CREDIT POLICY AND LOAN PORTFOLIO PERFORMANCE IN MICRO-FINANCE INSTITUTIONS: A CASE STUDY OF OPPORTUNITY BANK KAMWOKYA BRANCH, KAMPALA

BY

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A RESEARCH REPORT SUBMITTED TO THE DEPARTMENT OF ECONOMICS AND APLLIED STATISTICS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF ARTS IN ECONOMICS OF KAMPALA INTERNATIONAL UNIVERSITY

AUGUST, 2018

DECLARATION

I, do hereby declare to the best of my knowledge that; this research report titled ***"Credit Policy and Loan Portfolio Performance in Microfinance", A case study of Opportunity Bank Kamwokya Branch, Kampala***, is my original work and has never been submitted either wholly or partially for examination in any other institution or university.

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APPROVAL

I certify that ONGELECH JOSHUA, registration number 1153-05154-00179, has been carrying out a research study under the topic "***Credit Policy and Loan Portfolio Performance in Microfinance", a case study of Opportunity Bank, Kamwokya Branch, Kampala*** and has been under my supervision. The research report is now ready for submission with my approval.

SIGNATURE: ...Franklin... Date: ...08/08/2018...

MR. MUHEREZA FRANKLIN

(SUPERVISOR)

DEDICATION

I dedicate this research report to my parents, my brothers, sisters and my friends; who provided me with spiritual, financial and academic support during my education journey from primary to University.

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First and foremost, praise be to God for providing me with fullness of life and wellbeing that enabled me finish my course.

Special thanks go to my supervisor Mr. Muhereza Franklin who sacrificed his time and provided me with his professional guidance indeed his criticism and parental approach made my research a success.

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ABSTRACT

The study investigated and sought to establish the relationship between credit policy and loan portfolio performance: A case study of opportunity bank in Kamwokya on Kira Road just 3 kilometers from the city center Kampala. The research objectives included; to evaluate the effects of credit policy in Microfinance Institutions (MFIs), to determine the level of loan portfolio performance and to establish the impact of credit policy on loan portfolio performance in opportunity bank. The study employed a cross sectional research design where both quantitative and qualitative approaches of data collection were employed to collect data from 50 respondents. The participants were selected using two sampling techniques; purposive and simple random sampling. The data was collected using questionnaires and interview guides which was then analyzed descriptively. Most of the MFIs lack the efficient risk management mechanism that will help eradicate or sieve out serial defaulters. To effectively lock out these serial defaulters, MFIs requires referencing solution that will enable them submit and share data whilst processing their customers' credit application.

The study revealed that all the institutions that participated in the study have a loan risk management policy that is in operation. The stakeholders who are involved in credit policy formulation to a great extent are the members of these organizations and the regulator while the employees and the directors are involved in the credit formulation process only to a moderate extent. The study confirmed that the existing credit policy of the organization forms the basis for developing a new credit policy that is used by the organization. The institution has set up well funded risk management functions, with enhanced risk awareness among lenders, risk strategies are followed in disbursement of credit, the institution conducts thorough risk assessment on the potentials clients and it has also set up fund to cater for the risks that the institution may incur in its transactions.

CHAPTER ONE

1.0 Introduction

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

1.1 Background of the Study

Micro finance institutions belong to a wider group of financial institutions regarded as semi-formal financial institutions. These are institutions which are registered as non-government organizations performing financial functions of lending and taking deposits (Microfinance Act 2012).

A credit policy is the blue print used by a business in making its decision to extend credit to a customer. Thus, the main goal of a credit policy is to avoid extending credit to customers who are unable to pay their accounts. Credit policy for some larger businesses can be quite formal; involving specific documented guide lines, credit checks and customer credit applications, the policy for small businesses tends to be quite informal and lacks the items found in the formal credit policy of larger businesses. Many small business owners rely on their business instincts as their credit policy (Blair, 2011). Credit policy has direct effects on the cash of any business. Hence, a credit policy that is too strict will turn away potential customers, reduce sales and finally lead to a decrease in the amount of cash inflows to the business. On the other hand, a credit policy that is too liberal will attract slow paying (even non-paying) customers .increase in the business average collection period for accounts receivables .and eventually lead to cash inflow problems in opportunity bank. A good credit policy should help management to attract and retain customers, without having negative impact on cash flow.

The importance of a credit policy is to maximize the value of a firm. (Puxty and Dodds, 2011). An optimum credit policy is achieved through proper adjustment of credit standards. Credit terms and collection efforts. These are the controllable decision variable that should be considered in accounts receivable. Credit policy is a guide to successful credit administration and benefits must be weighed against the cost to ensure the benefits are worth the effort of administering the credit. Benefits like increase in market share, retention of existing customers, acquisition of new ones, must be weighed against costs like selling and production costs, administration costs incurred during assessment, supervision and collection of credit and bad debts losses (Pandey. 2010)

A credit policy is an institutional method for analyzing credit requests and its decision criteria for accepting or rejecting applications (Girnf 2010).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 (Pandey. 2010).

Policies saves time by ensuring that the same issue is not discussed over and over again each time a decision is to be made. This ensures that decisions are consistent and fair and that people in the same circumstance get treated in the same manner (Khandkar and Khan, 2010). According to McNaughton (2010), credit policy provides a frame work for the entire management practices.

Most financial institutions 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. 2011). The main objective of credit policy is 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 (Hulmes.l992).Managers use these variables to evaluate clients credit worthiness .repayment period and interest on loan collection methods and procedures to take in case of loan default. A stringent credit policy gives credit to customers on a highly selective basis. Only customers who have proven creditworthiness and strong financial base are given loans, the main target of a stringent credit policy is to minimize the cost of collection, bad debts and unnecessary legal costs (Pandey. 2011).

A credit policy is the blue print used by a business in making its decision to extend credit to a customer. Thus, the main goal of a credit policy is to avoid extending credit to customers who are unable to pay their accounts. Credit policy for some larger businesses can be quite formal: involving specific documented guide lines, credit checks and customer credit applications, the policy for small businesses tends to be quite informal and lacks the items found in the formal credit policy of larger businesses. Many small business owners rely on their business instincts as their credit policy (Blair. 2011).

Credit policy has direct effects on the cash flow of any business. Hence, a credit policy that is too strict will turn away potential customers, reduce sales and finally lead to a decrease in the amount of cash inflows to the business. On the other hand, accredit policy that is too liberal will attract slow paying (even non-paying)customers .increase in the business average collection period for accounts receivables and eventually lead to cash inflow problems in Uganda Finance Trust. A good credit policy should help management to attract and retain customers, without having negative impact on cash flow.

On the other hand, loan portfolio refers to the total amount of money given out in different loan products, to the different types of borrowers, this may be comprised of; salary loans, group guaranteed loans, individual loans and corporate loans (Puxty et al, 2011). It looks at the number of clients with loans and the total amount in loans (Wester. 2012). Survival of most financial institutions depends entirely on any successful lending program that revolves on funds and loan repayments made to them by the clients (Oregon, 1986). This therefore requires a restrictive credit control system to be put in place so as to restrain from unnecessary lending thus, improving on profitability of micro finance institutions. (K.akuru.2010). Credit management is the executive responsibility of determining customer's credit ratings as part of the credit control function (Terry, 2010).

Increased demand for high working capital and cash for expansion has made most institutions and enterprises having to resort to borrowing of fund from financial institutions like banks, microfinance institutions and other lending agencies like insurance companies and mortgages.

Opportunity bank is one of the active institutions in loan extension to the entire community. On the contrary loan portfolio in opportunity bank has greatly affected the entire performance of the organization through increased arrears rates, high costs in loan recovery, constant bad debts written off, and high costs of administering loans that result from small scale and week) loan repayment. (Kakuru 2010).

However, the quality of the trade accounts accepted the length of the credit period, the cash discount for an easy payment and the collection procedures have not been effective in loan recovery. This in turn becomes costly to the institution on lop of affecting the volume of sales .Such decreases in the percentage of a loan recovery could be attributed to inappropriate credit policies that are not effective .therefore this instigates that there appears to be a problem in paying back the loans got from the microfinance institutions by their clients and this can be partly attributed to credit policy employed.

In the 1930s, before the advent of portfolio theory, people still knew "portfolios". However their perceptions of the portfolio was very different, as was the primary method of building one but in 1938, John Burr William wrote a book called "the theory of investment value" that captured the thinking of the time, the dividend discount model and the goal of most investors was to find a good stock and buy it at the best price without consideration of the return rate and if the stock was borrowed. (Pandey, 2010)

Whatever an investors' intentions, investing consisted of laying bets on stock that you thought were at their best price. During this period, information was still coming slowly and the price on the ticker tape did not tell the entire story. The loose way of the market, although tightened via accounting regulations after the greater depression, increased the perception of investing as a form of gambling for people too wealthy or haughty to show their faces at the track. (Blair, 2011).

In this wilderness professional managers like Benjamin Graham made huge progress by first getting accurate information and then by analyzing it correctly to make investment decisions. Successful managers were the first to look to look at the company's' fundamentals when making decisions, but their motivation was from the basic drive to find good companies on the cheap.no one focused on the risks until a little known 25 year old student changed the world. The 25 year old Harrry Markowitz then a graduate in operation research was searching for a topic on his doctorate. He started writing about market but he was struck by the fact that no consideration was given to the risk which inspired him to write "portfolio selection" (journal of finance 1952). The work languished on dusty library shelves for a decade before rediscovered. One of the reasons was that portfolio selection did not cause immediate reaction in the first 14 pages of the journal because it was full of graphs and mathematical models and articles, but later the interpretation of graphs and articles and models made people to understand the portfolio performance and that risk, not the best price, should be the crux of any portfolio. (Harry Markowitz, 1950)

1.2 Statement of the problem

Opportunity bank was established to improve the living standards of the local population moreover, initially it was a non-profit making organization, and however it has been diverted to a micro deposit taking institution (MDI), which is a profit maximizing institution. However Opportunity bank just like any other financial institution, has credit policies as a way of administering loans. The policies have objectives of maximizing profits to the benefit of the shareholders as well. Since 2010, the institution has faced hardships in loan recovery, portfolio at risk despite all the efforts of attaching assets to secure loans, building up equality loan portfolios and keeping the rate of deficit under control. The branch manager cited that problem is as a result of inadequate application of the tools of credit policy management (refer to the New vision Monday 23rd July 2012) locking it into a large and increasing proportion of nonperforming loans. According to Mugisa (2010) bad quality assets (loans) not only erode the institution's ability to recycle its financial resources but also threaten their survival and deprive the economy of a continuous flow of capital. It's against this background that the researcher has felt concerned and decided to go ahead and carry out the study to examine what impact credit policy would have on loan portfolio performance using opportunity bank Kamwokya branch, as the a case study. Therefore this study seeks to address this problem.

1.3 Purpose of the Study

The main purpose of the study was to examine the impact of credit policy on loan portfolio performance of opportunity bank.

1.4 Objectives of the Study

The objectives of the study were;

i. To evaluate the effects of credit policy in microfinance institutions.
ii. To determine the level of loan portfolio performance.
iii. To establish the impact of credit policy on loan portfolio performance in opportunity bank

1.5 Research Questions

The study was guided by the following research questions:

i. What are the effects of credit policy in microfinance institutions?
ii. What is the level of portfolio performance?
iii. What are the effects of credit policy on loan portfolio?

1.6 Scope of the Study

1.6.1 Content Scope

The study will focus on the impact of credit policy on loan portfolio performance of opportunity bank. Specifically, the study will evaluate the effects of credit standards on loan recovery, the effects of credit variables on loan repayment and the effects of credit rationing on the loan recovery.

1.6.2 Geographical scope

The study was conducted in opportunity bank in Kamwokya on Kira road just 3 kilometers from the city center. Kampala.

1.6.3 Time scope

The study will focus on material facts about credit policy and loan portfolio performance in microfinance institutions which covered a period of 5 years , that is from 2012-2017 but Period of body of knowledge was longitudinal in nature from 2011-2016. Therefore, this research was conducted from January 2018 to May 2018.

1.7 Significance / justification of the study

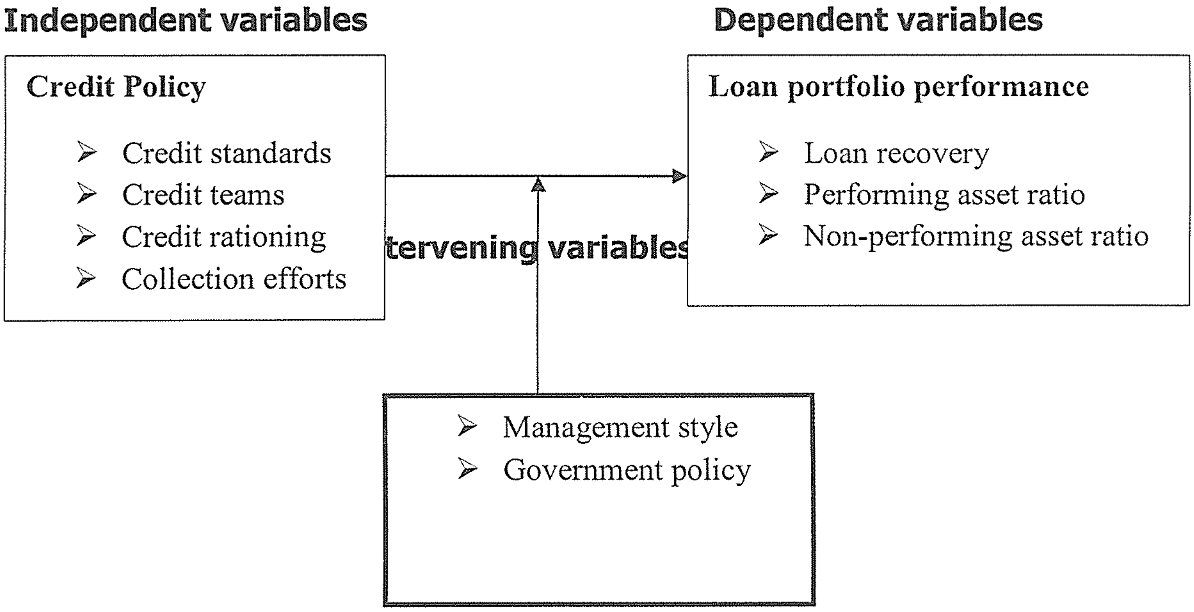
The study would help identify weaknesses in credit management policies of opportunity bank. This would help management to find means of strengthening their operations and other necessary remedial actions.

The study would help to enhance the researcher's knowledge and understanding of the study variables and perhaps give the researcher's ways to find the way forward towards the loopholes.

The study would add to the body of existing literature and provide a basis for future studies and references for future researchers.

1.8 Conceptual Framework

The impact of credit policy on loan portfolio performance in microfinance institutions



Source: Self developed from Literature of, Kareta (2009),

The conceptual framework shows (two independent variables credit policy and loan portfolio performance. Outreach is a moderating variable whereas customer retention is a dependent variable. Zeller & Lapen notes that microfinance lending is associated with default risk which compels management to formulate and implement credit policies which are used by managers to influence credit accessibility inform of outreach. Once credit is accessed by customers, manager play a big role with staff in retaining customers which is achieved on the assumption that managers are competent enough to make financial decisions which facilitates the achievement of corporate.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter summarizes the information from the available literature in the same field of study. It reviewed theories of credit management as well as empirical studies on credit management and financial performance in Kenya and in other countries.

2.1 Credit Policy

A credit policy is an institutional method for analyzing credit requests and its decision criteria for accepting or rejecting applications (Girma 1996). Credit policy is important in the management of accounts receivables.

A firm has time flexibility of shaping credit policy within the confines of its practices. It is therefore a means of reducing high default risk implying that the firm should be discretionary in granting loans (Pandey, 1995). Policies save time by ensuring that the same issue is not discussed over and over again each time a decision is to be made. This ensures that decisions are consistent and fair and that people in the same circumstance get treated in the same manner (Khandkar and Khan, 2010)

According to McNaughton (1996), credit policy provides a frame work for the entire management practices. Written credit policies are the cornerstone of sound credit management, they set objectives, standards and parameters to guide micro finance officers who grant loans and manage loan portfolio. The main reach for policy is to ensure operation's consistency and adherence to uniform sound practices. Policies should be the same for all and is the general rule designed to guide each decision, simplifying and listening to each decision making process. A good credit involves effective initiation analysis, credit monitoring and evaluation.

2.2 Performance of loan portfolio.

According to the findings by (Comptroller's hand book, 2006) on the impact of loan recovery on the performance of microfinance institution using cross chapteral research design argued that Portfolios are loans that have been made or bought and are held for repayment. Loan portfolios are the major asset of microfinance institutions, thrifts, and other lending institutions. The value of a loan portfolio depends not only on the interest rates earned on the loans, but also on the quality or like hood that interest and principal will be paid. The loan portfolio is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to a microfinance institution's safety and soundness. The level of interest risk attributed to the microfinance institution's lending activities depends on the composition of its loan portfolio and the degree to which the terms of its loans (e.g., maturity, rate structure, and embedded options) expose the microfinance institution's revenue stream to changes in rates.

Effective management loan portfolio and credit function is fundamental to a microfinance institution's safety and soundness. Loan portfolio management is the process by which risks that are inherent in the credit process are managed and controlled. Good loan portfolio managers have concentrated most of their effort on prudently approving loans and carefully monitoring loan performance. All financial institutions need to have basic loan portfolio management principles in place in some form. This includes determining whether the risks associated with the microfinance institution's lending activities are accurately identified and appropriately communicated to senior management and the board of directors, and, when necessary, whether appropriate corrective action is taken (Comptroller's hand book, 1998). Loan portfolio management (LPM) is the process by which risks that are inherent in the credit process are managed and controlled. Because review of the loan portfolio management process is so important, it is a primary supervisory activity. Assessing LPM involves evaluating the steps microfinance institution management takes to identify and control risk throughout the credit process. The assessment should focus on what management does to identify issues before they become problems (Comptroller's Hand Book, 2002).

2.3 Theoretical literature review

It is significant to note that changes have been taking place in the credit industry and this is backed up by the recent scenario where most lending institutions have developed sustainable credit appraisal standards that help them when it comes to credit appraisal and risk management (CBK 2011 annual report). Theories have been developed by different scholars that have positively affected rather have a relation to the lending activities and organization of this lending corporations. Discussed below are theories or models related to governance, operation and management of the lending institutions.

2.3.1 Contingency Theory

Contingency theory was developed by Fred Fiedler, 1967, but several contingency approaches were also developed concurrently in the late 1960s. Contingency theory is a class of behavioral theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent upon the internal and external situation of the corporation. As far as appraisal systems are concerned, different borrowers come with different scenarios on their ratings. The lending institutions have to scrutinize every individual and view what should be done, who is to be advanced credit with and how much is appropriate at a particular time. The lending institutions too also looks at its position as far as how much they are allowed to give out as credit to strike a balance between their loan portfolio and current deposits. There sometimes is no best mechanism of appraising but looking at the situations currently prevailing. (Finance FIN370)

2.3.2 Modern portfolio theory (MPT).

Hypothesis put forth by Harry Markowitz in his paper "portfolio selection" (published in 1952 by the journal of finance). In an investment theory based on the idea that risk-averse investors can constructportfolio to a given level of market risk emphasizing that risk is an inherent part of higher rewards. It is one of the most important and influential theories dealing with finance and investment.

Also known as "portfolio theory" or "portfolio management theory" MPT suggested that, it is possible to construct an efficient frontier of optimal portfolio offering the maximum possible expected returns for a given level of risk. It suggests that it is not enough to look at the expected risk and return to one particular stock. By investing in more than one stock, an investor can reap the benefits of diversification, particular in the reduction on the risks of portfolio. MPT quantifies the benefits of diversification, also known as not putting all of eggs in one basket. (Hurry Markowitz 1952).

2.4 Related studies.

According to the study by Chijoriga (2009) on the impact of training on Performance of Micro and Small Enterprises Served by Microfinance Institutions in Tanzania, It involves making accurate forecasts about the future performance of the portfolio and ensuring that there is proper management and monitoring of third party servicers who should ensure strict compliance with management policies. He added that the Loan portfolio performance enhancement can help an organization improve on its cash flows hence make the portfolio more profitable. Raghavan (2005) also observes that loan portfolio quality improvement can go as far as conducting independent credit audits to check for the status of compliance, review of risk rating and pick up warning signals and recommendation for corrective action taken with the objective of improving credit quality. He further notes that the need for credit portfolio management emanates from the necessity to optimize the benefits associated with diversification and reducing exposure to interest rate risk. There is therefore need for rapid portfolio reviews and proper ongoing system for identification of credit weaknesses in advance.

KPMG (2001) mentions that loans that get into trouble bring both direct and indirect losses to the microfinance institution, which reduces the returns on its portfolio. They further recommend that there should therefore be a sound credit management system with adequate control mechanisms like credit disbursement controls, credit audits and credit Management information systems that can guide proper credit pricing and adequate credit work outs before loan approval. Then the microfinance institution should develop a recovery strategy carefully analyzed according to the industry dynamics which involves determining the nature of the industry environment and the borrower's position within the industry, the borrowers' financial condition which involves determining the borrower's capacity to repay through cash flows, collateral liquidation, or other sources.

The microfinance institution can thereafter come up with either portfolio exit where the decision not to issue credit to the prospective client is undertaken or come up with restructuring policies where a decision to negotiate for reducing the principal with the client is undertaken, once restructuring policies are undertaken, a loan loss provision should be maintained to safeguard against loan losses, Kakuru (2009).

According to Comptroller's hand book, (2008), all microfinance institutions need to have basic loan portfolio management principles in place in some form. This includes determining whether the risks associated with the microfinance institution's lending activities are accurately identified and appropriately communicated to senior management and the board of directors, and, when necessary, whether appropriate corrective action is taken. The loan portfolio is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to a bank's safety and soundness. Whether due to lax credit standards, poor portfolio risk management, or weakness in the economy, loan portfolio problems have historically been the major cause of bank losses and failures. Effective management of the loan portfolio and the credit function is fundamental to a bank's safety and soundness.

Boah (2010) in his findings on the Assessment Methodologies for Microfinance using quantitative approaches revealed that a credit policy is the primary means by which senior management and the Board of an institution guides the lending activities, the profit over time due to financial instruments. In a loan structure whatsoever, the interest rate is the difference between money paid back and money got earlier, keeping into account the amount of time that elapsed.

According to Campsey and Brigham (2010) the evaluation of an individual should involve: gathering of relevant information on the applicant, analyzing the information to determine credit worthiness and making the decision to extend credit and to what tune. They suggested the use of the 5Cs of lending. The 5Cs of lending are Capacity, Character, Collateral, Condition and Capital. Capacity refers to the customer's ability to fulfill his/her financial obligations. Capacity, this is subjective judgment of a customer's ability to pay. It may be assessed using a customer's ability to pay. It may be assessed using the customer's past records, which may be supplemented by physical or observation.

Collateral is the property, fixed assets, chattels, pledged as security by clients. Collateral security, This is what customers offer as saving so that failure to honor his obligation the creditor can sell it to recover the loan. It is also a form of security which the client offers as form of guarantee to acquire loans and surrender in case of failure to pay; if borrowers do not fulfill their obligations the creditor may seize their asset (Girma, 201'0).

According to Chan and Thakor (2010), security should be safe and easily marketable securities apart from land building keep on losing value as to globalization where new technology keeps on developing therefore lender should put more emphasis on it. Capital portends the financial strength, more so in respect of net worth and working capital, evaluation of capital may be by way of analyzing the balance sheet using the financial ratios. Condition relates to the general economic climate and its influence on the client's ability to pay. Condition, this is the impact of the present economic trends on the business conditions which affects the firm's ability to recover its money. It includes the assessment of prevailing economic and other factors which may affect the client ability to pay (Kakuru, 2010).

Good credit management provide the institution with a reasonable and adequate return on loans and capital employed primarily through improvement in operations efficiency this generates adequate internal resources to finance the institution's growth (Pandey, 2010). The institution may have tight credit standards that it may extend loan to the most reliance and financially strong customers such standards will result in no bad debt losses and less cost of credit administration (Pandey. 2010).

Pandey (2010) stressed that credit standards are criteria for selecting customers for credit; the fund may have higher credit standards that is extending loans to selected customers with good reputation or record. On the other hand customers have to be evaluated to see if they meet the standards set by the management before loans are extended to them. However, (Van Home. 2010) states that when an institution extends loan to only strongest customers, it will never have bad losses and will incur fewer administration expenses.

Credit standards according to Mehta (2010), in advancing loans, credit standard must be emphasized such that the credit supplier gains an acceptable level of confidence to attain the maximum amount of credit at the lowest as possible cost. Credit standards can be tight or loose (Van Home. 2010). Tight credit standards make a firm lose a big number of customers and when credit are loose the firm gets an increased number of clients but at a risk of loss through bad debts. A loose credit policy may not necessarily mean an increase in profitability because the increased number of customers may lead to increased costs in terms of loan administration and bad debts recovery.

In agreement with other scholars Van Home (2010), advocated for an optimum credit policy, which would help to cut through weaknesses of both tight and loose credit standards so, the firm can make profits. This is a criteria used to decide the type of client to whom loans should be extended. Kakuru (2010) noted that it's important that credit standards be basing on the individual credit application by considering character assessment, capacity condition collateral and security capital.

Character refers to the willingness of a customer to settle his obligations (Kakuru, 2010) it mainly involves assessment of the moral factors. Social collateral group members can guarantee the loan members known the character of each client; if they doubt the character then the client is likely to default. Saving habit involves analyzing how consistent the client is in realizing own funds, saving promotes loan sustainability of the enterprise once the loan is paid. Other source should be identified so as to enable him serve the loan in time. This helps micro finance institutions not to only limit loans to short term projects such qualities have an impact on the repayment commitment of the borrowers it should be noted that there should be a firm evidence of this information that point to the borrowers character

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design, data type and sources, sample size and selection, data collection tools/methods, data presentation and analysis, data collection procedure and limitation of the study.

3.2 Research Design

A cross-section research design was used because it is flexible in both quantitative and qualitative data collection. Descriptive research design was used because it is effective to analyze non-quantified topics and issues, the possibility to observe the phenomenon in a completely natural and unchanged natural environment and the opportunity to integrate the qualitative and quantitative methods of data collection which other designs do not provide.

3.3 Data type and sources

Data was collected from both primary and secondary source.

Primary data is collected by use of questionnaires and interview guide. Secondary data is collected from published journals, reports, text books, and company records.

3.4 Study Population

The targeted population of the study was the senior management, human resource officers, research and development, banking officers, credit officers and customer care attendants.

3.5 Sample Size and Composition

The researcher used a sample size of 80 respondents and these are categorized in the following manner, 2 from the senior management level. 6 from the human resource department.8 customer care attendants. 12 banking officers, 28 credit officers and 10 research and development officers. This number is determined using Krejcie, R.V & Morgan, D.W (1970).

Table 1: Showing the sample size of respondents

Category of respondents	Population	Sample Size	Percentage
Senior management	4	2	2.5
Human resource officers	6	6	7.5
Research and development	12	12	15
Banking officers	20	20	25
Credit officers	32	28	35
Customer care attendants	12	12	15
Total	**84**	**80**	**100**

Source: Krejcie, R.V & Morgan, D.W (1970)

3.6 Sampling Technique

The researcher used a purposive sampling technique where managers, credit officers who have long experience in credit policy and loan portfolio performance in microfinance institutions in order to get reliable and consistent information in a broad perspective and group using a simple random technique.

3.7 Data Collection Tools and Methods

This section explains the nature of data collection tools and methods as explained below:

3.7.1 Questionnaire

The researcher developed both open and closed ended question which is approved fast by the super visor before they are presented to the respondents to be answered. The questionnaire is used because large amounts of information can be collected from a large number of people in a short period of time and in a relatively cost effective way.

3.7.2 Interview Guide

Face to face in depth interviews was conducted to collect data from opportunity bank officials and other respondents. Structured questions and open ended statements will be used by the researcher in trying to interview senior managers, employees from the loans department, employees from accounts chapter, Credit department under opportunity bank Kampala.

3.8 Data Collection Procedure

A letter of introduction was obtained from the research coordinator, Economics and applied Statistics, Kampala International University seeking permission to conduct the study. It will be presented to the officials of opportunity bank seeking permission to carrying out the study in the division. After being granted the permission, the researcher will proceed to make appointments with the selected respondents. Thereafter, the researcher will administer questionnaires and the required data is collected. The researcher personally will administer questionnaires to the respondents in order to avoid delay, to avoid collecting wrong data, ensure completeness and accuracy and confidentiality of the data collected is strictly adhered to.

3.9 Data Processing and Analysis

Completed questionnaires were edited for completeness and consistency. The questionnaires are coded to allow for statistical analysis. According to Mugenda (2010).data must be cleaned, coded and properly analyzed in order to obtain a meaningful report. The Statistical Package for Social Science (SPSS) version 12 is used to analyze and interpret the collected data where appropriate. The percentage frequencies is posted to excel worksheets to generate graphical summaries that also used to indicate the direction of respondents, tables and charts was used to summarize responses for further analysis and facilitate comparison.

3.10 Reliability and Validity of Research Instruments

The questionnaires were structured to achieve the purpose of the research thereby meeting the test of reliability. The reliability of the research instruments is tested through a pre-test.

In order to ensure validity, the questionnaires were made clear and understandable, the questionnaire was first discussed by the researcher with the supervisor; this included careful choice of words, order and structure of questions. After receiving the questionnaires, manual editing is done, followed by coding. Frequency count of different provisions was done and this gives the number of occurrences and percentages out of total occurrences for different responses. And lastly simple conclusions were drawn from the given percentages and numbers.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter consists of the presentation, analysis and discussion of the findings from the study. It provides results which were analyzed from raw data collected in the field. It is in two categories; the first one represents the demographic characteristics of the respondents while the other category represents the responses of the questions that were asked concerning research objectives. The analysis was done and data is represented in form of tables, graphs and pie-charts.

4.1 Overview of the Study

The study was carried out at opportunity bank. Questionnaires and interview guides were designed to obtain data from a sample size of 80 was selected. The findings of the study were presented in accordance to the study objectives.

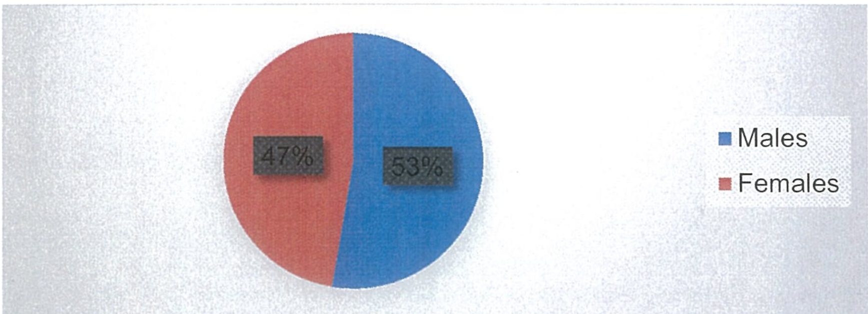
4.1.1 Response Rate

A sample of 80 respondents was selected using purposive sampling methods. Questionnaires, and interview guides were administered to them for data collection. Among the 80 respondents, all of them returned the questionnaires, giving a response rate of 100%.

4.2 Demographic Characteristics of the Respondents

The background characteristics compiled showed the gender, age, the education level and period of work. This data was analyzed and is presented below;

Figure 1: Showing gender of the respondents



Source: Primary Data

From Figure 1 above, it is indicated, majority of respondents (53%) were males and the females were only 47% of the total respondents. This implies that men were found to be active in the study under investigation. However, both ideas were relevant for the study. This indicates that the institution employs more males than females in procurement and stores department.

Table 2: Age of Respondents **n=80**

Age	**Frequency**	**Percentage**
18-30years	16	20
31-40years	32	40
41-50years	20	25
50 and above	12	15
Level of education		
O' level	0	0
A' level	12	15
Certificate/Diploma	24	30
Degree	44	55
Postgraduate	0	0
Period of work		
Less than 1year	20	25
1-3years	24	30
4years and above	36	45

Source: Primary Data

Table 2 shows that, the majority (40%) of the respondents were predominantly between the ages of 31 and 40 years. A significant percentage (25%) of the respondents was in the age bracket of 41 and 50years. The remaining 20% of the respondents were in the age bracket of 18 and 30years and another 15% of them were in the age group of 50 and above. 31-40years had the highest number because these are the most active age group hence they are actively involved in management in the organizations, therefore they had rich experiences and could also appreciate the importance of the study.

Table 2 above shows that most of the interviewed respondents (55%) were of degree holders, 30% were of Certificate/Diploma and only 15% of the study respondents were of A' level while none of the respondents had a postgraduate nor of O' level therefore, provided information based on the academic knowledge, skills and experience they have gain in management. This shows that company employees are qualified and competent to execute their duties and also appreciated the study under investigation.

The findings in the table 2 above shows that majority (45%) of respondents have worked at organization between 4years and above, followed by 1-3 years with 30% and less than 1year with (25%). This implies that the majority of the employees are experienced in the activities of the firm and they act as the role models for the newly recruited staff members with regard to study.

4.3 Effect of Credit Standards on Loan Recovery.

Five statements about effects of credit standards on loan recovery were presented to respondents. They were requested to respond to the statement using a five Likert scale from "Strongly disagree to "Strongly agree". Findings are presented in table followed with an analysis and interpretation.

To complete the findings for objectives, Respondents were asked some questions. The results were obtained and are presented below;

Table 3: Effect of Credit Standards microfinance institutions.

Statement	Strongly agree	Agree	Not sure	Disagree	Strongly disagree	Total
The organization determines and follows the credit standards and terms	10 (12.5%)	50 (62.5%)	18 (22.5%)	10 (12.5%)	04 (5%)	80 (100%)
Tight credit standards make banks loose a big number of customers	12 (15%)	42 (52.5%)	10 (12.5%)	10 (12.5%)	06 (7.5%)	80 (100%)
Credit standards give confidence to credit suppliers	05 (6.25%)	55 (68.75%)	08 (10%)	12 (15%)	00 (00%)	80 (100%)
The organization considers clients character before extending a loan to them.	04 (5%)	68 (85%)	08 (10%)	00 (00%)	0 (00%)	80 (100%)
There is always training to all employees on the standards and policies set by the organization.	17 (25.25%)	47 (58.75%)	10 (12.5%)	06 (7.5%)	00 (00%)	80 (100%)

Source: Primary Data

According to the table 3 above, most of the respondents (62.5%) of the respondents agreed with the organization determines and follows the credit standards and terms, 12.5% of them disagreed and only 22.5% of them were not sure12.5 strongly agree with the statement and 5% strongly disagreed. This implies that setting and following credit standards and terms has improved loan portfolio performance at opportunity bank.

The above findings in table 3, also indicate that 15% of the respondents agreed with tight credit standards make banks a big number of customers, 52.5% of the respondents agreed with tight credit standards make banks a big number of customer, 12.5% of the respondents disagreed, 12.5% of the respondents were not sure and 7.5% strongly disagreed with the statement. This implies that tight credit standards reduce overall bank performance.

The above table 3 indicates that, most of the respondents 68.75% of them agreed with credit standards give confidence to credit suppliers, 15% of them disagree, and 10% of the study respondents were not sure, only 6.25% strongly agreed. This implies that majority of the respondents agreed that credit standards have given improved loan recovery at bank by giving confidence to credit suppliers.

Respondents (85%) agreed with the organization considers clients character before extending a loan to them, none of them disagreed and only 10% of them were not sure and 5% strongly agreed. This implies that considering client's characters has improved loan recovery thus improving bank performance.

The findings in table 3 above shows that most of the respondents 58.75% agreed with there is always training to all employees on the standards and policies set by the organization, 25.25% strongly agreed, 7.5% of them disagree while only 12.5% of them were not sure. This implies that majority of the respondents agreed. This is because the bank trains all employees on the standards and policies set by the organization which has improved loan recovery.

4.4 Effects of credit term on loan recovery

The study sought to establish the effect of credit terms on loan recovery. Results were obtained and presented below;

Table 4: Effects of credit terms on loan recovery.

Statement	Strongly agree	Agree	Not sure	Disagree	Strongly disagree	Total
Available collection policies have assisted towards effective credit management	7 (8.75%)	60 (75%)	04 (5%)	06 (7.5%)	03 (3.75%)	80(100 %)
Formulation of collection policies have been a challenge in credit management.	04 (5%)	05 (6.25%)	04 (5%)	58 (72.5%)	9 (11.25%)	80 (100%)
Enforcement of guarantee policies provides chances for loan recover in case of loan defaults	03 (3.75%)	50 (62.5%)	07 (8.75%)	15 (18.75%)	05 (6.25%)	80 (100%)
Staff incentives are effective in improving recovery of delinquent loans	00 (00%)	54 (67.5%)	14 (17.5%)	10 (12.5%)	02 (2.5%)	80 (100%)
Regular reviews have been done on collection policies to improve stale of credit management	06 (7.5%)	36 (45%)	11 (13.75%)	18 (22.5%)	7 (8.75%)	80 (100%)

Source: Primary Data

The findings from table 4 above shows that majority of study respondents 75% agreed with available collection policies have assisted towards effective credit management, 8.75% strongly agreed, 7.5% of them disagreed, 3.75% strongly disagreed while 5% of them were not sure. This implies that credit policies at Opportunity bank has improved loan repayment.

The findings also indicate that majority of the respondents 72.5% disagreed with formulation of collection policies have been a challenge in credit management, 6.25% of the study respondents agreed, also 5% of the respondents were not sure, 5% and 11.25% strongly agreed and disagreed respectively. This implies that the organization has easily formulated collection policies to improve credit management.

The findings in table 4 above also shows that majority of the study respondents (62.5%) agreed with enforcement of guarantee policies provides chances for loan recovery in case of loan defaults, while 18.15% of them disagreed, a significant percentage 8.75% were not sure, 3.75% strongly agreed and 6.25% strongly disagreed implying that as a result of guarantee policies at Opportunity bank, chances of loan recovery has improved.

The study findings as indicated in the table 4 above show that majority of the respondents (67.5%) agreed with staff incentives are effective in improving recovery of delinquent loans, while 12.5% of them disagreed, 17.5% of the respondents were not sure whereas 2.5% strongly disagreed and none strongly agreed with this. However, most of the responses were positive implying that as a result of staff incentives at Opportunity bank, recovery of delinquent loans has improved at the bank.

Finally, the study findings in the table above indicate that majority of the respondents 45% agreed with regular reviews have been done on collection policies to improve stale of credit management, those who agreed strongly rounded to 7.5%, 22.5% of the respondents disagreed, 8.75 strongly disagreed and 13.75% of the respondents were not sure. However, from the results most of the respondents were on a positive side implying that the bank has been instrumental on recovery of loans with regular reviews of collection policies.

4.5 Effects of credit rationing on loan recovery

Five statements about the effects of credit rationing on loan recovery were presented to respondents. There were requested to respond to the statement using a five Likert scale from "Strongly disagree to "Strongly agree". The findings are presented in table followed with an analysis and interpretation.

Table 5: Effects of credit rationing on loan recovery

tements	Strongly disagree	Disagree	Not sure	Agree	Strongly agree	Total
; very easy for customers get loans in your anization	8 (10%)	20 (25%)	6 (7.5%)	28 (35%)	18 (22.5%)	**80 (100%)**
organization incurs a lot costs in recovering loans en to customers	10 (12.5%)	14 (17.5%)	6 (7.5%)	28 (35%)	22 (27.5%)	**80 (100%)**
ases of failure to pay the the organization takes asures to recover it.	10 (12.5%)	18 (22.5%)	12 (15%)	34 (42.5%)	6 (7.5%)	**80 (100%)**
organization offers a ety of loan products to its tomers	2 (2.5%)	26 (32.5%)	18 (22.5%)	30 (37.5%)	4 (5%)	**80 (100%)**
n products have eased the organizational fitability levels	4 (5%)	28 (35%)	6 (7.5%)	34 (42.5%)	8 (10%)	**80 (100%)**

Source: Primary Data

From table 5 above, findings show that fewer respondents (35%) opposed the statement that it is very easy for customers to get loans in your organization compared to those who concurred (57.5%) while only 7.5% were not sure. This implies that, credit rationing has enabled the organization to improve its credit management.

Fewer respondents (30%) opposed the statement that the organization incurs a lot of costs in recovering loans given to customers compared to those who concurred

(62.5%) while only 7.5% were not sure. This implies that, the organization expenses are increased as a result. Loan involves all of costs including telephone costs, transport costs among others.

Fewer respondents (35%) opposed the statement that in cases of failure to pay the loan the organization takes measures to recover it compared to those who concurred (50%) while 15% were not sure. This implies that organization has several fall back procedures that have been set up to improve credit management.

Fewer respondents (35%) opposed the statement that the organization offers a variety of loan products to its customers compared to those who concurred (42.5%) while 22.5% were not sure. This implies that sometimes, the organization offers a variety of loan products to its customers.

Fewer respondents (40%) opposed the statement that loan products have increased the organizational profitability levels compare to those who concurred (52.5%) while only 7.5% were not sure. This implies that in most cases, credit management has helped to increase on volume of sales.

4.6 Effects of collection efforts on loan recovery.

The study sought to establish the effect of collection efforts on loan recovery. Results were obtained and are presented below;

Table 6: Effects of collection efforts on loan recovery

statement	Strongly disagree	Disagree	Not sure	agree	Strongly agree	Total.
The availability of collection forces have improved portfolio performance	19 (23.75%)	24 (30%)	6 (7.5%)	20 (25%)	11 (13.75%)	**80 (100%)**
Inaction of fair and friendly collection policies has helped to improve on loan recovery	6 (7.5%)	14 (17.5%)	10 (12.5%)	28 (35%)	22 (27.5%)	**80 (100%)**
Limited number of credit officers determines credit productivity	10 (12.5%)	16 (20%)	12 (15%)	34 (42.5%)	8 (10%)	**80 (100%)**

Source: Primary Data

From the above table 6, results show that 53.75% of the respondents disagree and strongly disagree with the statement that the availability of collection efforts have improved portfolio performance, the 38.75% agreed and strongly agree to the statement while the 7.5% were not sure whether it is true or not. This implies that collection efforts may work or may not work in portfolio performance but from the indication above the bigger percentages do not agree with it.

A larger number of the respondents of about 62.5% agreed that if friendly and fair credit policies are established will help to boost the portfolio performance but 25% of the respondents of the disagreed with this which I think they got reason for it and 12.5% where not sure of that. This shows that credit efforts has helped to minimize on the credit defaulters hence boosting on the loan portfolio performance.

From the above findings in table 6, it shows that 32.5% of the respondents did not accept that the numbers of credit officers determine the credit productivity but the bigger number agreed (52.5%) and 15% was not sure about this. This implies that increasing on the credit officers or collection efforts will improve on the loan portfolio performance.

4.7 Effects of the management style.

The management style has got findings on credit management according to what was got from the respondents accordingly. The results are shown in the table below and was well explained.

Table 7: Effects of management style on loan portfolio performance

statement	Strongly disagree	disagree	Not sure	agree	Strongly agree	total
The management team work and regular meetings to share on the credit terms, effort, and standards has enhanced portfolio performance.	12 (15%)	20 (25%)	11 (13.75%)	30 (37.5%)	7 (8.75%)	**80 (100%)**
The reluctance of the management team on credit terms, standards, variables, and collection efforts has led to increased non-performing assets.	14 (17.5%)	12 (15%)	2 (2.5%)	38 (47.5%)	14 (17.5%)	**80 (100%)**
Involved field work engagement enhances performing assets.	4 (5%)	7 (8.75%)	16 (20%)	30 (37.5)	17 (21.25%)	**80 (100%)**

Source: Primary Data

The findings from the table 7 above shows that the majority of the respondents (37.5%) agree with that management team work and regular meetings to share credit terms, efforts and standards will boost portfolio performance, 8.75% strongly agreed 25% disagreed, 15% strongly disagreed, while 13.75% were not sure of this. This implies that there should be maximum team work within the microfinance institutions if they are to realize increase in their returns in credit service.

As seen from the table 7 above, 47.5% of the sampled population agree the reluctance of the management team on credit terms, variables and collection efforts as led to increased non-performing assets, 17.5% strongly agreed, 15% of the population disagreed, 17.5% again strongly disagreed and 2.5% were not sure. Therefore the majority do believe that non-performing assets are always a result of the poor management control on credit terms, variables and collection efforts.

The findings table 7 shows that the management involvement in field work activities enhances performing assets by 37.5% agreeing with it, 8.7% disagreeing, 20% not sure, 5% 21.25% strongly disagree and strongly agree respectively. This implies that the management should strongly get involved in the field work activities especially on loan recovery to increase on performing assets.

4.8 Effects of the government policies.

The study examined and described the influence of the government policies on loan portfolio performance and result are discussed in the table below.

Table 8: Effects of government on loan portfolio performance.

statement	Strongly disagree	disagree	Not sure	agree	Strongly agree	total
Will the location of funds to microfinance institutes as said by the president in this year's state of the nation address help to improve on loan productivity.	9 (11.25%)	40 (50%)	11 (13.75%)	9 (11.25%)	11 (13.75%)	**80 (100%)**
The reluctance of government agencies increase on loan defaulters.	10 (12.5%)	40 (50%)	5 (6.25%)	15 (18.75%)	10 (12.5%)	**80 (100%)**
Massive government intervention through the central bank boosts portfolio performance.	15 (18.75%)	15 (18.75%)	20 (25%)	18 (22.5 %)	13 (16.2%)	**80 (100%)**
Increase of moral suasion helps to improve on portfolio.	8 (10%)	12 (15%)	4 (5%)	35 (43.75%)	21 (26.25%)	**80 (100%)**

Source: Primary Data

This year's (2018) state of nation address indicated that more funds are to be a located the microfinance institutions in order to increase on the rate of economic growth as well as the loan performance and findings from this research show that 50% of the sampled population did not agree with that, 11.25% strongly disagreed, 13.75% were not sure, 11.25% agreed and 13.75% strongly agree. This shows that people do not government on the location of funds to the microfinance institutions to increase performance of the economy.

From the above table 8, it shows that still a bigger number of the respondents disagree that loan defaulters are caused by the reluctance of the government agencies. This is evidenced by 50% and those who strongly disagree are 12.5%, 6.25% are not sure, 18.75% agree and 12.5% strongly agree with the statement. The implication is that, government agencies should not be blamed for loan defaulters basing on the findings from the research.

The above results in table 8 shows that 25% of the respondents which is the biggest response indicate respondents are not sure whether massive government intervention through the central bank will enable increased portfolio performance but the second biggest number of 22% agreed, 16.25% strongly agree while 18.75% relied on both strongly disagree and disagree. This generally indicates that the government can intervene for various reasons and we cannot be so sure that its intervention will boost the portfolio performance of the microfinance institutions.

The findings from the table 8 above show that moral suasion helps to raise on the portfolio performance simply because the majority of the respondent agree on that (43.75%), 26.25% strongly agree, 15% disagree with the statement, 10% of the population strongly disagreed while 5% were not sure of that. This indicates that the central bank should do more of moral suasion so as to help the microfinance institutions raise their portfolio performance.

4.9 Effects of the non-performing assets.

The study examined and described the influence of the government policies on loan portfolio performance and result are discussed in the table below

Table 9: Effects of non-performing assets.

statement	Strongly disagree	Disagree	Not sure	agree	Strongly agree	total
Non-performing assets have not been a challenge to the organization.	12 (15%)	31 (38.75%)	6 (7.5%)	30 (37.5 %)	7 (8.75%)	**80 (100%)**
Non-performing assets are as a result poor management team	10 (12.5%)	15 (18.75%)	5 (6.25%)	40 (50%)	10 (12.5%)	**80 (100%)**
Non-performing assets implies there are minimum efforts on credit polices	15 (18.75%)	15 (18.75%)	15 (18.75%)	23 (28.7 5%)	13 (16.2%)	**80 (100%)**

Source: Primary Data

From the above results in table 9, they show that the majority of the respondents disagree with the statement that non-performing assets he have been a challenge to organization by 15% and 38.75% strongly disagreeing and disagreeing respectively, 37.5% agreed, 8.75% strongly agreed and 7.5% were not sure at all. This implies that the research shows that the rate of non-performing assets in microfinance institutions is very low.

The minority of the sampled population (18.75%) also disagreed that non-performing assets are as a result of poor management team, 12.5% strongly disagreed, and 6.2% were not sure of that, 50% and 12.5% agreed and strongly agreed respectively. This is an implication that the management is held responsible for the defaulters in microfinance finance organizations.

It is indicated in the table 9 above that 28.75% agree that minimum efforts on credit policies lead to non-performing assets and 16.2% strongly agree while 18.75% were not sure, the same percentage strongly disagreed and disagreed. This is an indication that the management has got an obligation still to tighten the credit policies so as to reduce on the non-performing assets.

4.10 Effects of the performing assets.

The study sought to establish the effect of performing assets on loan portfolio performance. Results were obtained and are presented below;

Table 10: Effects of performing assets.

statement	Strongly disagree	Disagree	Not sure	agree	Strongly agree	total
Performing assets have improved on the profitability.	7 (8.75%)	9 (11.25%)	0 (00%)	50 (62.5 %)	14 (17.5%)	**80 (100%)**
The good reputation of the company results from performing assets.	4 (5%)	15 (18.75%)	11 (13.75 %)	40 (50%)	10 (12.5%)	**80 (100%)**
Performing assets has been a contributions of massive government intervention.	30 (37.5%)	20 (25%)	14 (17.5%)	7 (8.75 %)	9 (11.25%)	**80 (100%)**
Customers find it easy to get loans when the level of performing assets is high.	8 (10%)	12 (15%)	10 (12.5%)	28 (35%)	22 (27.5%)	**80 (100%)**

Source: Primary Data

In the above table 10, the respondents about 62.5% and 17.5% agree and strongly agree respectively that performing assets boost the profits of microfinance institutions, 8.75% and 11.25% strongly disagreed and disagreed respectively and no respondent responded on not sure section. This shows that the level performing assets should be stimulated to realize high profits in microfinance institutions.

The above table 10 show results of whether the good reputation of the company is as a result of the good performing assets and the results show that 50% and 12.5%

agree and strongly agree respectively which are the majority, 13.5% were not sure, 5% strongly disagree and 18.75% disagree. This implies that the higher the level of performing assets, the higher the rate of growth and the name of the company sales.

The performing assets are not rendered a contribution of the government intervention according to the finding from the research carried as seen from the finding in the above table 10 where 37.5% strongly disagreeing, 25% disagreeing, 17.5% not being sure, 8.75% agreeing and finally 11.25% strongly agreeing. It implies that the microfinance organizations can always do better without the government hand in it.

From the above table 10, it indicates that with increase in performing assets, customers will always find it easy to get loans by 35% agreeing with it, 27.5% strongly agreeing, 12.5% not being sure of it, 10% strongly disagreed and 15% disagreed. This indicates that performing asset if properly well managed will motivate the bank to give away loan because they are sure of the returns which increases on the loan portfolio performance as well.

The statement was posted to the respondents whether loan recovery method gives rise to which credit policy to implement and the results indicate that many agreed with it and strongly agreed by 37.5% and 25% respectively, 9% were not sure of that, 17.5% disagreed with the statement, 8.75% strongly disagreed and this implies that loan recovery method leads to which credit policy to develop and implement basing on the challenges faced during the loan recovery.

Similarly, the majority of the respondents seem to agree that increase in loan recovery efforts will increase or improve on the performance of the company (bank). 35% agreed with the statement, 27.5% strongly agreed, 12.5% were not sure of that statement, while 10% and 15% strongly disagreed and disagreed respectively and therefore, the company should put more emphasis on how to improve on loan recovery so as to improve of the loan performance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1. Introduction

This chapter presents the summary, conclusion and recommendations of the study carried out on the contribution of product diversification to growth of microfinance institutions.

5.2 Summary of Findings

5.2.1 Effect of Credit Standards on Loan Recovery.

According to study findings, the organization sets and follows the credit standards and terms, credit standards give confidence to credit suppliers, the organization considers clients character before extending a loan to them, there is always training to all employees on the standards and policies set by the organization. This implies that the organization has followed the required credit policies in extending loans to clients. This as a result improved loan recovery hence enhancing loan portfolio performance at Opportunity bank.

5.2.2 Effects of credit terms on loan recovery

The study results observed that available collection policies have assisted towards effective credit management, enforcement of guarantee policies has provided chances for loan recovery in case of loan defaults, and staff incentives are effective in improving recovery of delinquent loans, while regular reviews have been done on collection policies to improve style of credit management. This implies that credit variables at Opportunity have been observed while extending loans to clients and this has improved loan portfolio performance at Opportunity bank.

5.2.3 Effects of credit rationing on loan recovery

From the results, it was observed that it is very easy for customers to get loans in your organization, the organization incurs a lot of costs in recovering loans given to customers, in cases of failure to pay the loan the organization takes measures to recover it, the organization also offers a variety of loan products to its customers and loan products have increased the organizational profitability levels. This implied that credit rationing has been effective in improving organization performance in terms of loan repayment.

5.2.4. Effects of collection efforts on portfolio performance.

The results from the findings indicated every microfinance institution should always ensure that collection efforts are key to the development of the bank because the more relaxed the management, the higher the rate of loan defaulters, non-performing assets among others and it is also recommended that the microfinance institutions should divine fair and friendly way policies in favor of their client if they are to expect good returns.

5.2.5 Effects of the management team on portfolio performance.

From the results, they indicate that the management has got a big role to play in the game because very issue discussed in this research will In turn come back to the hands of the management style since they are face of every microfinance institution. They are recommended to promote team work, hold regular meetings to discuss credit issues like terms, performance among others.

5.2.6 Effects of the government policy on portfolio performance.

In summary basing on the results abstained from the study, the government should not be a reason as to why most the microfinance bank are not doing well in terms portfolio performance however the government through the central bank should put more efforts on educating the population on finance management so as to help microfinance client have knowledge about financial control and reduce on loan defaults and besides not only customers need education but also managements of all banks.

5.2.7 Effects of the non-performing on portfolio performance.

According to the findings from the research, the organization faces some challenges of non-performing assets which seem to come from the different reason like reluctance of the management team, minimum efforts on credit policies therefore the organization should get so organized and stick to the policies generated and if they are not effective then the organization should hold round table talks with some clients and the running team of the organization to develop more effective measure or policies that will attract increase in portfolio performance.

5.2.8 Effects of the performing assets on portfolio performance.

The results from the findings show that performing assets are a motivation to every step in the microfinance institutions. They ensure profitability in a bank, ensures that it makes it easy for the customers to acquire loans and creates a good reputation of the bank.

5.2.9 Effects of the loan recovery on portfolio performance.

Many agree that loan recovery efforts, methods and techniques used will determine on the portfolio performance but according to the finding, if the organization is to realize more return then they must improve on the measures used now and maintain them and as well be careful when developing loan recovery measures.

5.3 Conclusion

The study revealed that the institution that participated in the study have a loan risk management policy that is in operation. The stakeholders who are involved in credit policy formulation to a great extent are the members of these organizations and the regulator while the employees and the directors are involved in the credit formulation process only to a moderate extent. The study confirmed that the existing credit policy of the organization forms the basis for developing a new credit policy that is used by the organization. The institution has set up well funded risk management functions, with enhanced risk awareness among lenders, risk strategies are followed in disbursement of credit, the institution conducts thorough risk assessment on the potentials clients and it has also set up fund to cater for the risks that the institution may incur in its transactions. The other factors that directly/indirectly affect loan performance include adequacy of staff members, staff monitoring roles, credit skill knowledge, credit approval procedure, loans software in place, access to clients' information, monitoring of accounts, interest rates, competition, character, capacity and collateral of the borrower.

5.4 Recommendations.

The study recommends for effective team work and cooperation within the management as well as the customers and other parties like the government. This is one of the ways of eliminating bad practices like defaulters, non-performing assets in Microfinance Institutions (MFIs) in Uganda

The study recommends for effective and regular monitoring. One of the most potent means of curbing the incidence of non-performing loans is by effective and regular monitoring of the loan from the time of disbursement till the final repayment. This would help to prevent diversion and misapplication of funds which are identified as two important causes of non-performing loans in Microfinance Institutions (MFIs). This activity also affords the loan officers the opportunity to inspect the books of accounting of the customers and help the customers to keep proper records of their business transactions.

Most of the Microfinance Institutions (MFIs) lack the efficient risk management mechanism that will help eradicate or sieve out serial defaulters. To effectively lock out these serial defaulters, MFIs requires referencing solution that will enable them submit and share data whilst processing their customers' credit application.

5.5 Suggestions for Further Research

The study recommends that further studies should be done on;

- Credit Referencing of customers and loan performance in microfinance institutions.
- The influence of ICT Microfinance Institutions in Uganda.
- Portfolio performance and young people's empowerment.

5.6 Limitation and delimitations of the study

Cost: The researcher experienced a problem of limited finances during the study which included transport, printing and photocopying of relevant materials. However, the researcher borrowed some money from relatives, friends and used it sparingly so as to overcome the cost constraint.

Time: The researcher experienced time constraint in data collection, analyzing of data and in final presentation of the report. However, the researcher overcame this problem by putting the time element into consideration while fulfilling all appointments with respondents and fully meeting them.

None and late responses: The researcher also experienced a problem of late responses or no responses at all from some respondents who were given the questionnaires to fill. However, the researcher assured the respondents that any information given was treated with maximum confidentiality.

Bad weather: The researcher also faced a problem of heavy rain during most days where by the rain would start so early in the morning and yet the researcher had made appointments with the respondents. However, the researcher tried to overcome the problem by obtaining rain coats, reaching to friends who could drive the researcher to the destination.

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APPENDICES

APPENDIX I: QUESTIONNARE FOR MANAGEMENT

Dear respondent,

I am Ongelech Joshua, a final year student pursuing a Bachelor's Degree of arts of in economics at Kampala International University. This questionnaire serves to gather data concerning the "**Credit policy and loan performance in microfinance institutions.**" I therefore request to offer a helping hand by either ticking of filling as need be. Data gathered shall be kept with utmost confidentiality for academic purposes and probably the betterment of our education system.

Chapter A: Background information about the respondent

1. Gender of the respondent

   Male ☐ Female ☐

2. Age bracket of respondent in years

   18 –30 ☐ 31-40 ☐ 41-50 ☐ Over 50 ☐

3. Highest level of education attained by respondent

   "O" Level ☐ "A" Level ☐ Certificate/Diploma ☐ Degree ☐

   Postgraduate ☐

4. For how long have you been working in this organization?

   Less than 1 Year ☐ 1-3 Years ☐ 4 Years and above ☐

CHAPTER B

TO EVALUATE THE EFFECTS OF CREDIT POLICY IN MICROFINANCE INSTITUTIONS.

Indicate the extent to which you agree with the following observations on the performance of opportunity bank, Kamwokya branch. Please use the key below to answer the following questions by indicating: (1) for strongly agree, (2) agree, (3)for Not sure. (4) disagree, (5) strongly disagree.

A). CREDIT STANDARDS.

In this chapter, tick the best option by using strongly Agree (1), agree (2), Not Sure (3), Disagree (4), strongly disagree (5).

	The Effects of credit standards used in opportunity bank Kamwokya-Kampala	**1**	**2**	**3**	**4**	**5**
1	The organization sets and follows the credit standards and terms					
2	Tight credit standards make banks loose a big number of customer					
3	Credit standards give confidence to credit suppliers					
4	The organization considers clients character before extending a loan to them.					
5	There is always training to all employees on the standards and policies set by the organization.					

If any other specify

....

....

B) CREDIT TEAMS.

In this chapter, tick the best option by using strongly Agree (1), agree (2), Not Sure (3), Disagree (4), strongly disagree (5).

	EFFECTS OF CREDIT VARIABLES ON LOAN RECOVERY BY OPPORTUNITY BANK KAMWOKYA	1	2	3	4	5
1	Available collection policies have assisted towards effective credit management.-					
2	Formulation of collection policies have been a challenge in credit management.					
3	Enforcement of guarantee policies provides chances for loan recover in case of loan defaults					
4	Staff incentives are effective in improving recovery of delinquent loans.					
5	Regular reviews have been done on collection policies to improve stale of credit management.					

C). CERDIT RATIONING

In this chapter, tick the best option by using strongly Agree (1), agree (2), Not Sure (3), Disagree (4), strongly disagree(5).

	The effects of credit rationing on loan recovery in opportunity bank	1	2	3	4	5
1	It is very easy for customers to get loans in your organization					
2	The organization incurs a lot of costs in recovering loans given to customers					
	In cases of failure to pay the loan the organization takes measures to recover it.					
4	The organization offers a variety of loan products to its customers					
5	Loan products have increased the organizational profitability levels					
6	In your organization loans are convenient to customers.					

D). COLLECTION EFFORTS

In this chapter, tick the best option by using strongly Agree (1), agree (2), Not Sure (3), Disagree (4), strongly disagree(5).

	The effects of collection efforts on portfolio performance	1	2	3	4	5
1	The availability of collection forces have improved portfolio performance					
2	Inaction of fair and friendly collection policies has helped to improve on loan recovery					
3	Limited number of credit officers determines credit productivity					

CHARPTER C: TO ESTABLISH THE IMPACT OF CREDIT POLICY ON LOAN PORFOLIO PERFORMANCE IN OPPORTINITY BANK

In this chapter, tick the best option by using strongly Agree (1), agree (2), Not Sure (3), Disagree (4), strongly disagree(5).

A). MANAGEMENT TEAM.

	Effects of management team on loan recovery, performing assets and non-performing assets	1	2	3	4	5
1	The management team work and regular meetings to share on the credit terms, effort, and standards has enhanced portfolio performance.					

		1	2	3	4	5
2	The reluctance of the management team on credit terms, standards, variables, and collection efforts has led to increased non-performing assets.					
3	Involved field work engagement enhances performing assets.					

B). GOVERNMENT POLICIES

In this chapter, tick the best option by using strongly Agree (1), agree (2), Not Sure (3), Disagree (4), Stronglydisagree (5).

	Effects of government policies on performance of loans.	1	2	3	4	5
1	Will the location of funds to microfinance institutes as said by the president in this year's state of the nation address help to improve on loan productivity.					
2	The reluctance of government agencies increase on loan defaulters.					
3	Massive government intervention through the central bank boosts portfolio performance.					
5	Increase of moral suasion helps to improve on portfolio.					

CHARPTER C: TO DERTERMINE THE LEVEL OF LOAN PORFOLIO PERFORMANCE.

In this chapter, tick the best option by using strongly Agree (1), agree (2), Not Sure (3), Disagree (4), strongly disagree(5).

A). NON-PERFORMING ASSSETS.

	Non-performing assets on credit policies	1	2	3	4	5
1	Non-performing assets have not been a challenge to the organization.					
2	Non-performing assets are as a result poor management team.					
3	Non-performing assets implies there are minimum efforts on credit polices					

B). PERFORMING ASSETS

7. In this chapter, tick the best option by using strongly Agree (1), agree (2), Not Sure (3), Disagree (4), strongly disagree(5).

	Performing assets on credit policies	1	2	3	4	5
1	Performing assets have improved on the profitability.					
2	The good reputation of the company results from performing assets.					
3	Performing assets has been a contributions of massive government intervention.					
4	Customers find it easy to get loans when the level of performing assets is high.					

C). LOAN RECOVERY

In this chapter, tick the best option by using strongly Agree (1), agree (2), Not Sure (3), Disagree (4), strongly disagree(5).

	Effects of loan recovery in the organization.	1	2	3	4	5
1	The methods of loan recovery are so harsh in this organizations.					
2	The recovery techniques have scared away potential customers.					
3	Loan recovery method gives rise to which credit policy to implement.					
4	Has the increase on loan recovery efforts led to improve performance?					

THANK YOU FOR YOUR COOPERATION AND PRECIOUS TIME.

LIST OF TABLES