THE EFFECTS OF LOAN TERMS ON LOAN REPAYMENT IN UGANDA: A CASE STUDY OF PRIDE MICROFINANCE MBARARA DISTRICT

BY

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DECLARATION

I Mark Kyoribona, hereby declare that this dissertation titled the effects of loan terms on loan repayment in Uganda: A case study of Pride Microfinance Mbarara District; is entirely my own original work, and has not been produced before any other University or Institution of higher learning for any award.

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We certify that, Mark Kyoribona has prepared this dissertation under our guidance and supervision.

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Dedication

This book is dedicated to my dear wife Annet Kabami, my daughter Destiny Akampa, my parents Mr. Peter Kalimunda and Mrs. Joy Kalimunda and to my brother Mr. Vincent Ngororano who laid a strong academic foundation that has propelled me to this level.

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LIST OF ACRONYMS

BOU	Bank of Uganda
CGAP	Consultative Group to Assist the Poor
CVI	Content Validity Index
MDI	Micro Deposit taking Institution
MFIs	Microfinance Institutions
MIX	Microfinance Information Exchange
PAR	Portfolio at Risk
PML	Pride Microfinance Limited
UMI	Uganda Management Institute

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ABSTRACT

The study was conducted to establish the effects of loan terms on loan repayment in Mbarara District. The researcher was motivated to find out why MFIs continued to register default yet with loan terms in place. The effectiveness of collateral security, interest rate and loan period in mitigating default were evaluated during the study to provide a basis upon which more credit interventions would be based. Pride Microfinance was taken as a case study. The study was guided by the Grameen theory of Lending and the Basely and Coate Repayment model.

Case study design was adopted to allow for intensive investigation of specific details. Both qualitative and quantitative approaches were employed during data collection and analysis. Validity and reliability of findings were adequately guaranteed using experts in the field of Microfinance and via pilot tests. Questionnaires, interviews and documentary review methods were used during data collection while analysis was done both qualitatively and quantitatively to obtain greater insight of the problem. A sample of 96 respondents was considered adequate to meet the study objectives. A response rate of 92.7% was good enough to provide dependable results. Descriptive statistics such as mean and standard deviation were obtained.

Findings revealed existence of a high need for PML management to realign their interest rates to meet the market standards but more so the need to sensitize borrowers to enable them appreciate the rates charged. Besides, Loan periods at PML were found not to be in respect of borrowers' income sources, business cycles, cash flows and requests leading to repayment constraints. In addition, it was revealed that collateral security was largely for formality as loss rated and written off loans had not been recovered yet collateral pledged was still in existence. To enhance borrowers' self accountability, the researcher concluded that PML ought to invest heavily in sensitizing its customers about the loan terms prior to loan disbursement.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Globally, loan terms have become fundamental drivers in modern lending business for their vast influence on loan repayment (Obamuyi, 2007, 2011). The study examined the relationship between loan terms and loan repayment in Microfinance institutions of Uganda. Loan terms in the study were conceived as an independent variable while loan repayment a dependent variable. Loan terms were measured in form of interest rate, loan period and loan collateral while loan repayment were measured in form of portfolio at risk (PAR), provisions for loss and amounts written off. This chapter covers the background to the study, statement of the problem, the general objective of the study, specific objectives of the study, the research questions, the hypotheses, the conceptual frame work, the scope of the study, justification of study, significance of study and operational definitions.

1.2 Background to the Study

The background is subdivided into historical background, theoretical background, conceptual and contextual background. Historical background underlines the evolution of loan terms and relatedness to loan performance. The theoretical background gives the contribution of loan terms to loan repayment hence linking the two variables; the theoretical background also gives a highlight on the theory underpinning the research. The conceptual background explains the operational terms that is; loan terms and loan repayment while the contextual background explains the status of loan terms in relation to loan repayment, highlighting the problem.

1.2.1 Historical background

Loan terms are as old as microfinance itself. The history of credit dates back 1462 when an Italian monk created the first official pawn shop. In 1515, Pope Leon X authorized pawn shops to charge interest to cover their operating costs (Seibel, 2005). In the 18th century, Irish Loan Fund System was initiated to provide small loans to poor farmers with no collateral for short periods and at low interest rates and by 1840s, the idea had become widespread among the rural and urban poor. From 1865, the cooperative movement expanded rapidly within Germany and other countries in Europe, North America, and eventually developing countries. The objective was to modernize the agricultural sector, mobilize “idle” savings, increase investment through credit and reduce oppressive feudal relations. The period 1950–1970 saw efforts to expand access to agricultural credit in Latin America although these interventions were rarely successful due to default. Starting in the 1970s, experimental programs in Bangladesh, Brazil, and in Africa extended tiny loans to groups of poor women to invest in micro-businesses. In 1976, Professor Muhammad Yunus extended credit to the ‘un-bankable’ thus group lending model spread rapidly and spilled over to Africa, Asia and Latin America due to its ability to harness joint liability. In 1980s, Microcredit programs improved on their lending methodologies to counter default (Stiglitz 1990).

In Uganda, several interventions such as stringent collateral requirements, penalty interest to deter borrowers from default and flexible loan periods to cater for borrowers cash flows MFIs have been put in place to mitigate default. Legal, regulatory and Institutional frame-work to reinforce credit operations were initiated. The MDI Act (2003), the MDI Regulations (2004), the Mortgage Act, (2009) and the Consumer Protection guidelines 2012 were enacted partly to mitigate default. Despite the interventions in place loan repayment problems persisted. Total provisions for MDIs for the year 2009, 2010 and 2011 increasingly stood at 2.7Billion. 2.8Billion and 3.7Billion respectively.

Nonperforming loans stood equally high at 2.3Billion, 2.4Billion and 3.2Billion for the period 2009, 2010 and 2011 respectively. At PML, PAR 1day stood high at 2.9%, 3.23% and 2.65% for the year 2009, 2010 and 2011 respectively.

1.2.2 Theoretical background

This study was guided by the Repayment theory advanced by Besley and Coate in 1995 and the Grameen theory of group lending advanced by Mohammad Yunus in 1976. Besley and Coate Repayment theory explores the role of collateral and joint liability lending on loan repayment and was developed basing on the operations, successes and failures of the Grameen theory of lending. Grameen theory posits that group lending enhances interdependence amongst borrowers where successful members of the group pay for defaulting clients. It asserts that repayment is driven by social capital, pressure of group members, connectedness and cohesion of the members and is rationalized on its ability to shift liability from a credit service provider to members of a group. It is further rationalized on the ground that costs of formation and monitoring are shifted to the borrowers. It also contends that enforcing liability to the group is enhanced by social penalties imposed on group members and concludes that better results are achieved if penalties imposed are severe (Yunus, 2003).

However, the extent to which joint liability and social sanctions enhance loan repayment is not empirically advanced. It is from this that Besley and Coate developed the Repayment Game. According to the theory, loan repayment is not actually influenced by lending to a group or by imposing social sanctions on the group but majorly by the borrowers' willingness to pay (Besley and Coate, 1995). The theory asserts that peer pressure doesn't cause payment but simply improves the willingness to pay and concludes that institutions abilities to harness peer pressure, social capital and social sanctions makes the difference. The theory further contends that joint liability can best apply

where borrowers have similar characteristics, are known to each other and have control on each other's decisions yet such a situation is not ideal. They hold that borrowers are rational, risk neutral, have adequate information about funding sources and have exclusive control over their decisions. The theory further asserts that MFIs cannot enforce all sanctions on all borrowers neither can repayment be enforced on all borrowers at a time; that even at zero interest, borrowers would still default thus MFIs should secure their loans in addition to setting realistic repayment periods (Morduch, 1999, 2006). The researcher agreed with this assertion.

Although the theories have gained wide reputation and adoption even at PML, the extent to which loan terms influence loan repayment is not empirically determined. Literature assumes that payments arise from returns in excess of total repayment amount but doesn't recognize that some returns are future while others are intrinsic that they may not be recognized. Besides, assuming that penalties have to be repaid is a generalization that may not be realistic. Similarly, setting fixed periods would imply that cash flows are static which the case is not usually. It is from this background that the researcher was motivated to assess the contribution of loan terms to loan repayments to provide innovative approaches to counter default.

1.2.3 Conceptual background

Loan terms are increasingly becoming popular and drivers to repayment among financial institutions in Uganda and world over (Moduch, 2005, Yunus, 2003). According to Ghatak, 2010, loan terms for MFIs usually entail loan collateral, loan period and interest rate.

In the study, loan terms implied contractual obligations that govern the relationship between the lender and borrower in form of collateral, interest and loan period. Collateral and interest focused on both group and individual lending product lines while loan period focused on loan period bands

mainly below six months, between six and twelve months and above twelve months and their contribution on loan repayment. Morduch, (2006), posits that loan repayment can be measured from Portfolio at Risk (PAR), provisions for loss and loan write-offs. For Microcredit business to thrive, loan collateral, interest rate and loan repayment period must constitute the terms.

Interest rate whether for group or individual clients is the rate used to determine the amount of money the borrower should pay for the use of the borrowed funds. In comparison with individual based loan, group loans usually attract more interest due to the riskiness of the borrowers (Katantazi, 2001). Notable is that interest rate charged has great effects on loan repayment. Yunus (2003) posits that high interest spreads erode borrowers cash-flows thus negating repayment. Loan period on the other hand, is the period over which a loan agreement is in force. It should be adequate enough to cater for the borrowers cash-flows. The premium loan period may be too short to an extent that the business may have no surplus generated to repay the loan (Kasekende & Opondo, 2003). Collateral security on the other hand is the fallback position in case of default.

Microfinance clients are typically self employed, low income entrepreneurs in both rural and urban areas and more so street vendors, small scale traders, service providers who operate unregistered businesses with uncertain cash flows (Matovu, 2006). This category has largely been neglected by commercial banks due to their riskiness (high rate of default) and lack of formal collateral yet these are the clients PML serves. Imposing collateral requirements, predetermined loan periods and interest rate was increasingly forming part of loan contracts to address default at PML as was for other similar institutions although the extent to which the terms influenced loan repayment was largely a puzzle. This study was therefore intended to cover the identified gap.

1.2.4 Contextual background

Globally, loan terms are rapidly gaining popularity due to the increasing levels of competition in the market (Obamuyi, 2011). According to the author, MFIs are serving clients that are constrained by lack of collateral (25%), poor credit worthiness (25%), poor project package (20%), high credit risk (15%), lack of adequate record (15%) and loan diversion tendencies (5%) which definitely affect repayment. In Uganda; legal, regulatory and Institutional frame work for credit service providers has been tightened to counter default. The MDI Act (2003), The MDI Regulations, (2004), The Mortgage Act, (2009) require MFIs to follow well elaborate and founded terms, policies and procedures that enhance timely repayments. Irrespective of the deliberate interventions by the regulator, government and institutions themselves, default continued to exist. Like other MFIs, PML is dynamic at ensuring no default although it continued to report default. Provisions for loss, and write off of bad loans persisted. PAR (one day) for the year 2009, 2010 and 2011 remained high at 2.90%, 3.23% and 2.65% respectively which directly impacted on provisions for loss and loan write offs (PML Management Report ,2012). According to the Internal Audit Report March 2012, loan repayment for Mbarara Branch deteriorated as indicated in table 1.2.4.1.

Table 1.2.4.1: Mbarara Branch performance

Performance measure	**2009**	**2010**	**2011**
Portfolio Outstanding	2,129,995,684	2,948,596,891	3,525,569,576
Portfolio Growth trend (%)		***38%***	***47%***
Accounts in arrears	383	439	445
Arrears	72,305,903	72,434,188	92,658,594
Growth in arrears trend (%)		***0.2%***	***28%***
PAR	1.54%	2.40%	2.62%
PAR deterioration rate (%)		***56%***	***70.13%***
Total Accounts	2,556	2,459	2,498

Source: Internal Audit Report March 2012

As indicated in table 1.2.4.1, arrears deteriorated by UGX.20,352,691 (28%) for the period 2009 to 2011. PAR that stood at 1.54% as at December 2009 deteriorated by 70.13% to 2.62% as at December 31st, 2011. Notable is that although the portfolio grew by 47% for the period 2009 to 2011, the quality increasingly deteriorated by 70.13%. Average deterioration in number of accounts over the period stood high at 8.1%. The hitherto expected growth in accounts instead registered decline by 58 accounts (2.3%) for the same period.

Notably, loan interest, collateral security and loan period for PML like with other MFIs were largely conventional to imply that customers were the same making the fight against loan default a puzzle. The study therefore sought to establish the empirical effects of loan terms to default.

1.3 Statement of the Problem

Pride has since 1995 been supporting the active poor in Uganda through provision of credit facilities. To enhance loan repayment, collateral security to act as fallback position in case of default, loan period to cater for borrower's cash flows and interest rates to act as a price for continued use of borrowed funds were initiated. Despite having loan terms in place which seem to be favorable, default persisted. PAR (one day) for the year 2009, 2010 and 2011 remained high at 2.90%, 3.23% and 2.65% respectively which directly impacted on provisions for loss and loan write offs (PML Management Report ,2012) thus negating the zero default value promise.

Although it was perceived that loan terms improve loan repayment, default persisted alongside loan terms. The degree and extent to which interest rate, collateral and loan period influence loan repayment was largely un-determined. Notably, there seemed not be a detailed evaluation of the contribution of loan terms to loan repayment yet it would be the basis upon which more credit interventions should be based. There seemed not be in-depth documentary evidence that through loan terms, PML was upholding its slogan of 'zero default' neither had there been an in-depth study to ascertain whether PMLs credit policies and procedures actually facilitated or impeded loan repayment. It was therefore critical that an evaluation of the contribution of loan terms to loan repayment be done. It was this apprehension that motivated the researcher to research into the contribution of loan terms to loan repayment to fill the existing knowledge gap by providing empirical basis upon which more credit interventions should be based.

1.4.0 Research Objectives

1.4.1 General Objective

The general objective of the study was to examine the contribution of loan terms to loan repayment in Microfinance Institutions in Uganda with particular reference to Pride Microfinance.

1.5 Specific Objectives

a) To evaluate the contribution of interest rate on loan repayment in Pride Microfinance

b) To assess the contribution of loan period on loan repayment in Pride Microfinance.

c) To analyze the contribution of collateral security on loan repayment in Pride Microfinance

1.6 Research Questions

a) What is the contribution of interest rate on loan repayment in Pride Microfinance?

b) What is the contribution of loan period on loan repayment in Pride Microfinance?

c) What is the contribution of collateral security on loan repayment in Pride Microfinance?

1.7 Research Hypotheses

The study will be guided by the following hypotheses: -

a) Interest rate significantly contributes on loan repayment in Pride Microfinance.

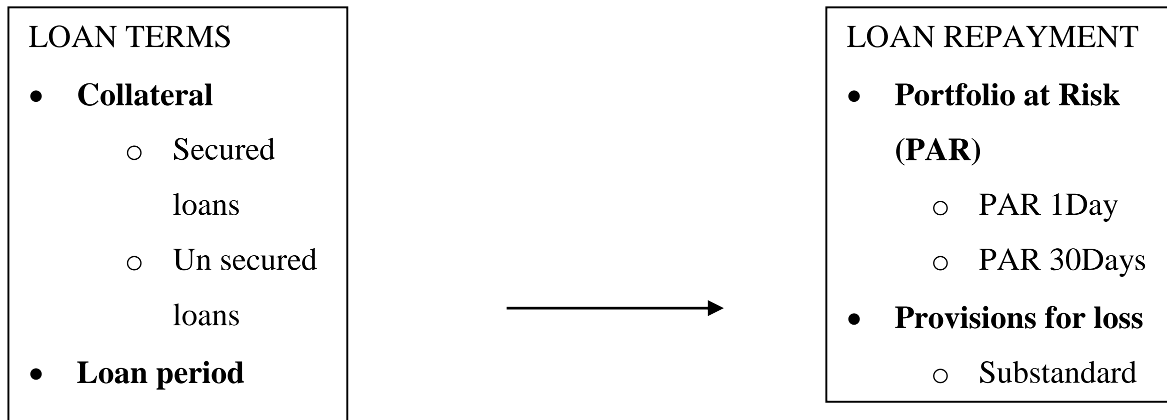
b) Loan period considerably contributes on loan repayment in Pride Microfinance.

c) Collateral security significantly contributes to loan repayment in Pride Microfinance.

1.8 Conceptual Frame Work

INDEPENDENT VARIABLE DEPENDENT VARIABLE

Fig1.



Source: Conceptual framework adopted from Morduch, (2006) and MDI Regulations, (2004) and modified by the researcher August 2012

Loan terms influence loan repayment in either a positive or a negative way. Loan repayment is a function of loan terms implying that with each unit increase in loan terms, an increase or decrease in loan repayment is registered. The variance in the dependent variable is accounted for by the independent variable. From the conceptual framework, the independent variable was conceptualized as loan terms with dimensions of loan collateral, interest rate and loan period. Loan collateral was measured by comparing secured and unsecured loans; loan period was measured through comparing performance of loans below six months, between six and twelve and above twelve months while loan interest was conceptualized by comparing group liability loans and individual based loans.

Loan repayment took on different forms and was the variable of primary interest to the researcher. As recommended by Sekaran 2003, the researcher was interested in quantifying and measuring the influence of the independent variable on the dependent variable. In this research, the dependent variable was loan repayment and was the one affected by loan terms (collateral, interest and loan period). Loan repayment was measured by PAR, provisions for loss and loan write offs. PAR was conceptualized in terms of days in arrears; provisions for loss in loss categories while loan write-offs was conceptualized by comparing repayment in relation to products, collateral type and loan period. Hence the contribution of loan terms on loan repayment was assessed in terms of whether it had affected the PAR, provisions for loss and loans written off.

The researcher acknowledges the relative effect of social factors on loan repayment and attempted to provide for them in the study instruments. The intervening variables in the study are recognized to the extent and magnitude of their implication on interest rate, collateral security and loan period. To avoid bias, questionnaire survey, interviews and documentary review were used in collecting data. Besides, research assistants were used to administer the questionnaire that had prior been presented to experts in the field and piloted at Uganda Finance Trust Limited (MDI).

1.9 Significance of the Study

The study was of great significance to PML management as well as Microfinance Industry as a whole (regulator, government and other players) and to the students.

The findings of the study are helpful to PML management to review credit policies to address gaps that contribute to default while at the same time enhancing sustainability of operations.

To the microfinance industry, the study is helpful to credit providers to take precautionary measures to counter the dangers of default for the continuity of operations.

The study findings provide an empirical basis for government's policy planners; the regulator and donors to design policies and guidelines that adequately address the inherent loan repayment problems in the microfinance industry thus reduce pressure on the macroeconomic stability, the investors and the government.

To the students, the study contributes to the body of knowledge helpful for future researchers to carry out other investigations basing on the findings and recommendations.

The study encourages further research in similar issues and provides up-to-date information in the area of loan terms and its linkage to loan repayment.

1.10 Justification of Study

According to Mugenda and Mugenda (1999), justification of the study highlights the reasons for conducting the study as well as the importance of carrying it out. The biggest hindrance to MFI operations is loan default (Ghatak, 2010). Bad loan repayment increases pressure on both the customers and the institution and adversely affects sustainability of service delivery and continued existence of operations. Loan terms are perceived by many scholars to drive to high loan repayment (Obamuyi, 2011). However, the empirical contribution of loan terms to loan repayment remained unknown. This study was intended to address the unanswered paradigm knowledge which would help address loan repayment problems. This study was justified on its ability to provide empirical foundations for further scholarly inquiry. Much of experience with and literature on loan terms focused on applicability and reasonableness of loan terms and the interpretation by customers that

affected their willingness to pay. The study was justified on its ability to indicate how loan terms can be used to encourage customers to pay on time for foreseen benefits. There was no known study that provided facts/information base on what was existing in Mbarara PML operation area of which this study intends to address.

1.11 Scope of Study

1.11.1 Geographical scope

The study was carried out in Pride Microfinance Mbarara located approximately 254Km away from Kampala in the western part of Uganda on Kampala- Kabale highway at plot 59, High street, P.o.Box 1619 Mbarara Uganda ; with headquarters are at Metropole House, plot 8-10 Entebbe road, Kampala City Authority, Uganda. This branch was chosen because it was convenient to the researcher and was one of the biggest Branches in terms of loan clients and portfolio compared to other Branches.

1.11.2 Content scope

The study focused on the contribution of loan terms to loan repayment in Uganda's MFIs. Loan terms were broken down into its dimensions of Collateral, Loan period and Loan interest and their effects on loan repayment were conceptualized in terms of PAR, loan loss provision and loan write offs.

1.11.3 Time scope

The study utilized data for three years from 2009-2011. This period was desired because it is when there was the introduction of stringent lending and credit quality guidelines yet attracted several other players in the market. Besides, the period was long enough to adequately generate information that addresses the research questions.

1.12 Operational Definitions

Collateral: Security pledged by the borrower as follow back alternative should the borrower fail to pay as per the loan payment agreement (Yunus, 2003).

Loan: A loan is the total sum of money classified as debt advanced to a borrower by a lender that must be repaid; with interest at some point in the future where the lender bears the risk that the borrower may not repay the loan and the interest rate charged is the price for that risk (Ghatak, 2010).

Loan repayment: The act of repaying a debt at given period payments of principal and interest in each payment or lump sum with interest at maturity, failure of which attracts sanctions such as penalty fees, loss of credibility or loss of security (Morduch, 2009).

Loan terms: Loan terms are well elaborate conditions forming contractual obligations that govern the relationship between the lender and borrower (CGAP and Mix, 2010).

Microfinance: Microfinance refers to provision of financial services to small, medium and upscale entrepreneurs by financial services providers using methodologies such as group lending and individual lending, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly (Yunus, 2003).

Portfolio at Risk: The outstanding principal balance of all loans having an amount overdue as a percentage of outstanding principal portfolio (MDI Regulations, 2004).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents theoretical and actual review of literature relevant to the variables of study, and the summary of literature review indicating the lessons learnt and the gaps the study filled. Review of the available literature helped in clarifying the research problem, addressing research questions, focusing on research design and ultimately answering the research problem.

2.2 Theoretical review

The study was guided by the Grameen theory of Lending propounded by Mohammed Yunus in 1976 and the Besley and Coate repayment game of 1995. Grameen theory has gained wide popularity amongst MFIs world over due to infinite underpinnings to address the loan repayment problems. Its ability to address the constraints of access to financial services for the majority in developing countries had been received with two hands (CGAP and MIX, 2010).

The Grameen theory lays its foundation on group lending and justifies why joint liability lending is able to address loan repayment problems faced by MFIs (Morduch, 2006). Prior to the Grameen era, the poor in Bangaladesh and other developing countries had no access to credit. The poor had been classified as highly risky by all credit service providers. Mohammad Yunus in 1946 designed the model to enable the un bankable rural poor mostly women access credit. He conceptualized that lending small monies to individuals in self formed groups would enhance peer pressure, enterprise development, improved returns thus timely repayment of loans. In the model, each group member was liable for each others' loan which enhanced interdependence amongst borrowers. Social capital,

pressure of group members and non repayment sanctions enhanced group cohesion and commitment to repayment. The model actually gained wide popularity world over due to its ability to shift liability from credit service providers to members of a group and on the ground that costs of formation and monitoring of the group are tremendously reduced and shifted to the borrowers (Yunus, 2003).

Although the model gained wide popularity, it faced criticism from scholars holding that the extent to which joint liability and social sanctions enhance loan repayment is not empirically advanced (Norell and Dan 2001). In similar attempts, Besley and Coate developed the loan repayment theory in 1995. According to the theory, loan repayment is not actually influenced by lending to a group or by imposing social sanctions on the group but majorly by the borrowers' willingness to pay (Besley and Coate, 1995). They advanced that social sanctions and penalties on default influence borrowers' willingness to pay. They contend that borrowers that lack the money to pay may not pay even though penalties are made severe thus the assertion that penalties only motivate those that have capacity. The theory further predicts that peer pressure improves on the willingness to pay and concludes that the difference lies in institutions abilities to harness peer pressure, social capital and social sanctions to improve customers' willingness to pay. Besely and Coate summarized their theory as in figure2:

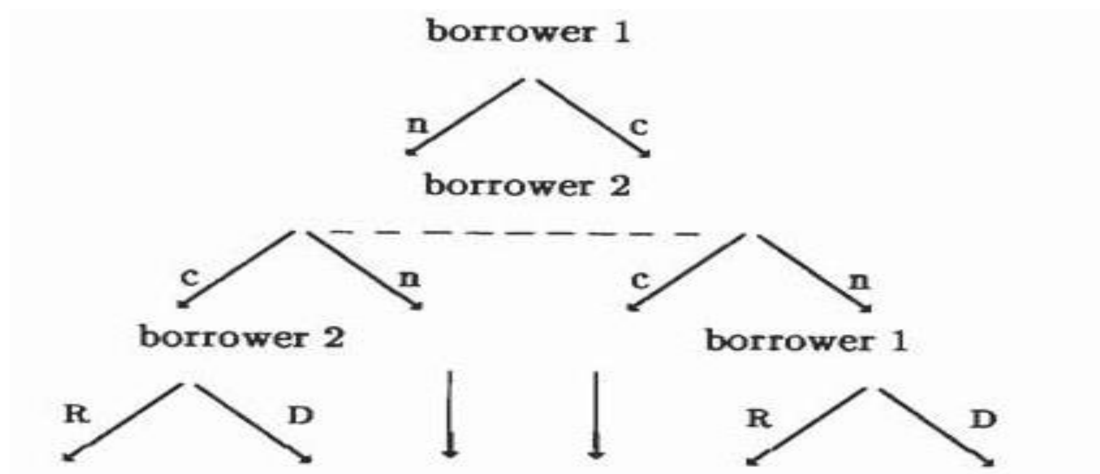


Figure2. Besley and Coates' repayment model

Source: Adopted from Besley.T and Coate.S. (1995)

Form figure2 above, Besley and Coate assume two or more borrowers accessing money at the same time where social capital is the security (default by one client is paid for by the other). From figure2, c=borrower chooses to pay, n=borrower chooses not to pay, R=successful borrower pays for a defaulter in the group; while D=successful borrower also defaults. From the theory, if all borrowers in a group become successful and choose to pay, there will be zero default. However, if one borrower fails to pay, then the successful borrower has to choose between paying for the group member or not and this is dependent on his returns and the benefits of payment vis-à-vis nonpayment. The theory contends that if the benefits of nonpayment exceed those for payment, then the client will not pay and the group will register default. Notably, it asserts that members of a group may free ride in belief that fellow members will pay for them. The biggest danger is that the whole group may default on assumption that fellow members will pay. It is from this premise that Besley and Coate advance the necessity of harnessing group pressure and social capital to influence willingness to pay. This therefore implies the need for follow-back position (collateral), risk premium (interest) and specific repayment periods.

It was largely assumed in theory that payments arise from returns in excess of total repayment amount but doesn't recognize that some returns are future while others are intrinsic that they may not be recognized. Assuming that penalties have to be repaid was another generalization that could not be realistic. Besides, setting static repayment periods would imply that cash flows were static which the case was not usually. It is from this background that the researcher assessed the contribution of loan terms to loan repayments to provide innovative approaches to counter default. The theoretical foundations largely represent the credit operations for MFIs for which the researcher was interested. Loan terms were strongly emphasized to imply their magical influence on loan repayment although repayment problems still subsisted. In line with theory; loan collateral, loan period and interest rate were critical in influencing loan repayment although this had not been empirically tested more so in PML context.

2.3 Loan term collateral and loan repayment

Norell and Dan (2001) posit that loan collateral is fundamental for the development of a good credit culture as borrowers seek to protect their collateral by meeting their obligations in a timely manner and also use the good repayment record as collateral for new credit. Similarly, Brau and Wooler (2004) contend that the extent to which collateral contributes to loan repayment can effectively be measured by comparing repayment rates for secured loans against unsecured loans. Notable though is that there seem not to be no documentary evidence that collateral security facilitates or actually impedes loan repayment and this is the basis upon which this study was undertaken.

2.3.1 Secured loans and loan repayment

By raising collateral requirements, lenders shift contractual risk to borrowers such that borrowers with the required collateral but with limited repayment ability choose not to borrow for fear of losing their vital collateral (Karlan and Morduch, 2009). Collateral security according to Matovu (2006) skews the attitude of clients that have pledged collateral to on time loan repayment. Conversely, financial institutions feel more comfortable lending to customers with collateral security as this is the fallback position in case of default. Although the current drive world over is to provide unsecured credit in form of group lending, the nature of the model itself emphasizes security as there is joint liability for every loan issued. Noteworthy is that the effectiveness of collateral security in influencing loan repayment is not well documented.

2.3.2 Unsecured loans and loan repayment

Rosenberg (2009) asserts that group lending is more efficient at countering default than the perceived collateralized lending. The model targets the otherwise poor of the poor who are usually not served by conventional financial institutions due to the stringent requirements in the form of collateral, deterrent interest and unfavorable loan periods Ojiako and Ogbukwa (2012). At PML, Group lending was a modified form of the Grameen model. Grameen Bank like other microfinance institutions reported loan repayment rates above 98 percent measured as amounts past due over outstanding portfolio (Karlan and Morduch, 2009). However, the extent to which repayment rate related to social collateral was not established (Obamuyi 2007). Notably though is that social security is a modified form of collateral which is actually more stringent. The question therefore that remains un-answered is whether there is un-secured lending and if and if it actually influences loan repayment.

2.4 Loan repayment period

Besley and Coate (1995) theory asserts that all borrowers promise to repay, but, in absence of specific repayment periods, payments are haphazard (Schreiner, 2000). Meanwhile, Cull et al (2006) found out that in certain situations as competition increases, repayment challenges also rise unless loan periods are tailored to customer cash flows. In similar attempts, Obamuyi (2011) reports that, loan periods based on poor assessments negatively affect loan repayment. It was hypothesized that only 0.7% of the loans provided by microfinance institutions lack fixed due date whilst it was identified that loan periods have magical effects on customers' ability to pay (Obamuyi, 2007). That withstanding, the status at PML and at other MDIs in Uganda was not known. The contribution of loan period to loan repayment seemed not documented yet it would be the basis upon which credit decisions would be based.

2.4.1 Loan period below six months and loan repayment

Financial institutions are more skeptical serving new customers compared to repeat borrowers due to lack of credit record to base on (Morduch, 2009). Customers can be adequately predicted basing on their previous repayment records which is usually hard for first time borrowers. However, AMFIU (2011) reports that most institutions surveyed in Uganda had faced higher default levels in repeat clients than for new clients citing that new clients tend to hide their characters for the sake of getting another loan and more likely a bigger amount. PML annual management report, 2011 indicated a higher default rate for repeat clients although no attempt was made to explain whether the default emerged from clients character or inadequate assessment made prior disbursement. Besides, repayment magnitude for loans granted for six months and below is not well documented yet it would be the foundation upon which the repayment schedule would be developed.

2.4.2 Loan period six to twelve months and loan repayment

CGAP and MIX 2010, posit that the best performing clients for microfinance institutions in Africa were in the loan period category between 6 and 12 months. The assertion concurred with PML management report, 2011 where the same clients were reported to have performed better compared to other categories. The argument in both reports is that the clients in the loan category are usually second time borrowers that want to impress their lender for future benefits. However, the extent to which the good repayment is explained by the loan cycle is largely un-determined yet it is very vital in making lending decisions.

2.4.3 Loan period above twelve months

Morduch, 2009, asserts that loan periods above twelve months adequately provides for customers' cash flows to the advantage of both the lender and the borrower. Contrary to this, AMFIU (2011) posits that loan periods above twelve months are unfavorable for Microfinance clients especially where exorbitant interest rates, fees and penalties are charged. Besides, microfinance clients own small businesses mostly vendors of food staffs and their cash flows may not be predictable over longer payback periods. In Uganda, the fairly strict provisioning rules tend to trap the MDIs into purely short-term business (CGAP and MIX, 2010, BOU, 2011). Although loan periods above twelve months are perceived to cater for clients cash-flows, microfinance loan repayment rate over the years for loans payable above twelve months have consistently been comparably bad (Ghatak, 2010). The contradicting literature formed the basis of an in-depth investigation to establish the extent to which loan period facilitates or impeded loan repayment.

2.5 Loan term interest

Besley and Coate repayment theory posits that even at zero interest, borrowers would still default but largely that; as long as the project returns exceed total loan payments and there is willingness to pay, payment will be made (Besley and Coate, 1995). Many scholars have concluded that a loan is deemed to be performing if the repayments of both principal and interest are paid in accordance with the agreed repayment terms (Obamuyi, 2007). Charging interest on loans is the main source of income for almost all financial institutions. It is the only way by which they can recover their costs and can only survive by fully recovering all the costs (BOU, 2011).

2.5.1 Group guaranteed loans

Besley and Coate (1995) posit that, when payoffs are independently and uniformly distributed and penalties for default are proportional to payoffs, group lending leads to a higher repayment rate when interest rate is sufficiently low. BOU, 2011 asserts that loan repayment for MDIs was comparably better although interest rates were higher for group lending interest compared to individual lending. Karlan and Morduch (2009) assert that, when interest rates are set artificially low, borrowers are undeterred to invest in businesses that have low returns thus unable to service a loan. On the contrary, higher interests rates leave only risky borrowers to apply for loans and scare the otherwise would be good clients (Sengupta and Aubuchon, 2008). At PML, although group guaranteed loans are more priced compared to individual loans guaranteed by formal collateral, PAR is comparably higher for individual loans contrary to the assumption that clients ought to pay on time to safeguard their vital collateral. To most MFI borrowers, especially those with minimal financial education, the group loans seem more appropriate yet they are actually expensive to them.

2.5.2 Individual loans and loan repayment

While group liability in microcredit purports to improve repayment rates through peer screening, monitoring, and enforcement, it may create excessive pressure, and discourage reliable clients from borrowing (Morduch, 2009). The recent trend of microfinance institutions is in expanding their individual lending Products for business growth although default is still higher (Seibel, 2003). Paxton (1996), asserts that lenders making individual loans show higher PAR as interest rates increase. As interest rate increases, the incentive to pay on time diminishes although the empirical contribution of interest rate on loan repayment largely does not justify individual liability (BOU, 2011). This assertion partly underpins this research.

2.5 Summary of Literature Reviewed

Loan repayment hiccups in MFIs was a topic that has received attention for many decades, although no systematic effort had been made to extend theory to make it more robust and applicable. Reviewed literature tended to focus on conventional loan terms and loan product sustainability. Literature assumed that payments arose from returns in excess of total repayment amount but didn't recognize that some returns are future while others are intrinsic that they may not be recognized. The relationship between Microfinance Institutions loan terms and loan repayment was largely not established. Studies were largely descriptive to generalize that loan terms led to more loan repayment. Literature agreed that no specific studies had been carried out in the Microfinance industry in Uganda to find out the effect of loan terms on loan repayment and the magnitude to which loan terms related to loan repayment. Aware of the fact that, loan terms cannot be divorced from credit operations in Uganda's MFIs, there was need to carry out a study, taking a case study of PML in Mbarara District. The researcher was compelled to conduct this particular study in order to fill the gaps that existed.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used in the study. It highlights the research design, study population, sample size and selection, sampling techniques and procedures, methods of data collection, data collection instruments, procedure of data collection, validity and reliability, measurement of variables, data analysis and presentation.

3.2 Research design

The study adopted case study design. As recommended by Amin (2005), Kothari (2003) and Sarantakos (2005), it provides the researcher an opportunity for intensive analysis of many specific details often disregarded by other approaches. It is relevant for in-depth studies and was a basis for rich and richer generalization of relationships. The design provides for establishment of both figures and also facts behind the figures too. Besides, the design was quite relevant since the study was conducted on MDIs that virtually have similar operations and regulatory guidelines. As recommended by Amin, 2005, the researcher employed both quantitative and qualitative approaches of data collection and analysis to achieve a high degree of validity and reliability of results and exploit the strength of each method to overcome deficiencies of exclusive reliance on one method. Qualitative approach helped in giving detailed descriptions that explain and give deeper insight into the problem whereas quantitative approaches involved the collection of numerical data in order to explain, predict and control phenomena of interest, data analysis being mainly statistical (Amin, 2005). Quantitative approaches allow for measurement of variables and production of figures that validate variables in

question and allow for further processing and comparisons thus enhancing replicability (Sarantakos, 2005, p.50).

3.3 Study population

According to Mugenda and Mugenda (1999), population refers to the entire set of individuals, events, or objects having common observable characteristics about which generalization of research findings will be done. PML annual report (2011) indicated that PML had 650 staff operating in 30Branches and at Head office and 66,179 active loan borrowers. The target population included 110clients, 7credit Officers, one Branch Manager, one Credit Administrator, and one Customer Care Officer making a total of 120 of which 96 were selected for the study. The Manager, Credit Administrator, Credit Officers and Customer care officer were the key informants since they implemented PML operations while borrowers were the beneficiaries of PML's operations (PML Management Report, 2011).

3.4 Sample size selection

On the basis of Krejcie and Morgan (1970) table, the sample of the study was as follows:

Table3.1: Sample size and selection using the Krejcie and Morgan (1970) table

Category	**Population**	**Sample**	**Sampling technique**
Borrowers	110	86	Simple Random sampling
Branch Managers	1	1	Purposive
Customer Care Officers	1	1	Purposive
Credit Administrators	1	1	Purposive
Credit officers	7	7	Purposive
Total	**120**	**96**	

Source: Primary data

Units from a population of interest were selected so that by studying the sample we may fairly generalize the population characteristics which was in line with assertion by Kothari (2003). According to Sarantakos (2005 p.173), determining sample sizes using mathematical tables of Morgan and Krejcie, (1970) provides for population proportions, population size, degree of freedom and degree of accuracy and according to Amin, 2005, p.255, a sample size above 50 for researches aimed at establishing correlations is generally enough.

3.5 Sampling techniques and procedures

Probability and non probability sampling designs were used. Probability designs entailed the use of stratified and simple random sampling while non probability design entailed use of purposive sampling. Sekaran (2003) and Sarantakos (2005) argue that in probability sampling, the elements in the population have some known chance or probability of being selected as sample subjects. Purposive sampling is the only viable sampling method for obtaining the type of information that is required from the very specific pockets of people who alone possess the needed facts (Amin, 2005, pp.242). Sekaran (2003) argues that it would be practically impossible to collect data from every element because it would be prohibitive in terms of time, cost and other human resources and that study of a sample rather than a population is sometimes likely to produce more reliable results. Therefore, clients were selected at random while PML staff and management were selected purposively.

3.6 Data collection methods

Use of both quantitative and qualitative techniques of data collection enhances maximum perfection, confidence and collection of valid data (Amin, 2005, pp.75). Both methods were used to collect

primary and secondary data. Primary data is that collected in its original form while secondary data is that already been collected by someone else (Sekaran, 2003). Data was collected through interviews, administering questionnaires and through documentary review.

3.6.1 Questionnaire survey

Questionnaire survey being the main mode of collecting primary data is less expensive to administer, produces quick results, provides for convenience and anonymity and allows for extensive coverage (Amin, 2005 and Sekaran, 2003). Self administered questionnaires were used on 09 PML staff while researcher administered questionnaires were used on 70 clients. As recommended by Mugenda and Mugenda, 1999, each item shall relate to a research question and hypothesis and the response will be in an immediate usable form. Mugenda and Mugenda (1999) contend that questionnaires enable respondents to answer without bias, are low cost and can conveniently reach many people in a short time. As recommended by Sekaran, 2003, questionnaires were efficient and convenient in collection of quantitative and qualitative data which enabled triangulation

3.6.2 Documentary review

Review of documents enables study of past issues, guarantees high quality information, is less costly and is convenient (Sarantakos, 2005). The researcher reviewed relevant documents to establish the relationship between the independent variable and the dependent variables. Documents reviewed included: PML annual reports, management reports, laws, policy statements, policies and procedures.

3.6.3 Interviews

Interview method is rationalized on its flexibility, high response rate, opportunity to observe non verbal behavior and ability to provide for concurrent analysis (Sarantakos, 2005, p.285-86).

Interviews were conducted on 02 PML staff and 10 clients to reduce on possible biases from the questionnaires. This was done through holding face to face interviews with the respondents. Interviews provided an opportunity to the researcher to probe the respondents in case of any ambiguities in the responses. It also enabled the researcher to observe the body language of the respondents. Interviews generally supplemented data obtained by other research methods utilized by the researcher as the interview questions were designed to address the research objectives.

3.7 Data collection instruments

The researcher used questionnaires, interviews guides and documentary review checklist; which are the most commonly used in research (Sekaran, 2003). As recommended by Amin (2005 pp.261, data collection instruments translate attributes or traits into quantities.

3.7.1 Questionnaire

Questionnaires are the most commonly used data collection tools because they are familiar to respondents, are less costly and provide for anonymity (Sarantakos, 2005, p.263).The study used five likert scale questionnaire which uses matrix questions. Questionnaires covered introduction, bio data of respondents and questions arising from the dependent and independent variables. Mugenda and Mugenda (1999) state that the items that are used in the likert scales are usually declarative in form. The numbers in a likert scale were ordered to indicate the presence or absence of the characteristic being measured. The numerical scale helped to minimize the subjectivity and made it possible to use quantitative analysis. Questionnaires were administered to 09 PML staff and 70 clients.

3.7.2 Documentary review checklist

Relevant PML documents such as magazines, annual and management reports, UBOS statistics, BOU reports, credit policies, and strategic plan were reviewed to establish the organizational operations, policies, value promises, vision, mission, performance and strategic objectives.

3.7.3 Interview guide

Interview guides with open ended questions were used to guide the researcher to ask all questions required to collect data to supplement questionnaire response. The purpose was to gain an in-depth understanding of loan management systems employed. It was administered on 02 PML staff and 10 PML clients to enable the researcher benefit from probing to get detailed responses.

3.8 Validity and reliability

3.8.1 Validity

The researcher provided for the appropriateness and success of data collection instruments to measure variables and come up with intended results and the expectation that they won't be different findings each time the measures are used. This was in line with the proposition of Amin (2005). To ensure validity, pre testing of the research instruments was done which enabled redesigning, modifying and improving on data collection instruments as supported by Sarantakos, 2005. The questionnaire which was the major research instrument was given to experts in the area of Microfinance to assess its content validity. As recommended by Amin, 2005, p.288, Content Validity Index (CVI) was used to test whether the instruments shall be capable of capturing the information required in the study objectives. CVI was given by number of items declared valid by expert judges divided by the total number of items (CVI=n/ N) where CVI is content validity index, n is number of items declared valid

by expert while N is the total number of items in the questionnaire. When CVI is above 0.7, then the instrument is considered valid to answer the research questions. Pretest findings were;

Using the formula; total items rated valid/total number of items, for the questionnaire the following were the results;

Table 3.2: Validity of research instruments

Judge	Score	Valid
1.	91/97	0.938
2.	85/97	0.876
3	82/97	0.845
4	79/97	0.814
	Average score	**0.868**

The average score was above 0.7 recommended by Amin, 2005, thus the instruments were declared valid.

3.8.2 Reliability

Reliability is a measure of the degree of which a research instrument yields consistent results after repeated trials. Reliability of the instruments is increased by reviews of the instruments by more experienced people, and field tests on appropriate population. The internal consistency method was used. The researcher administered the questionnaires to 10 different categories of respondents once in an area that had similar characteristics as the study area. This was to minimize errors and increase reliability of the data collected by taking corrective action based on the pre-test results. This was tested by use of Cronbach's Alpha and results are indicated in table 3.3.

Table 3.3: Summary of Reliability Statistics

Variable	**Reliability Statistics**
Interest rate	0.874
Loan period	0.833
Collateral security	0.826
Loan repayment	0.840
Total	**3.438**
Average	**3.438/4 = 0.843**

Source: Primary data

As indicated in table2 above, an average of 0.843 was got and as recommended by Nunnally, 1978, a coefficient greater than or equal to 0.7 is considered acceptable and a good indication of reliability.

3.9 Procedure for data collection

Upon successful defense and approval of the proposal, the researcher obtained permission from Uganda Management Institute to commence fieldwork. The researcher further sought permission from PML management, to carry out research. The researcher then piloted the instruments, and later refined them, trained research assistants to deliver the questionnaires and proceeded to the field to carry research. The researcher did the interviews and carried out documentary review. After collecting data, the researcher analyzed and interpreted it and produced this report.

3.10 Ethical issues

Respondents were briefed about the aims, significance and use of the study findings and its relevance to them. They were assured of confidentiality on their responses and informed them of the crucial role that the study would contribute towards loan terms offered.

3.11 Data analysis

Data analysis is aimed at summarizing the collected data, testing the goodness of data and testing the hypotheses and organizing it in a way that answers the research questions (Amin, 2005, Sekaran, 2003). Data analysis involved identifying patterns, inconsistencies and relationships in the interviews, questionnaire and documents reviewed and reasons for the occurrence with a view to establishing and explaining the relationship between loan terms and loan repayment. Both qualitative and quantitative techniques were employed while analyzing the data to generate more valid and reliable inferences

3.11.1 Quantitative data analysis

Quantitative data got from questionnaires was sorted, coded, categorized, entered into computer and analyzed using Statistical Package for Social Scientists (SPSS) Program 17. Data was analyzed using descriptive statistics through frequencies and percentages.

To test the hypothesis, the researcher used Pearson's correlation coefficient analysis to obtain an indication of the direction, strength and significance of the bivariate relationship of all the variables in the study and used a significant level of 0.05. A significance level according to Mugenda and Mugenda, 1999, is the probability of obtaining similar results if the study is repeated many times using different but equal random samples. For values above 0.05, the hypotheses were accepted and

the conclusion was that there was a significant positive relationship between the independent variable and the dependent variable.

Regression analysis was further done to test hypothesis of the two relationships between the independent and dependent variables. A coefficient of determination (adjusted R^2) of above 0.100 implied a significant positive relationship.

Multiple regressions were used to determine the extent to which independent variables affect the dependent variable. Results were presented inform of frequencies and percentages for comparison purposes and were interpreted. This was to establish whether the independent variable predicts the dependent variable (Kothari, 2004), using the coefficient of determination (R^2).

3.4 Qualitative data analysis

This aims at bringing order, structure and meaning to the mass of narrative and descriptive information collected (Sekaran, 2003). Sarantakos, 2005, pg344, posits that concurrent analysis of data yields reliable results and this shall be the practice. As recommended by Kothari, 2005 and Amin, 2005, data was placed under different themes and subthemes which will be given codes. The code category were written in the margins and assembled accordingly for ease of analysis and validation. Data was conceptually organized, interrelated, analyzed and evaluated which formed a springboard for further data analysis. These approaches enabled the researcher to easily depict the findings of the study and to interpret them in-depth and in an appropriate manner so as to come up with valuable conclusions from the data gathered.

3.12 Measurement of variables

In the study, three levels of measures were used namely, the nominal scale, ordinal and interval scale as supported by Mugenda and Mugenda, 1999. The nominal scale was used to group some subjects from the study into categories and frequencies were generated. The ordinal scale was used to measure responses to Likert statements and ranked them in an order. The Likert Merit scale is the most common measure used to assess the strength of respondents' feelings or attitude towards the subject (Amin, 2005). The interval scale aided the researcher to compute the mean and standard deviations of responses on the variables (Sekaran, 1992).

CHAPTER FOUR

PRESENTATIONS, ANALYSIS AND INTEPRETATION OF RESULTS

4.1 Introduction

In this chapter, results are presented, analyzed and interpreted following the objectives of the study. The presentation includes: response rate, background characteristics of respondents, descriptive statistics, correlation analysis and interpretation of results for the independent and dependent variables and their dimensions as presented in conceptual framework and empirical findings.

4.2 Response rate

Both self administered and researcher administered questionnaires were distributed and responded to by clients and PML staff respectively. The response rate is presented in table 4.1.

Table 4.1: Response rate

Category of respondents	Expected Respondents	Actual respondents	%age response
Clients	85	78	91.7
PML staff	11	11	100
Total	**96**	**89**	**92.7**

Source: Primary data

The results in table 4.1 show a good response rate of 92.7% for the study by all categories of respondents. This is an excellent participation/response rate as supported by Amin (2005) who recommends that a minimum of 70% is adequate for a valid research. The excellent response rate

could be attributed to the fact that loan terms was an issue of great concern. The respondents were able to open up and voice their concerns in anticipation of favorable interventions. This data can be relied upon to give a frame work in which conclusions can be made.

4.3 Background characteristics of respondents

This section presents the background characteristics of respondents namely: gender, age, level of education, marital status, loan series, loan type, income source and purpose for which the loan was acquired. Both self-administered and researcher administered questionnaires that included demographic characteristics of respondents were administered on PML staff and clients respectively.

4.3.1 Gender Distribution of Respondents

The gender of the respondents was considered for two reasons; one; PML was perceived as an institution largely for women and two, the culture that men are believed to be the main owners of collateral security necessary for one to access a loan. The researcher ensured that both men and women were represented in the respondents. The results are presented in the table 4.2.

Table 4.2: Gender of Respondents

Gender of respondents	Frequency	Percent
Male	38	42.7
Female	51	57.3
Total	89	100.0

Source: Primary Data

As in shown in table 4.2 above, of the respondents who took part in the study 37 were male (42.7%) while 48 (57.3%) were female. There was not much gender disparity although female respondents

were slightly more than male respondents by 14.6%. The results showed that both genders were adequately represented to contribute their views towards loan terms and loan repayment.

4.2.2 Age of the Respondents

The respondents were categorized according to various age groups to find out by age category the opinions concerning loan terms. These age groups were chosen to help the researcher to gather accurate information from the respondents. The ages were: less than 25years, 26-35years, 36-45years, 46-55years and above 56years. The results are presented in table4.3.

Table 4.3: Age category of Respondents

Age	**Frequency**	**Percentage (%)**
Less than 25yrs	3	3.4
26-35	27	30.3
36-45	48	53.9
46-55	6	6.7
56 and above	5	5.6
Total	**89**	**100**

Source: Primary data

Table 4.3 shows that majority of the respondents (53.9%) were aged between 36-45 years followed by those aged between 26-35 years at 30.3% and the least were aged less than 25years at 3.4%. A significant number was in the age bracket of 36-45years, (53.9%) implying that they were mature adults; the least number was in the age category of below 25years and above 56 years implying that PML hardly extends credit to the youth and the aged. This was backed by the interview findings from the credit Administrator who said that *"we lend to stable and active individuals not to the youth who have no name to protect and the aged who have retired from work".*

4.2.3 Marital status of respondents

The study investigated on the marital status of the respondents intended to find out which category is more by PML's loan terms. Marital status of respondents in the questionnaire was in four categories; namely: single, married, widowed and divorced/separated. The findings on the marital status are indicated in the table 4.4:

Table 4.4: Marital status of respondents

Marital status	Frequency	Percentage (%)
Single	32	36.0
Married	45	50.6
Widowed	12	13.5
Total	**89**	**100.0**

Source: Primary data

As indicated in table 4.4 above, majority of the respondents (50.6%) were married, 36.0% were single, 13.5% were widowed while none of the responses indicated that they had divorced/separated. The indication of the findings is that social factors affecting loan repayment were by implication provided for in responses provided on the effectiveness of loan terms. Biases based on marital status were mitigated.

4.2.4 Level of Education attained by the respondents

The level of education attained by the respondents was considered important as it would help the researcher to know the extent to which the respondents understood the dynamics of loan terms and loan repayment and agree or disagree with the underlying assumptions in the questionnaires and or interviews. The findings are indicated in table 4.5.

Table 4.5: Education level attained by the respondents

Education level	**Frequency**	**Percentage (%)**
Primary	39	43.8
Secondary	32	36.0
Diploma	12	13.5
Certificate	6	6.7
Total	**89**	**100.0**

Source: primary data

Table 4.5 indicates that 86.5% of the respondents had attained secondary level and below implying that majority of PML customers had basic education since only 13.5% had acquired diploma level and above and none had bachelors. The findings though agreed with the assumption that most of the respondents at PML were semi-illiterate justifying why the researcher opted for researcher administered questionnaires as self administered questionnaires were perceived to yield unreliable findings.

4.2.5 Number of loans accessed by respondents

Respondents were categorized according to number of loans accessed to cater for the opinions of both first time borrowers and repeat borrowers. Categorizing respondents according to number of loans accessed was very crucial in establishing client proportions in terms of loans accessed. The findings are indicated in the table 4.6.

Table 4.6: Number of loans accessed by respondents

Number of loans accessed	Frequency	Valid Percent
Once	12	13.5
Between 2-5 times	44	49.4
More than 5 times	33	37.1
Total	89	100.0

Source: Primary data

Notable from the findings is the fact that 86.5% were repeat borrowers and only 13.5% were first time borrowers. This implies therefore that majority of the respondents were actually knowledgeable of PMLs operations on the ground that they had interacted with PML's loan terms for long.

4.2.6 Type of loan accessed by respondents

The researcher thought to find out type of loans accessed by respondents to provide for deeper understanding of the study problem, establishment of the loan concentration levels and categories most affected by PML's loan terms. The findings are indicated in table 4.7.

Table 4.7: Type of loan accessed by respondents

Type of loan accessed	Frequency	Valid Percent
Business loan	67	75.3
Personal development loan	18	20.2
School fees	4	4.5
Total	89	100.0

Source: Primary data

Findings indicated that 75.3% of the respondents had accessed a business loans and only 24.7% accounted for other loan types. This implies that PML largely extends business loans compared to other sectors which was consistent with PML Management report, 2011 where business loans accounted for 74.6%.

4.2.7 Respondents' major income source

Respondents were grouped under income source categories to cater for the different income groups of clients

Table 4.8: Respondents major income source

Income source	Frequency	Percentage (%)
wholesale/retail	51	57.3
Farming	30	33.7
Salary	4	4.5
Rentals	4	4.5
Total	89	100.0

Source: Primary data

Majority of the respondents' major income source was wholesale/ retail business representing 57.3% of the respondents followed by farming that stood at 33.7% making it the second income source category and the least were salary and rentals that stood at 4.5% each. This agreed with PML's drive to grow agricultural value chain loan product to benefit from cheaper sources of funding and tax exemptions as noted in PML management report, 2011.

4.2.8 Purpose of the loan accessed

One of the questionnaire items required respondents to mention the purpose for which the loan was put. The rationale was to underscore the loan concentration levels in relation to loan purpose. The findings are indicated in table 4.9.

Table 4.9: Purpose of the loan accessed

Purpose of loan accessed	Frequency	Percentage (%)
Add stock in my business	55	61.8
Construction	11	12.4
Purchase plot or land	15	16.9
Pay fees	4	4.5
Start business	4	4.5
Total	89	100.0

Source: Primary data

As indicated in table 4.9, majority of the respondents (61.8%) had accessed loans to add stock in their businesses and only 39.2% had accessed loans for other purposes. This was consistent with respondents' major source of income where 57.3% derived their income from wholesale/retail business. The implication is that PML largely targets the business group and hardly extends credit for start up of businesses and school fees payments.

4.3. Findings of the study

Descriptive statistics on views of respondents

Descriptive statistics on the views of respondents were run both for the dependent variable and the independent variable.

The independent variables

This section presents the findings on the independent variables (loan terms) of interest rate, collateral security and loan period. Descriptive statistics such as mean and standard deviations were obtained for the interval scaled independent variable.

4.3.1 Loan terms and loan repayment

Loan terms as an independent variable was broken down into its dimensions of; interest rate, loan period and collateral security. Responses were grouped to simplify interpretation and apprehension. Strongly agree (SA) combined with Agree (A) are inferred to mean that respondents agreed while strongly disagree and disagree imply respondents disagreed. Mean was conceptualized as the average of the total responses while standard deviation refers to the degree of variation in the responses.

4.3.1.1 Interest rate and loan repayment

In this study, interest rate was taken as one of the dimensions of loan terms and was measured using a total of 14 questions which solicited opinions from borrowers and 10 questions that solicited views from PML staff. This was done on the basis of five point likert scale to ease respondent's effort in filling/answering the questions ranging from Strongly Agree (SA), Agree (A), Undecided (UD), Disagree (D) and Strongly Disagree (SD) as recommended by Mugenda and Mugenda (1999). The

emerging results are shown in table 4.10 (questionnaire for clients) and table 4.11 (questionnaire for PML staff).

Table 4.10: Showing clients' opinions on interest rate and loan repayment

N =70

	Percentages (%)						
Statement about interest rate	**SA**	**A**	**NS**	**D**	**SD**	**Mean**	**σ**
1. I understand the interest charged by Pride Microfinance	12	14.1	7.1	51.7	15.1	2.58	1.251
2. I can calculate interest charged by Pride Microfinance	2.4	14	11.8	25.9	45.9	2.01	1.17
3. I understand why Pride Microfinance charges interest	12.9	31.8	55.3	0	0	3.58	0.713
4. The interest rate charged by Pride Microfinance is appropriate	5.9	19.5	8.7	55.3	10.6	2.51	1.086
5. I prefer paying interest with principal	7.1	71.7	14.1	7.1	0	3.79	0.674
6. If interest rate is low, one can pay on time	29.4	52.9	4.7	2.4	10.6	3.88	1.179
7. I know the interest rate charged by other Microfinance Institutions	2.4	17.6	14.1	58.8	7.1	2.49	0.946
8. I prefer paying at a flat interest rate than reducing balance	2.4	8.2	9.4	29.4	50.6	1.82	1.06
9. Interest charged by Pride Microfinance is appropriate	-	20	8.2	62.4	9.4	2.39	0.914
10. High interest rate increases default	18.9	68.1	7.1	3.5	2.4	3.98	0.791
11. Other Microfinance institutions charge lower interest rates than Pride Microfinance	19.4	61.2	13.4	3.6	2.4	3.63	0.936
12. High interest leads to collapse of businesses	9.9	74.8	4.7	10.6	0	3.83	0.75
13. Interest at Pride Microfinance reduced my willingness to pay	8.2	17.6	3.5	55.8	14.9	2.52	1.183
14. Officers at Pride explain the interest rate to clients	11.8	18.8	2.3	55.3	11.8	2.64	1.252
Overall aggregated average statistics	**11.0**	**35.0**	**11.7**	**32.4**	**16.4**	**2.975**	**0.993**

Source: Primary data

From items 1 to 3, it was noted that interest rate significantly influences loan repayment at PML attributed to lack of sensitization about the rates charged. Notable is that 46 (66.8%) respondents disagreed when asked whether they understood the interest rate charged at PML, 50 (71.8%) disagreed when asked whether they could calculate the interest rate charged while 38 (55.3%) were neutral when asked whether they understood why PML charges interest. This was consistent with the findings in item 14 where 47 (67.1%) disagreed when asked whether PML staff explain interest rates to clients. Similarly, 50 (71.8%) of the respondents disagreed with the assertion that interest rate at PML was appropriate. This was in agreement where one respondent said *"lack of adequate sensitization about the interest rate charged negates the repayment plan to the detriment of PML".*

59 (84.7%) of the respondents agreed that interest rate at PML led to business collapse, 56 (80.6%) agreed that other financial institutions charge low interest rates compared to PML, 61 (87%) agreed that high interest rates at PML increased default although 50 (70.7%) disagreed with the assertion that interest rate at PML reduces their willingness to pay. One respondent said "the high interest rate at PML does not necessarily affect my willingness to repay but simply reduces my capacity to pay. *"I was not sensitized about interest rate yet it would aid me in making the decision to borrow".*

Opinions from PML staff regarding interest rate were also obtained to get deeper understanding of the variables and results are indicated in table 4.11.

Table 4.11: Opinions of PML staff on interest rate and loan repayment

N =09

	Percentages (%)				
Statement interest rate	**SA**	**A**	**NS**	**D**	**SD**
1. I understand the interest rate charged at PML	44	33	11	11	0
2. The interest rate paid at PML is reasonable	0	33	11	44	11
3. I clearly explain to clients the interest rate charged by PML	44	33	11	0	11
4. Interest charged by PML is perceived high by clients	0	0	11	55	33
5. The method used in calculating interest at PML is appropriate	0	0	11	55	33
6. PML clients are not complaining about interest rate	0	0	11	55	33
7. Many clients at PML have defaulted because of high interest rate	0	0	11	55	33
8. Interest charged by PML is negotiable	0	0	0	55	44
9. Clients would not default if interest was negotiable	0	11	22	55	11
10. Many borrowers at PML prefer reducing balance to flat interest rate	55	33	0	11	0
Overall aggregated average statistics	**14.3**	**14.3**	**9.9**	**39.6**	**20.9**

Summary: Primary data

In the study, (88%) of the key respondents strongly agreed that clients prefer reducing balance interest calculation to flat rate method which was consistent with opinions from PML clients where (80.9%) disagreed with the assertion that clients at PML preferred flat rate to reducing balance method of interest calculation. All respondents agreed that interest rate at PML was not negotiable although (88%) disagreed with the assertion that clients at PML default due to high interest rates. However,

the same proportion (88%) disagreed with the notion that clients at PML were not complaining about interest rate.

Findings from PML staff rhyme with opinions of clients to suggest that interest rate at PML is negating loan repayment. One interviewee said "*credit officers are always in hurry to meet targets and forget sensitizing borrowers about the terms".* Both responses from key informants and Customers indicated that borrowers would not be involved in determining the interest rates payable yet involvement is considered vital in enhancing accountability on the part of the borrowers.

Another respondent indicated that; *"clients at PML are not involved in setting the interest rates nor are they adequately sensitized about the interest rates charged. Interest rates are exclusively set by PML management and imposed on clients without prior consultation thus demotivating".* The findings indicated that involving clients in determining the interest rates motivates them to pay on time as it makes them feel they are part of the system.

Despite the fact that, involving clients encourages them to pay on time, for the case of PML, they are not involved. This was suggested as impacting negatively on loan repayment as those involved are not actually directly affected by interest rates charged. A correlation analysis was computed, examined and interpreted. This was done to establish the effect of interest rate on loan repayment. The results are summarized in the table 4.12.

4.3.1.1.1 Hypotheses Testing

The hypothesis that interest rate significantly contributes on loan repayment in Pride Microfinance was tested at 0.01 level of significance in order to generalize the findings from the samples of the

population. This was done by use of inferential statistics. Correlation and regression analyses were conducted to establish whether there was any relationship between the Independent and Dependent variables, the magnitude and direction of the relationships and to establish the relationship model and test the three hypotheses.

To verify the alternative hypothesis that Interest rate significantly contributes on loan repayment in Microfinance, the Pearson's product moment correlation coefficient for both responses from clients and staff was thus used to determine the magnitude of the relationship and the results are shown in the table 4.12.

Table 4.12: Correlation matrix for interest rate and loan repayment

		Interest rate	**Loan repayment**
Interest rate	Pearson Correlation	1	.223**
	Sig. (2-tailed)		.000
	N	79	79
Loan repayment	Pearson Correlation	.223**	1
	Sig. (2-tailed)	.000	
	N	79	79
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: primary data

Table 4.12 above, shows a correlation coefficient of 0.223 which is significant at 0.01 level implying a strong significant positive relationship. This implies that interest rate affects loan repayment by 0.223.

A regression analysis was hence run in order to determine the strength of relationship between interest rate and loan repayment, that is, how much of the variance in the independent variable would affect the dependent variable.

Table 4.13: Model Summary

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0	1	.223[a]	.050	.038	.409
a. Predictors: (Constant), interest rate					

Source: Primary

The coefficient of determination 0.05 implies that interest rate accounts for a proportion of 5% in influencing loan repayment at PML, Mbarara District which is a less significant positive relationship. It means, the higher the interest rate, the less effect on loan repayment. Meaning that with a reduction in interest rate, loan repayment would improve by only 5% leaving other factors constant.

Table 4.14: Regression output summary on interest rate and loan repayment

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.341	.295		11.327	.000
	Interest rate	.204	.098	.223	2.080	.000
a. Dependent Variable: Loan repayment						

Source: Primary data

The result revealed a regression coefficient of 0.223 at 0.01 significance level. Results further confirm a significant effect of interest rate on loan repayment with a Beta value of 0.223 at 95% level of

confidence. This implies that interest rate affects loan repayment by 0.223. Therefore, the researcher upholds the research hypothesis that Interest rate significantly contributes to loan repayment in Pride Microfinance.

4.3.1.2 Loan period and loan repayment

The second objective was aimed at establishing the contribution of loan period on loan repayment in Pride Microfinance. A summary of the findings is presented in table 4.15.

Table 4.15: Showing the clients opinions on loan period and loan repayment in percentages

N=70

Statement	SA	A	NS	D	SD	**Mean**	**Σ**
1. The procedure for determining loan repayment period at PML is appropriate	1.2	24.7	10.6	40	21.2	2.43	1.128
2. I am satisfied with the loan periods at PML	10.6	14.1	0	60	15.3	2.45	1.22
3. PML offers loan grace periods	31.8	0	7.1	32.9	27.1	2.76	1.64
4. I would recommend grace periods for clients at PML	7.1	29.4	8.2	51.8	3.5	2.85	1.107
5. I was involved in determining loan repayment period for my loan	5.9	18.8	11.8	57.6	2.5	2.65	1.029
6. Loan periods at PML are determined by purpose of the loan	4.7	8.2	1.2	65.9	20	2.12	0.981
7. I was given a copy of the loan repayment schedule	16.5	16.5	8.2	17.6	41.2	2.49	1.556
8. I understood the repayment schedule	7.1	29.4	30.6	25.9	7.1	3.04	1.063
9. I attribute default at PML to loan periods that are not sensitive of customer needs	31.8	18.8	7.1	35.3	7.1	3.33	1.417
10. I delay paying because PML delayed disbursing my loan	2.4	51.8	10.6	17.6	15.3	3.08	1.202
Overall aggregated average statistics	11.9	23.5	10.6	40.5	16.0	0	0

Source: Primary data

Table 4.15 above shows that 75.3% respondents agreed that they were not satisfied with the loan periods at PML. This high response indicates the disincentive they have towards loan repayment.

60.1% of the respondents disagreed when asked whether they were involved in determining loan repayment period for their loan; with only 24.7% agreeing that they were involved. This high disagreement is a reflection that most respondents never upheld the loan agreements they signed. Notable is that 85.9% of the respondents disagreed with the assertion that loan periods at PML were determined by purpose of the loan. The implication is that customers' cash flows were not considered in the loan decisions thus aiding default.

Most clients (58.8%) had not been given a copy of the loan repayment schedule while those that had received a copy of their repayment (33%) schedule had not understood it. This agreed with interview findings where one respondent asserted *"I came to know that I was supposed to pay monthly when my officer came to demand for payments. I knew I was allowed to pay lump sum".*

Findings indicated a high proportion (54.2%) of respondents agreeing that they delay paying because PML delayed disbursing their loan. This was consistent with interview findings where one respondent said *"I delay paying to stress my officer who also delayed giving me the loan yet I urgently needed it to clear my goods".*

4.3.1.2.1 Opinions of PML staff on loan period and loan repayment in percentages

To corroborate, substantiate and get deeper understanding of the contribution of loan period on loan repayment, views were obtained from PML staff who directly make credit decisions. The findings are indicated in table 4.16 below.

Table 4.16: Opinions of PML staff on loan period and loan repayment in percentages

Statement	SA	A	NS	D	SD
1. The procedure for determining loan repayment period is appropriate	0	44.4	33.3	11.1	11.1
2. Clients are satisfied with the loan periods at PML	0	11.1	33.3	55.6	0
3. PML offers loan grace periods	33.3	55.6	0	11.1	0
4. I would recommend grace periods for clients at PML	55.6	33.3	11.1	0	0
5. Clients are involved in determining loan repayment periods	0	33.3	11.1	55.6	0
6. Loan periods at PML are determined by purpose of the loan	33.3	55.6	11.1	0	0
7. Clients at PML are given a copy of loan repayment schedules	11.1	33.3	0	55.6	0
8. Clients follow the repayment schedules	55.6	11.1	0	33.3	0
9. Default at PML is attributed to loan periods that are not sensitive of customer needs	11.1	44.4	33.3	11.1	0
10. Clients default because PML delayed disbursing their loan	11.1	11.1	44.4	33.3	0
Overall aggregated average statistics	**21.1**	**33.32**	**17.76**	**26.67**	**1.11**

Source: Primary data

Table 4.16 above shows that 4 (44.4%) of PML staff agreed that the procedure for determining loan repayment period was appropriate although 5(55.6%) disagreed with the assertion that clients were satisfied with the loan periods at PML. This was consistent with the views from interviews where both PML staff and clients asserted that loan periods at PML were not satisfying to the customers. One respondent (customer) said *"I accepted the period offered to me because I needed the money and had no choice; the period was too short to enable me repay the loan".* Similarly, one key

informant said *"customers cannot request for loan periods outside the bracket of PML policies; if they did, their request cannot be granted"*. In light of the above, the seemingly appropriate procedure of determining loan periods at PML was actually not appealing to customers implying lack of adequate involvement of clients in determining the same.

Most respondents 8(88.9%) agreed that PML offers loan grace periods with the same recommending grace periods. However, 5(55.6%) of the respondents disagreed when asked whether clients were involved in determining loan repayment periods at PML.

The interpretation was that loan periods were imposed on clients without question which was in agreement with the views from clients where 5(55.6%) agreed that they were never involved in determining their loan repayment periods. It also agreed with the views obtained from interviews where it was pointed out clearly that PML did not adequately involve its clients in determining loan periods and if they did, it was only for formality. Setting loan periods that were inappropriate in customers eyes could justify default levels at PML.

Key informants were also asked whether they would recommend grace periods for clients at PML 8(88.9%) agreed with only 11.1% remaining neutral. This implies that grace periods were significant in loan decisions.

Respondents were asked whether loan periods at PML were determined by purpose of the loan. The rationale was to ascertain the extent to which PML addresses clients cash flow cycles in the loan decisions. 8(88.9%) of the respondents agreed with the assertion with only 11.1% disagreeing. Noteworthy was that this finding disagreed with respondents views regarding whether clients were involved in the loan decisions with 5(55.6%) disagreeing. Therefore, since there was low client

involvement in loan decisions, then decisions were taken without full understanding of clients' expectations thus aiding default.

Respondents were also asked whether clients at PML were given a copy of loan repayment schedules; 55.6% disagreed and when asked whether clients follow the repayment schedules 33.3% disagreed implying that even those that were given repayment schedules, they actually didn't understand them. This was consistent with the views from borrowers where 58.8% disagreed with the assertion that clients were issued with loan repayment schedules. The implication was that most clients default because they believe they can pay any time during the loan period. This was supported by PML management report where it was noted that clients were defaulting because officers were not sensitizing them about the on time loan repayment as per their loan schedules.

Majority of the respondents (55.5%) attributed default at PML to loan periods that were not sensitive of customer needs. This was substantiated by opinions from both clients and PML staff that clients default because PML delayed disbursing their loan. Opinions from interviews also agreed with the findings. One key informant noted that *"monthly repayments does not favor clients with seasonal businesses yet they are the majority we serve".* Another key informant noted that "*a maximum of two years repayment period is too short for asset financing and mortgages yet they are part of our clients base".*

4.3.1.2.2 Hypothesis Testing

The hypothesis that loan period significantly contributes on loan repayment in Pride Microfinance was tested at 0.01 level of significance in order to generalize the findings from the samples of the population.

To verify the hypothesis that loan period considerably contributes on loan repayment in Microfinance, the Pearson's product moment correlation coefficient was used to determine the magnitude of the relationship as shown in table 4.17:

Table 4.17: Correlation matrix for loan period and loan repayment

		Loan period	Loan repayment
Loan period	Pearson Correlation	1	.419**
	Sig. (2-tailed)		.000
	N	85	85
Loan repayment	Pearson Correlation	.419**	1
	Sig. (2-tailed)	.000	
	N	85	85
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: primary data

Table 4.17 above shows a correlation coefficient of .419** which is significant at 0.01 levels implying a significant relationship.

4.3.1.2.3 Regression analysis between loan period and loan repayment

A regression analysis was run in order to determine the strength of relationship between loan period and loan repayment to establish how much of the variance in the independent variable would affect the dependent variable.

Table 4.18: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate

dimension0	1	.419[a]	.176	.166	.381
a. Predictors: (Constant), loan period					

Source: Primary data

The coefficient of determination 0.176 implies that loan period affects by 17.6% of the loan repayment at PML, Mbarara District. Thus, there is a significant relationship. It therefore means that loan period has an effect on loan repayment.

Table 4.19: Regression output summary on loan period and loan repayment

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.478	.302		4.900	.000
	Loan period	.462	.110	.419	4.206	.000
a. Dependent Variable: Loan repayment						

Source: Primary data

Results further confirm a significant effect of loan period on loan repayment with a Beta value of .419 at 99% level of confidence. This implies that loan period affects loan repayment by 0.419. Therefore, the researcher upholds the research hypothesis which states that loan period loan period considerably contributes on loan repayment in Pride Microfinance.

4.3.1.3 Collateral security and loan repayment

The third objective was aimed at establishing the relationship between collateral security and loan repayment in Pride Microfinance. The data to achieve this was obtained from the primary sources

(clients and key informants who were PML staff). A summary of the responses is presented in the table4.20.

Table 4.20: Showing clients opinions on collateral security and loan repayment in percentages

N=70

Statement	SA	A	NS	D	SD	Mean	Σ
1. Collateral pledged is mine	32.9	58.8	4.7	3.5	-	4.21	0.692
2. One can default if he/she has not pledged security	-	21.2	4.7	47.1	25.9	2.21	1.065
3. Clients usually sell off securities before loan is paid off	2.4	4.7	18.8	63.5	9.4	2.26	0.793
4. Most clients pledge staged securities	4.7	32.9	7.1	48.2	4.7	2.84	1.099
5. I pay on time to save my security	21.2	14.1	9.4	48.2	4.7	2.99	1.311
6. Officers at Pride explain collateral requirements to clients before loan is issued	16.5	14.1	-	63.5	4.7	2.74	1.262
7. High collateral requirements at Pride Microfinance reduced my willingness to pay	-	4.7	4.7	69.4	20	1.94	0.665
8. Pride staff sell off securities when clients default	2.4	11.8	12.9	57.6	10.6	2.35	0.924

Source: Primary data

Opinions were obtained from respondents regarding the ownership status of collateral pledged. 91.7% agreed that they owned the collateral pledged, 4.7% were not sure while only 3.5% disagreed. This implies that follow back position in case of default is certain. On whether one can default if he/she has not pledged security, 73% disagreed, 21.2 % agreed while the rest were not sure. This implied that security was not the driver to on time repayment but clients had the willingness to pay their loans.

Opinions were obtained regarding whether clients usually sell off securities before loan is paid off. Notable was that majority (72.9%) disagreed with the assertion. This reflected the genuineness of

clients served by PML. When asked whether they pay on time to save their security, 52.9% disagreed although a sizeable number (35.3%) agreed. The implication was that PML clients had strong attachment on the security pledged.

On whether officers at Pride explained collateral requirements to clients before loan is issued, majority (68.2%) disagreed implying that most clients at PML signed security agreements they never understand. Asked whether high collateral requirements at Pride Microfinance reduced their willingness to pay, 89.4% disagreed. The high responses again confirmed that most clients at PML had willingness to pay and were genuine. On whether Pride staff sell off securities when clients default, 68.2% disagreed while only 14.2% agreed. This therefore implies that the high collateral requirements at PML are for pressure purposes since they are not operationalised in case of default. This agreed with the views from interview where one client said *"PML is excellent at exerting pressure on us but very weak at implementing their threats"*.

To corroborate, substantiate and get deeper understanding of the contribution of loan period on loan repayment, views were obtained from PML staff who directly make credit decisions. The findings are indicated in table 4.16.

Table 4.21: Showing opinions PML staff on collateral security and loan repayment

N=09

Statement	SA	A	NS	D	SD
1. I clearly understand PML's collateral requirements	42.9	28.6	14.3	-	14.3
2. Clients are satisfied with PML's collateral requirements	-	14.3	14.3	42.9	28.6
3. Clients are discouraged by the lengthy collateral documents	-	-	14.3	57.1	28.6
4. To PML, collateral is more important that capacity to pay	57.1	28.6	14.3	-	-
5. Loan amounts at PML are determined by collateral pledged	57.1	28.6	14.3	-	-

Statement	SA	A	NS	D	SD
6. Good payers graduate to bigger loans without adding collateral	-	14.3	28.6	57.1	-
7. Many clients refuse to pay because they have pledged collateral	-	-	57.1	28.6	14.3
8. In my opinion default at PML is attributed to rigid collateral requirements.	-	14.3	42.9	28.6	14.3
9. Clients collateral are sold off by PML upon default	-	14.3	14.3	57.1	14.3
10. Most clients pledge staged collateral	-	14.3	28.6	57.1	-
11. Many defaulters usually sell off securities before loan is paid off	-	14.3	28.6	57.1	-

Source: Primary data

Majority of the key informants agreed that they clearly understood PML's collateral requirements (71.5% agreed) implying that PML staff had adequate knowledge of what they were expected to do. Regarding whether clients were satisfied with PML's collateral requirements, 42.9% disagreed, 28.6% strongly disagreed while only 14.3% agreed. This implied that clients were agreeing with the requirements due to lack of choice. This agreed with views from interviews where one respondent said *"whether clients are satisfied with the required collateral or not, they cannot change anything; collateral requirements are set in line with PML credit policies".* This also agreed with PML Credit policy for individual loans where the collateral value was set at a minimum of 150% of the loan amount.

Respondents were also asked to give their opinions on whether clients were discouraged by the lengthy collateral documents. 57.1% disagreed, 28.6% strongly disagreed while none agreed or strongly agreed. This implies that collateral requirements had nothing or little to do with clients

attitude. On whether PML takes collateral as more important than capacity to pay, 57.1% strongly agreed while 28.6%. This rhymed with opinions on whether loan amounts at PML were determined by collateral pledged. The interpretation was that collateral was perceived to drive repayment. This agreed with interview opinions where one respondent stated that *"without collateral, no loan; even group clients pledge their members as security"*. Similarly, respondents were asked to give opinions about whether good payers graduate to bigger loans without adding collateral; 57.1% disagreed while 28.6% were not sure. This implied that loan increment called for increment in collateral. This agreed with the management policy memo that restricted loans officers from giving loan increments that were not commensurate with collateral pledged.

Respondents were also required to give opinions on whether many clients refuse to pay because they have pledged collateral. Majority (57.1%) were not sure while the rest disagreed. This implied that collateral security was an incentive not a disincentive to pay. Views from interviews also indicated the same. One respondent said "*most clients pay for fear that their securities may be sold off".* Majority of the respondents were not sure when asked whether in their opinion default at PML was attributed to rigid collateral requirements. This implied PML lacked adequate knowledge of their clients. This agreed with views obtained from customer complaints and complements register where there was no proof that customer complaints had been addressed or even reviewed.

About whether clients collateral were sold off by PML upon default, majority disagreed with only 14.3% agreeing. Notable still was that 14.3% of the respondents were not sure implying lack of adequate knowledge of their clients. Asked whether most clients pledged staged collateral, 57.1% disagreed while 28.6% were not sure implying lack of adequate due diligence on their part. This implied that clients could to some extent exploit PML's lack of adequate due diligence to pledge staged securities. Respondents were also asked to give opinions on whether many defaulters usually

sold off securities before their loan was paid off. Interestingly, 57.1% disagreed while 28.6% were not sure. This agreed with the finding from clients that security was for exerting pressure on clients to pay not a source of obtaining repayments. It also agreed with views obtained from interviews where one respondent said *“we have the capacity to sell collateral in case of default but we rarely do it due to fear of loss of our corporate image”*.

4.3.1.3.1 Hypothesis Testing

To verify the alternative hypothesis that there is a significant relationship between collateral security and loan repayment in PML, a combined Pearson’s product moment correlation coefficient was used to determine the magnitude of the relationship as shown in table 4.22.

Table 4.22: Correlation matrix for collateral security and loan repayment

		Collateral security	Loan repayment
Collateral security	Pearson Correlation	1	.178*
	Sig. (2-tailed)		.011
	N	79	79
Loan repayment	Pearson Correlation	.178*	1
	Sig. (2-tailed)	.103	
	N	79	79
*. Correlation is significant at the 0.05 level (2-tailed).			

Source: primary data

The table shows a correlation coefficient of .178* which is significant at 0.05 levels implying a significant strong relationship.

A regression analysis was thereafter run in order to determine the strength of relationship between collateral security and loan repayment, that is, how much of the variance in the independent variable would affect the dependent variable. The results are summarized in table 4.23

Table 4.23: Model Summary

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0	1	.178[a]	.032	.020	.413
a. Predictors: (Constant), collateral security					

Source: Primary data

The coefficient of determination 0.051 implies that collateral security affects by 5.1% of the loan repayment at PML, Mbarara District. Thus, there is a significant strong relationship. It means that collateral security has a significant effect on loan repayment.

Table 4.24: Regression output summary on collateral security and loan repayment

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.025	.182		16.646	.000
	Collateral security	.108	.065	.178	1.649	.103
a. Dependent Variable: loan repayment						

Source: Primary data

The result in the above table revealed a regression coefficient of .178 at 0.05 significance level, hence a strong significant relationship. Results further confirm a significant effect of collateral security on loan repayment with a Beta value of 0.178 at 95% of confidence. This implies that collateral security affects loan repayment by 0.178. Therefore, the researcher upholds the research or alternative hypothesis.

4.3.1.4 Loan repayment

4.4 Descriptive statistics on views of respondents

Dependent variable: Loan repayment

This section presents the findings on dependent variable; loan repayment using the questions set to generate information from the respondents, findings are presented in table 4.25.

Table 4.25: Showing opinions PML clients on opinion loan repayment at PML

N=70

Statement	SA	A	NS	D	SD	Mean	Σ
1. I pay principal and interest in arrears	5.9	61.2	12.9	10.6	8.2	3.46	1.046
2. I find it difficult to pay on time	7.1	68.2	4.7	11.8	5.9	3.6	0.999
3. I inform PML when I fail to pay on time	4.7	9.4	-	81.2	4.7	2.28	0.881
4. I asked for loan rescheduling	7.1	3.5	11.8	23.5	50.6	1.89	1.207
5. Late payments at pride are penalized	-	14.1	10.6	70.6	4.7	2.34	0.78
6. I defaulted because I had pledged my assets as security	-	-	5.9	74.1	14.1	1.89	0.5
7. I failed to pay both principal and interest	2.4	4.7	9.4	25.9	57.6	1.68	0.991
8. Pride sold off my security to pay the loan	24.7	9.4	11.8	30.6	23.5	2.81	1.524
9. I failed to pay because interest was high	-	56.5	4.7	29.4	9.4	3.08	1.115
10. I have willingness to pay but I can't raise the money	10.6	57.6	7.1	18.8	5.9	3.48	1.098
11. I failed to pay because I was given a short repayment period	7.1	55.3	5.9	27.1	4.7	3.33	1.095
12. I failed to pay because my business cant repay a loan on monthly basis	5.9	34.1	1.2	47.1	9.4	2.8	1.197
13. Loan terms at Pride reduced my willingness to pay	4.7	15.3	5.9	58.8	14.1	2.37	1.062
14. Without loan agreements, customers would still pay	5.9	42.4	1.2	35.3	14.1	2.9	1.267
15. I delay payments because Pride also delayed processing my loan	4.7	36.5	2.4	44.7	11.8	2.78	1.199
16. I default because my officer harassed me	3.5	44.7	11.8	25.9	12.9	3	1.182

Source: Primary data

Table 4.25 above indicates that majority of the respondents (67.1%) agreed that they were paying principal and interest in arrears which agreed 68.2% that agreed to have found it difficult to pay on time implying that majority had been affected by loan terms at PML and therefore had adequate and reliable information. Notable was that 81.2% never informed PML whenever they failed to pay on time implying breach of rapport between PML and it clients. This partly explained why majority (74.1%) had not asked for loan rescheduling while 11.8% never knew of it before.

Opinions on whether late payments at pride are penalized were obtained majority (74.3%) of which disagreed while only 14.1% agreed with the assertion. This implied that penalties were just on paper but not implemented and if implemented, clients were not informed about the same. Respondents were asked whether they failed to pay both principal and interest to which majority (87.5%) disagreed implying that there wasn't total failure in loan repayment. Asked whether PML sold off their security to pay the loan, majority (54.1%) disagreed although a small number (34.1%) agreed. This implied that most defaulters offset their obligations save for those whose only fallback position is their security.

Respondents were asked whether they failed to pay because interest was high of which majority (56.5%) agreed. This tallied with opinions on whether they had willingness to pay but couldn't raise the money where 68.2% agreed with the assertion. This agreed with interview findings where most respondents attributed their default to high interest rates that eroded their businesses. One respondent said *"interest at PML was too much that my business had to collapse"*.

62.4% of the respondents agreed that they failed to pay because they had been given a short repayment period. This implied that they had been given more money than they would ably pay over the loan period. In item 12, 56.5% of the respondents disagreed although 40% agreed to have failed to pay

because their businesses couldn't repay a loan on monthly basis implying that their cash flows cycles had been neglected in the loan decision. 72.9% of the respondents agreed that loan terms at Pride reduced their willingness to pay implying the level of dissatisfaction over the terms offered. This agreed with interview findings where majority asserted that the terms at PML were hard to meet. One respondent had this to say "*terms at PML scare us the poor away in favor of the rich yet we are the ones that started it"*.

In item 15, respondents in almost equal proportions (48.3% agreed, 49.4% disagreed) noted that without loan agreements, customers would still pay. This implied that almost half of the clients at PML would still pay even without terms although free-riders would still present in similar proportions to exploit the loopholes. Similarly, 56.5% of the respondents disagreed with the notion that they delayed payments because Pride also delayed processing their loan although 41.2% agreed. This implied the level of dissatisfaction by PML clients. It was also found out that 48.2% had defaulted because of harassment from PML officer.

To corroborate substantiate and get deeper understanding of the contribution of loan period on loan repayment, views were obtained from PML staff who directly make credit decisions. The findings are indicated in table 4.26.

Table 4.26: Showing opinions of PML staffs on loan repayment in percentages

N=09

Statement	SA	A	NS	D	SD
1. Default rate at PML is increasing	25.6	57.1	0	14.3	0
2. Loan loss provisioning is on the increase at PML	0	57.1	28.6	14.3	0
3. Bad loans written off at PML are followed up and recovered	0	0	14.3	57.1	28.6
4. PML rewards staff based on quality of portfolio	57.1	28.6	14.3	0	0
5. Defaulters at pride are penalized	57.1	28.6		14.3	0
6. It is always difficult to recover from clients above 180days	42.9	28.6	14.3	-	14.3
7. I am motivated to recover from defaulting clients	0	14.3	14.3	42.9	28.6
8. PML pays an incentive on amounts recovered from written off loans	0	0	14.3	57.1	28.6
9. Staff with the best PAR at end of months are rewarded	57.1	28.6	14.3	0	0
10. I fully understand loan loss provisioning policy at PML	57.1	28.6	14.3	0	0
11. Loans officers are relieved of stress when a loan is written	57.1	28.6	14.3	0	0
12. Clients whose loans were written off still possess collateral pledged	57.1	14.3	28.6	0	0
13. Clients default because they perceive that PML can't do anything	0	0	57.1	28.6	14.3

Source: Primary data

In table4.26 above, 82.7% of the key informants agreed that default rate at PML was increasing. This tallied with 57.1% of the respondents who agreed that loan loss provisioning was on the increase at PML. This implied that PML staff acknowledged the increasing levels of default and provisions for loss. Respondents disagreed (85.7%) that bad loans written off at PML were followed up and recovered. This implied the weak attitude of PML staff towards recovery of written off loans. Although 85.7% agreed that PML rewards staff based on quality of portfolio, 71.5% of the

respondents disagreed when asked whether they were motivated to recover from defaulting clients. This was substantiated with the fact that loans officers are relieved of stress whenever a loan is written (91.2% agreed). Notably, 85.7% disagreed with the notion that PML paid an incentive on amounts recovered from written off loans. The interpretation was that the low attitude towards recovery of arrears was due to inadequate motivation.

Although 85.7% of the respondents agreed that defaulters at pride are penalized, it partly disagreed with views from interviews where majority respondents noted that credit committees quite often waive off the penalties. This was also reflected in credit policies where waiver rights are granted to the credit committee. The implication was that the credit policy is mostly exploited to exonerate certain defaulters from penalties. Key informants agreed that they fully understood loan loss provisioning policy at PML although interview findings revealed that PML staff never considered loan loss provisioning. Notable was that respondents agreed that clients whose loans were written off still possessed collateral pledged. This agreed with the findings on whether clients default because they perceived that PML can't do anything. The interpretation was that PML officers were not upholding policy to collect on collateral pledged.

4.3.1.4.1 Multiple regression analysis

In order to determine the combined effects of the independent variables on the dependent variable or whether the independent variable predicts the dependent variable, a multiple regression was run and results are shown in table 4.27.

Table 4.27: Summary of multiple regression analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.091	.353		5.928	.000
	Collateral security	.067	.096	.111	.698	.487
	Interest rate	.267	.146	.291	1.836	.070
	Loan period	.596	.107	.540	5.546	.000
a. Dependent Variable: Loan repayment						

Source: primary data

Table 4.27 shows that the best factor that explains / predicts loan repayment is loan period (beta 0.540). This implies that loan repayment is best achieved with loan periods that are sensitive of customer cash flows. Interest rate follows with a beta 0.291. The third is collateral security with a beta value of 0.111.Therefore there is need to improve on loan periods, collateral requirements and interest rate charged to achieve high levels of loan repayment.

4.3.1.4.2 Summary of the hypotheses tested

Table 4.28: Summary of the hypotheses tested

Hypothesis	Independent variables	Standardized coefficient	Sig.	Results of hypothesis
H1	Interest rate	0.223*	0.041	Accepted
H2	Loan period	0.419**	0.000	Accepted
H3	Collateral security	0.178*	0.103	Accepted

Source: Primary data

As indicated in table 4.28, loan period contributes a larger percentage in affecting loan repayment. In comparison with collateral security and interest rate, improvement in loan period more than improves loan repayment.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the findings, discussion of the main findings, the conclusions and recommendations and areas that need further research.

5.2 Summary of the study

This study examined the effects of loan terms on loan repayment in Uganda, a case of Pride Microfinance Mbarara District. It followed the realization by financial institutions that loan terms were not adequately addressing loan repayment problems which they were intended to address. The study revealed that loan terms were neither adequately implemented nor used to improve on customers willingness to pay. It was established that loan interest, collateral security and loan period at PML were largely conventional to imply that customers were the same other than being used to address individual customer expectations.

5.2.1 Interest rate and loan repayment

The first objective was to determine the contribution of interest rate on loan repayment in Pride Microfinance. The study found out that interest rate has a statistically significant effect on loan repayment of a coefficient 0.223 at 0.05 significance level. The major findings were that majority of the respondents agreed that high interest rate affected their cash flows and thus their capacity to pay. This high response was an indication that clients were willing to pay but had their incomes eroded by

the high interest rates. Notable implication was decline in the willingness to pay partly arising from the high rates but more so the fact that PML officers never explained the rates imposed.

However some respondents did not agree with the assertion that interest rate reduced their willingness to pay although it evidently affected their cash flows. This response has indications that reduction in interest rates could positively reduce on loan repayment problems and more so when clients are adequately made to understand and appreciate the rates charged on their loans.

5.1.2 Loan period and loan repayment

Further, the study found out that there exists a significant relationship between loan period and loan repayment at PML, Mbarara District with a coefficient of determination of 0.419. Majority of the respondents noted that catering for clients cash flows has a significant effect on enhancing on time loan repayment. Considerations in terms of seasonality, nature of business were proposed to be considered in determining loan repayment periods. Notable finding was that PML had not taken any step to address customer complaints regarding inadvertent loan periods save for several complaints entered in the complaint register.

However on the contrary, it was established from key informants that loan period for PML like other MDIs were stringent by virtue of regulation. This however couldn’t address the finding that in addition to neglecting clients requests regarding loan periods, they were never made to understand and appreciate the imposed terms. The net impact customers simply signing the granted repayment periods for the sake of getting the required funds well knowing they cannot uphold the installments in the stated period. Documents reviewed including arrears minutes, management reports, audit

reports, risk and compliance reports also indicated that most defaulters had defaulted citing repayment periods that never took into consideration customers cash flow positions.

5.1.3 Collateral security and loan repayment

The study found out that there existed a positively significant relationship between collateral security and loan repayment with a coefficient of determination of 0.178 at 0.05 level of significance. The findings revealed that majority respondents agreed that the collateral requirements at PML were stringent to be met by majority clients served.

It was found out that collateral was by implication not necessarily a fallback position but a tool to increase pressure and raise willingness to pay. This was consistent on both findings from questionnaires and interviews. Documents reviewed however indicated that collateral security was to act as a fallback position in case of default although it was hardly operationalised.

5.2 Discussion of findings

5.2.1 Interest rate and loan repayment

The study objective was to determine the contribution of interest rate on loan repayment in Pride Microfinance of which the findings showed a significant positive relationship.

The study revealed that majority of the client respondents agreed that interest at PML was high and eroding their businesses and returns. This high response was an indication that clients were always willing to pay but were always failed by high interest that would eat up their proceeds. This finding is in agreement with that of Obamuyi, (2011) who maintains that interest spreads significantly affects

loan repayment more so if the rate eats up clients proceeds and this is also in conformity with that of Morduch, (1999).

The study found out that although majority respondents perceived that interest rate at PML was high, loan repayment was not affected by the perception but rather the fact that the high rates eroded their business returns. This was found out to be supported by Ghatak, (2010) who asserted that; high interest rate affect loan repayment to the extent of the perception and attitude but and more so to the extent of the net effect of interest on business returns.

The onus therefore is on PML management, Mbarara District to ensure that clients are sensitized to appreciate interest rates charged and thus work towards meeting the expectations. This further agrees with CGAP and MIX, 2010, which substantiated that for timely loan repayment to be upheld, financial service providers ought improve their rapport with clients through monitoring and provision of alternative channels to counter business failure.

5.2.2 Loan period and loan repayment

The researcher set out to establish the effect of loan period on loan repayment in PML, Mbarara District and found out that the relationship was positively significant. The study revealed that most of the respondents were not satisfied with loan repayment periods at PML citing that they were short to enhance perfect loan repayment. This high response reflected the bad attitude clients had towards loan repayment. Most respondents hinted on the inappropriate procedure for determining loan repayment period citing lack of involvement in the process. Lack of involvement justified why most respondents never upheld the loan agreements they signed. It was also found out that loan periods were instituted irrespective clients businesses and loan purpose implying that customers' cash flows

were not addressed in the loan decisions thus aiding default. This was consistent with the assertion "lend to individuals who have not appreciated your terms and they will hardly pay back" (Besley & Coate, 1995).

As propounded by Seibel, 2005, clients need to understand and appreciate their repayment cycle if they are to uphold the repayment agreement. Contrary to the assertion, most clients noted that they had not been issued with a copy of the loan repayment schedule for their loans while those that had received a copy of their repayment schedule had not understood it. As such, most clients who had defaulted asserted that they came to know of their default upon demands for payment from their officer ; otherwise they thought payments at any time of the cycle were acceptable". It is from this background that the researcher strongly asserts that PML management ought to provide for adequate involvement and sensitization of customers before loan disbursement.

5.2.3 Collateral security and loan repayment

The researcher found out that majority of the respondents agreed that clients were dissatisfied with PML's collateral requirements implying that clients were only accepting the requirements only for formality. This was consistent with the findings that collateral security serves best in increasing willingness to pay than acting as a fallback position. As posited by Yunus and Jolis, 2003, it is important to use collateral as a tool of enhancing willingness to pay than a source of repayment. Incidentally, PML takes collateral security as a follow back position as documented in the credit policies no loan could be disbursed if the collateral value was below 150% of the loan amount.

However, majority respondents noted that part from the collateral requirements affecting their eligibility for accessing a loan, they were not affecting their willingness to pay. As such, collateral

security was an incentive not a disincentive to pay. It was also noted that lack of adequate action on defaulters sent a signal to other clients that one can default and still retain their collateral. It was found out that PML was excellent at exerting pressure using the stringent collateral requirements but could not implement the threats in case of default. This agreed with the operations under the Grameen model where it required that threats have to be followed with action in order to enhance discipline.

5.3 Lessons learnt

5.3.1 Interest rate and loan repayment

Since the findings revealed that interest rate had a positively significant effect on loan repayment, it therefore, means that the more clients are sensitized to appreciate PML rates, the more loan repayment can be achieved. This arises from the fact that clients develop a feeling of accountability and work towards meeting the required payments. This has however been affected by lack of control on the cost of lending by PML.

5.3.2 Loan period and loan repayment

The positively significant relationship between loan period and loan repayment implies that the more the clients are sensitized and involved, the more loan repayment can be achieved. Timely loan repayment can thus be achieved by PML if loan periods are set in consultation and in respect of clients expectations. However, loan repayment has been hindered due to continued employment of staff that have poor attitude to the effect that they do not maintain rapport with their clients citing lack of adequate motivation. Therefore, much as tailored loan periods facilitate loan repayment to a great extent, the above loopholes need closing up.

5.3.3 Collateral security and loan repayment

The significant positive relationship between collateral security and loan repayment implies that the more stringent the collateral requirements in place, the more positive effects it has on loan repayment. Most importantly though is the need to harness the collateral requirements to boost clients willingness to pay.

5.4 Recommendations

The following recommendations have been made basing on the findings and conclusions drawn from the study:

5.4.1 Interest rate and loan repayment

There is a high need for PML management to realign their interest rates to meet the market standards but more so the need to sensitize and make their clients appreciate the rates charged.

5.4.2 Loan period and loan repayment

Loan periods at PML should always be made in respect of customer businesses, cash flows and requests. This will enhance accountability on part of the clients to pay on time.

5.4.3 Collateral security and loan repayment

PML management needs to liquidate securities of defaulters more so those whose loans have been written off. This will reduce on the attitude that collateral security were only for pressure purposes. It will also send a signal to other clients to keep accountable.

5.4.4 Researchers contribution

The researcher concluded that PML ought invest heavily in sensitizing its customers about the loan terms right from loan application; through appraisal to loan disbursement. Loan conditions should be portrayed on PML website, banking halls and must be explained to borrowers in the languages they understand. Customer involvement must be upheld to enhance accountability.

In addition, loan terms should neither be exploitative to the clients nor repressive to the lender hence a 'win-win' situation must be upheld. Therefore, there should be a conducive environment that allows borrowers to negotiate for feasible loan terms with lenders depending on the cash flows, business cycle, loan purpose among others. Imposing loan terms on the borrowers ought be avoided to enhance accountability.

5.5 Limitations of the study

Inability to read and write by most respondents which required the researcher to use research assistants to administer the questionnaires.

Inadequate cooperation from some of the respondents who thought the researcher was on a fault finding mission. The researcher had to mitigate this through continuous explanations regarding the purpose of the study.

Failure by some respondents to give responses to certain questionnaire items. This was mitigated by conducting in-depth interviews on the sample chosen to corroborate questionnaire findings.

5.6 Areas for further research

The study analyzed the effect of loan terms to loan repayment in Mbarara district. It studied the contribution of interest rate, loan period and collateral security on loan repayment. However, the following are areas require further research:

The contribution of social factors on loan performance

Relationship between portfolio monitoring and loan repayment

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LIST OF TABLES

Table 1: ***Determining Sample Size from a Given Population***

N	*S*	*N*	*S*	*N*	*S*	*N*	*S*	*N*	*S*	*N*	*S*
10	10	220	140	1200	291	85	70	440	205	4000	351
15	14	230	144	1300	297	90	73	460	210	4500	354
20	19	240	148	1400	302	95	76	480	214	5000	357
25	24	250	152	1500	306	100	80	500	217	6000	361
30	28	260	155	1600	310	110	86	550	226	7000	364
35	32	270	159	1700	313	120	92	600	234	8000	367
40	36	280	162	1800	317	130	97	650	242	9000	368
45	40	290	165	1900	320	140	103	700	248	10000	370
50	44	300	169	2000	322	150	108	750	254	15000	375
55	48	320	175	2200	327	160	113	800	260	20000	377
60	52	340	181	2400	331	170	118	850	265	30000	379
65	56	360	186	2600	335	180	123	900	269	40000	380
70	59	380	191	2800	338	190	127	950	274	50000	381
75	63	400	196	3000	341	200	132	1000	278	75000	382
80	66	420	201	3500	346	210	136	1100	285	1000000	384

Source: Morgan and Krejcie (1970) Note.—*N is population size while S is sample size*

APPENDIX 1: QUESTIONNAIRE FOR CLIENTS

Dear respondent,

I am pursuing a Masters Degree I Management Studies (Financial Management Option) at UMI. This study aims at establishing the contribution of loan terms to loan repayment in Uganda's Microfinance institutions taking a case study of Pride Microfinance and is a partial fulfillment for the award of this degree. I kindly request you to spare some time to answer the questions in this questionnaire. The information you provide will be treated with strict confidentiality and will only be used for academic purposes.

I sincerely appreciate your time and contribution.

Yours faithfully,

……………………………………………

KYORIBONA MARK

PARTICIPANT, UMI

QUESTIONNAIRE FOR CLIENTS

SECTION A:

Background Information of Respondent (Tick where appropriate)

1. What is your gender?

   (1) Male ☐ (2) Female ☐

2. Age:

   a) Less than 25years ☐ b) 26-35years ☐ c) 36-45years ☐

   d) 46-55years ☐ e) 56years and above ☐

3. Marital status

   a) Single ☐ b) Married ☐

   b) Divorced/Separated ☐ d) Widowed ☐

4. What is your current level of education?

   (1) Primary ☐ (2) Secondary ☐ (3) Diploma ☐

   (4) Certificate ☐ (5) Bachelors ☐

5. How many times have you had a loan from Pride Microfinance?

   (1) Once ☐ (2) Between Two Five Times☐ (3) More than five times☐

6. What type of loan were you given

   a) Business loan ☐ b) Personal development ☐

   c) School fees ☐ d) others, specify……………………………………………

7. My major income source is:-

   a) Wholesale/Retail ☐ c) Rentals ☐

   b) Farming ☐ d) Transport ☐

   c) Salary ☐

8. Purpose of the Loan accessed

a) Add stock in my business ☐ c) Purchase plot or land ☐

b) Construction ☐ d) Pay fees ☐ e)Start Business ☐

SECTION B

Please tick in the appropriate box along the question to indicate your level of agreement or disagreement with the statement. Please choose one most appropriate response to each of the statement using the following scale.

1 = strongly disagree, 2 = Disagree, 3 = Not sure, 4= Agree and 5 = strongly agree

Interest rate

Statement	SD	A	NS	D	SD
15. I know the interest charged by Pride Microfinance					
16. I can calculate interest charged by Pride Microfinance					
17. I understand why Pride Microfinance charges interest					
18. The interest rate charged by Pride Microfinance is appropriate					
19. I prefer paying interest with principal					
20. If interest rate is low, one can pay on time					
21. I know the interest rate charged by other Microfinance Institutions					
22. I prefer paying at a flat interest rate than reducing balance					
23. Interest charged by Pride Microfinance is appropriate					
24. High interest rate increases default					
25. Other Microfinance institutions charge lower interest rates than Pride Microfinance					
26. High interest leads to collapse of businesses					
27. Interest at Pride Microfinance reduced my willingness to pay					
28. Officers at Pride explain the interest rate to clients					

Loan collateral

Statement	SD	A	NS	D	SD
9. Collateral pledged is mine					
10. One can default if he/she has not pledged security					
11. Clients usually sell off securities before loan is paid off					
12. Most clients pledge staged securities					
13. I pay on time to save my security					
14. Officers at Pride explain collateral requirements to clients before loan is issued					
15. High collateral requirements at Pride Microfinance reduced my willingness to pay					
16. Pride staff sell off securities when clients default					

Loan Repayment

Statement	SD	A	NS	D	SD
17. I pay principal and interest in arrears					
18. I find it difficult to pay on time					
19. I inform PML when I fail to pay on time					
20. I asked for loan rescheduling					
21. Late payments at pride are penalized					
22. I defaulted because I had pledged my assets as security					
23. I failed to pay both principal and interest					
24. Pride sold off my security to pay the loan					
25. I failed to pay because interest was high					
26. I have willingness to pay but I can't raise the money					
27. I failed to pay because I was given a short repayment period					
28. I failed to pay because my business cant repay a loan on monthly basis					
29. Loan terms at Pride reduced my willingness to pay					
30. Without loan agreements, customers would still pay					

Statement	SD	A	NS	D	SD
31. I delay payments because Pride also delayed processing my loan					
32. I default because my officer harassed me					

Loan period

	SD	A	NS	D	SD
11. The procedure for determining loan repayment period at Pride Microfinance is appropriate					
12. I am satisfied with the loan periods at PML					
13. PML offers loan grace periods					
14. I would recommend grace periods for clients at PML					
15. I was involved in determining loan repayment period for my loan					
16. Loan periods at PML are determined by purpose of the loan					
17. I was given a copy of the loan repayment schedule					
18. I understood the repayment schedule					
19. I attribute default at PML to loan periods that are not sensitive of customer needs					
20. I delay paying because PML delayed disbursing my loan					

Thank you

APPENDIX 2: QUESTIONNAIRE FOR STAFF

SECTION A: To PML staff

Background Information of Respondent (Tick where appropriate)

Tick in the appropriate box using the following scale

5- Strongly agree 4- Agree

3- Not sure 2- Disagree 1- Strongly disagree

Interest rate

	SD	A	NS	D	SD
1. I understand the interest rate charged at PML					
2. The interest rate paid at PML is reasonable					
3. I clearly explain to clients the interest rate charged by PML					
4. Interest charged by PML is perceived high by clients					
5. The method used in calculating interest at PML is appropriate					
6. PML clients are not complaining about interest rate					
7. Many clients at PML have defaulted because of high interest rate					
8. Interest charged by PML is negotiable					
9. Clients would not default if interest was negotiable					
10. Many borrowers at PML prefer flat interest rate to reducing balance					

Loan period

	SD	A	NS	D	SD
1) The procedure for determining loan repayment period is appropriate					
2) Clients are satisfied with the loan periods at PML					
3) PML offers loan grace periods					
4) I would recommend grace periods for clients at PML					
5) Clients are involved in determining loan repayment periods					
6) Loan periods at PML are determined by purpose of the loan					
7) Clients at PML are given a copy of loan repayment schedules					
8) Clients follow the repayment schedules					
9) Default at PML is attributed to loan periods that are not sensitive of customer needs					
10) Clients default because PML delayed disbursing their loan					

Loan collateral

	SD	A	NS	D	SD
12. I clearly understand PML's collateral requirements					
13. Clients are satisfied with PML's collateral requirements					
14. Clients are discouraged by the lengthy collateral documents					
15. To PML, collateral is more important that capacity to pay					
16. Loan amounts at PML are determined by collateral pledged					
17. Good payers graduate to bigger loans without adding collateral					
18. Many clients refuse to pay because they have pledged collateral					

	SD	A	NS	D	SD
19. In my opinion default at PML is attributed to rigid collateral requirements.					
20. Clients collateral are sold off by PML upon default					
21. Most clients pledge staged collateral					
22. Many defaulters usually sell off securities before loan is paid off					

Loan Repayment

	SD	A	NS	D	SD
14. Default rate at PML is increasing					
15. Loan loss provisioning is on the increase at PML					
16. Bad loans written off at PML are followed up and recovered					
17. PML rewards staff based on quality of portfolio					
18. Defaulters at pride are penalized					
19. It is always difficult to recover from clients above 180days					
20. I am motivated to recover from defaulting clients					
21. PML pays an incentive on amounts recovered from written off loans					
22. Staff with the best PAR at end of months are rewarded					
23. I fully understand loan loss provisioning policy at PML					
24. Loans officers are relieved of stress when a loan is written					
25. Clients whose loans were written off still possess collateral pledged					
26. Clients default because they perceive that PML can’t do anything					

Thank you

Appendix iii: Interview Guide

1. Do you think PML has good loan terms? If not what is lacking

    a) …………………………………………………………………………………

    b) …………………………………………………………………………………

    c) …………………………………………………………………………………

2. A part from the contract signing, are there other ways in which customers are involved in the setting of loan terms? If yes mention them.

    a) ……………………………………………………………………………………

    b) ……………………………………………………………………………………

    c) ……………………………………………………………………………………

    d) ……………………………………………………………………………………

3. What challenges are faced by PML in enforcing loan terms?

    a) …………………………………………………………………………………

    b) …………………………………………………………………………………

    c) …………………………………………………………………………………

4. What do you think are the causes of bad loan repayments?

    a) …………………………………………………………………………………

    b) …………………………………………………………………………………

    c) …………………………………………………………………………………

5. What do you think PML should do to improve loan repayments?

    a) …………………………………………………………………………………

    b) …………………………………………………………………………………

    c) …………………………………………………………………………………

Appendix iv: Documentary review checlist

a) Review management reports for the period 2008 to 2011

b) Review publications related to loan terms and loan repyment

c) Review related journals

d) Relevant dissertations

e) Review regulatory guidelines and laws

Thank you for your co-operation.