail to pay back loan.

SA	A	NS	DA	SDA

(25)The institution collects only the principal from me in case I default on loan.

SA	A	NS	DA	SDA

(26)Both interest and principal are collected from me in case I default on the loan.

SA	A	NS	DA	SDA

(27) FINCA Uganda removes savings from group members in case I fail to pay the loan

SA	A	NS	DA	SDA

(28) My property are taken away by FINCA when I fail to pay the loan,

SA	A	NS	DA	SDA

(29) The credit policy of FINCA Uganda affects my loan payment pattern.

SA	A	NS	DA	SDA

(30) I am frequently visited by the loan officers to find out whether I can pay back the loan.

SA	A	NS	DA	SDA

(31) The credit of FINCA(U) encourages to pay back the loan.

SA	A	NS	DA	SDA

(32) What should management of FINCA (U) do about its credit policy in order to ensure that you effectively pay your loans?

.....  
 .....



**APPENDIX B**

**TRANSMITTAL LETTER FOR A PLACE OF RESEARCH IN YOUR  
ORGANIZATION**

Maeda Janet  
Kampala International University  
P.O BOX 20,000  
Kampala, Uganda.

The Managing Director  
FINCA (U)  
P.O BOX,  
Kampala, Uganda

1<sup>st</sup> April, 2006

Dear Sir,

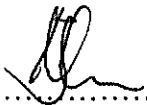
**RE: TRANSMITTAL LETTER FOR A RESEARCH IN YOUR ORGANIZATION**

I'm a continuing student pursuing a degree in Bachelor of business administration at Kampala International University.

I would like assistance from your organization to obtain information and supply my questionnaires for my research. I have to prepare a dissertation after my research as a partial fulfillment for the award of my degree.

I request any information and data from your organization that will assist me to fulfill my research reports. I will be glad if my request is considered.

Yours faithfully



.....  
Maeda Janet

### BUDGET ESTIMATE FOR RESEARCH PROPOSAL AND REPORT

Activity	Description	Amount in shillings
A	Proposal writing and printing	60,000
B	Proposal review	40,000
C	Data collection	60,000
D	Data analysis	40,000
E	Dissertation write up	80,000
F	Contingences	50,000
	TOTAL:	333,000

## SCHEDULE OF ACTIVITIES

MONTH	MARCH			APRIL			MAY			JUNE			JULY		
ACTIVITY															
1. Preparation of Proposal & Submission															
2. Literature review															
3. Data Collection															
4. Report Analysis															
5. Report Writing															
6. Adjusting Final Report And Submission															

APPENDIX C

MAP OF UGANDA

