EFFECTS OF CREDIT MANAGEMENT POLICIES ON PORTIFOLIO MANAGEGEMENT BY MICROFINANCE INSTITUTIONS;

A CASE STUDY OF UGAFODE LTD

BY

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DECLARATION

I, Kamwehanga Denis, do hereby declare that this dissertation is my own original work and has not been produced by any previous researcher for any award and no any person is allowed to produce it without permission.

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Date…………………………..

APPROVAL

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DEDICATION

This book is dedicated to the family of Kijongoma Yowasi.

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I acknowledge the efforts of my Supervisors Mr. Mugabe and Mrs. Lubale in guiding me through this work.

I also extend my thanks to my family members for their support in making this work a success.

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ABSTRACT

The study investigated credit policies and portfolio management by microfinance institutions, taking UGAFODE as the case study. The objective of the study was to examine the effectiveness of lending policies on portfolio management and the effectiveness of loan recovery policies on portfolio management. The study took a case study research design where both qualitative and quantitative methods of data collection and analysis were used. Data was collected using questionnaire and interview guide. Both descriptive and inferential statistical techniques of analyses were used. The study revealed that there are good lending policies used by MFIs. But even when it is so, portfolio growth has remained low. This is because some MFI officials do not adhere to the policies put in place by board members and top management. As a result even those who would not qualify for the loans, either their businesses are not clear or their past payment records are not verified, end up getting loans and eventually fail to pay back. The findings further revealed that MFIs have good loan recovery policies, but loan recovery rate has remained low. The problem of poor loan recovery is created by the fact that some clients who borrow get favors from loan officers even when they do not meet the loan requirement. This makes them even to think that they will still get favors and their loans will be written off. This makes loan recovery a major problem.

The study concluded that much as there are good lending and loan recovery policies put in place by MFIs in management of portfolio growth, the study concluded that loan portfolio has remained at risk because not all clients that borrow are capable of paying back. The study recommends that strict rules and regulations be intensified to make the staff compliant with lending and loan recovery policies. This will improve on the portfolio growth of the MFIs.

CHAPTER ONE

Introduction

Credit management policies are taken to be critical for the growth of financial institutions world over and Uganda in particular. This is because good credit policies mean portfolio growth and reduction of lending and loan recovery risks. This study was an investigation of credit management policies on portfolio management by microfinance institutions. Credit policies in form of lending and loan recovery policies were taken as independent variables and portfolio management was taken as dependent variable. This chapter presents the back ground of the study, statement of the problem, purpose of the study, objectives of the study, and research questions, hypotheses, scope of the study, justification and limitations of the study.

Background to the study

Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services. More broadly, it is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers (Legerwood and Victoria, 2006).

Microfinance institutions (MFIs evolved as intervention to provide small loans to access financial services that they were not provided through the formal financial sector. They became prominent following the success registered by Grameen Bank in Asia (Gohary 1996).This

became very prominent and in particular it came up with the group lending methodology a common feature in microfinance institutions.

The history of microfinancing can be traced back as long to the middle of the 1800s when the theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as a way getting the people out of poverty. But it was at the end of World War II with the Marshall plan the concept had a big impact (Yunus, 2008).

The today use of the expression microfinancing has it roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Mohammad Yunus, where starting and shaping the modern industry of micro financing. At that time a new wave of microfinance initiatives introduced many new innovations into the sector. Many pioneering enterprises began experimenting with loaning to the underserved people. The main reason why microfinance is dated to the 1970s is that the programs could show that people can be relied on to repay their loans and that it´s possible to provide financial services to poor people through market based enterprises without subsidy. Shore bank was the first microfinance and community development bank founded 1974 in Chicago.

Today the World Bank estimates that more than 16 million people are served by some 7000 microfinance institutions all over the world. In a gathering at a Microcredit Summit in Washington DC the goal was reaching 100 million of the world´s poorest people by credits from the world leaders and major financial institutions.

The year 2005 was proclaimed as the International year of Microcredit by The Economic and Social Council of the United Nations in a call for the financial and building sector to "fuel" the strong entrepreneurial spirit of the poor people around the world.

Microfinance institutions have a long history in offering of micro credit services in Uganda. Uganda micro credit involves the loan money provided top entrepreneurs as a means of helping the active poor to build strong enterprises improve their income and quality of life to eradicate poverty (Kawanguzi 2002). The other objectives of microfinance institutions include mobilization of savings, insurance training, offer of transfer services and financial security.

In Uganda, Microfinance providers first existed in an informal way as self-help projects and by 1950s micro credit were embraced by cooperative societies (Ktantazi and Nasasira 2001) Today, Uganda has the most vibrant microfinance institutions that include Opportrunity Uganda formerly Faulu micro finance, Uganda finance Trust Ltd, FINCA Uganda, UGAFODE Microfinance Ltd, Pride Microfinance Ltd and many others serving over 2 million people. These micro finance Institutions are in different categories commonly known as Tiers where by from Tier 1- 3 they are directly supervised by Bank of Uganda and Tier 4 Where Ugafode Ltd is ranked. (Micro finance Banker 2007). Tier 4 is not directly supervised by Bank of Uganda.

To ensure maximum recovery of loans, micro finance institutions establishes credit policies to regulate the management of credit funds and ensure maximum recovery, failure to recover the loans threatens the institutions 's survival as the working capital is depleted amidst failure to meet other obligations such paying staff salaries and customer's savings (Namala 2001). This explains why microfinance institutions have extensive and detailed   credit management policies, in order to ensure that only creditworthy customers access their loans, together with different

options of credit recovery procedures. The credit policies in Ugafode include lending, loan recovery and for dual control.

Lending as credit policy deals the processes involved from identification of clients until the loan is paid and dual control looks at different levels of analysis and approval of loans to maximize risks. All these are focused on ensuring quality portfolio and growth.

Despite the existence of credit management policies in micro finance institutions, most of them still experience poor performance with high default rates at the peak a case that had seen a big number of them run bankrupt and close down or were forced to close down by the government due to poor performance to save customers from losing their savings (Ssewandagi, 20007). Examples of these include Front Pages and COWE – UGANDA LTD Sendage argues that most of the financial institutions had one thing in common, that is, high default rates characterized by weak credit policies, poor administration of the existing loan policies, and complete disregard of existing policies in some instances. This puts into question the effect of credit management policies in portfolio management that looks finally on growth and quality portfolio.

UUGAFODE Micro finance Limited was established with major objectives of providing financial services to the economically active Ugandans in Rural Peri-Urban and Urban areas, who could not access working capital finance from formal financial institutions due to lack of collateral. It should be re affirmed that thus objective still remains at the foundation of UGAFODE .Ltd. It is growing and and preparing into a formal financial institution in the next few years. UGAFODE does not only provide micro loan services to the poor but has diversified its operations into the commercial sector.

UGAFODE microfinance Ltd credit policies are focused on reducing credit risks. Credit management is a process It begins with identification of the markets to which the financial institutions desires to lend and proceeds through a series of stages ,disbursement, portfolio management and loan repayment . The credit policy provides the framework for the entire credit management process and sets objective standards and parameters that guide UGAFODE Ltd officers in the granting of loans and management of the loan portfolio. This policy is set to establish a frame work within which the credit risk arising from lending, timing, community outreach, training and dual control will be originated and managed in order to minimize the risk of financial loss.

It should be noted that through the credit policies of Lending and loan recovery, the risk could be minimized. This can only be so if these policies are well designed and implemented. For this case policies in Ugafode Microfinance Ltd do exist but there are seemingly visible indicators the performance is not to the expectation of the Organization and the industry standard. This can be measured in terms of portfolio at risk and portfolio size. Thus the researcher is to undertake this study to establish the facts on ground i.e. when this issue at hand is not well studied; Ugafode Microfinance Ltd is at risk of loosing business and or face closure.

1.2 Statement of the problem.

Credit management policies are established by management to guide the institution in the offer of credit and it ensures that all accounts receivables are recovered. In addition, credit management policies are expected to support compliance so that the loaned funds are recovered in a timely and prudent manner. The policies are crucial in portfolio management and due to that institutions have put a lot of efforts in the design and implementation of effective credit policies

of lending and loan recovery with the intention of reducing portfolio at risk while maximizing and sustaining clean portfolio growth.

Despite of the above, UGAFODE has continuously registered a short fall in loan recovery where the actual recovery rate has continued to be low than the targeted rate yet the institution seem to be putting more emphasis on lending and loan recovery policies that should be efficient in selecting clients who are capable of paying back as well as those whose repayment records are verified and conformed that they are capable of paying back. The institution also seems to be employing knowledgeable and skilled staff in loan management who seems to be complying with the institution policies of lending and loan recovery yet the portfolio growth has remained at risk. Therefore the extent to which credit management policies are impacting on portfolio management is unknown.

1.3 Purpose of the study.

The purpose of the study was to establish the effect of credit management policies on portfolio management in Ugafode Microfinance Ltd.

1.4 Objectives of the study

i. To find out the effectiveness of lending policies on portfolio management.

ii. To assess the effectiveness of loan recovery policies on portfolio management.

1.5 Research questions

i. How effective are the lending policies on portfolio management?

ii. How effective are loan recovery policies on portfolio management?

1.6 Hypothesis of the study

Credit policies have a positive effect on portfolio management and can enable an organization to grow.

1.7 Scope of the study

1.7.1 Geographical scope.

The scope was conducted in UGAFODE Ltd with its headquarters on Nkrumah road, Plot 11/13 Kampala city. The case study branches were in western Uganda. UGAFODE ltd is a microfinance institution offering services such as receiving clients' deposits and offering loans to clients.

1.7.2 Content scope

The study considered lending policies, loan recovery policies, portfolio at risk and portfolio at growth as the only study variables.

1.7.3 Time scope

The study utilized data for 3 years from 2008 to 2010. This period was chosen because it when credit policies in relation to portfolio management were intensified by the micro finance institutions.

1.8 Conceptual framework

Portfolio management of microfinance institutions is considered to be a functional outcome of credit policies in form of lending policies and loan recovery policies. These factors can cause both positive and negative environments for port folio at growth and portfolio at a risk. If the credit management policies

are well formulated and effectively implemented, loan recovery rate is likely to be high but if poor credit policies are formulated and implemented, portfolio at risk is likely to be high.

Independent Variables   **Dependent Variables**

Credit Policies		Portfolio Management
• Lending	→	• Portfolio at risk
• Loan recovery		• Portfolio growth
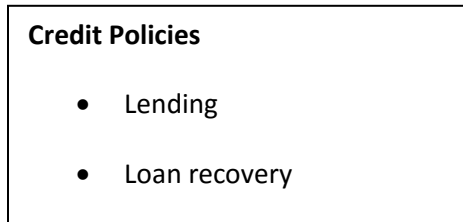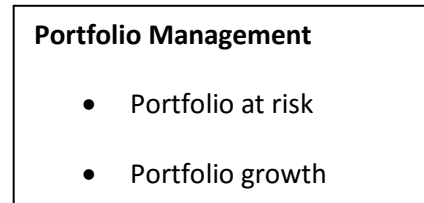
Source: Jeniffer Iserm & David Porteous 2008 modified by the researcher.

Figure: Conceptual frame work of effects of credit policies on portfolio management

1.9 Justification of the study.

Ugafode has a policy on lending methodology and loan recovery and dual control. Credit policies that are well designed and implemented have a success in micro finance institutions. Ugafode over time designs and implements credit policies but there is a variation I.e a deviation from the set standard by industry and the institution.

There has been traces and evidences noticed with some microfinance closing down and others remaining static while others stagnating. Its amidst this background that the researcher is interested in finding out the effects of credit management policies in portfolio management.

In other words, the study is to establish why despite the existence of credit policies the portfolio performance is not satisfactory. If not properly understood, sustainability and or profitability may be a dream.

1.10 Significance

1. The study will help the researcher to acquire some skills and experience of conducting research. It is expected that such skills ill enable the researcher to accomplish some tasks in future office operations and in the pursuit of further studies.

2. The study findings will also help to spell out the strengths and weaknesses in credit management and loan recovery efforts in microfinance institutions

3. The study will help MFIs to streamline policies right from policy formulation to policy implementation.

4. The government and its relevant bodies and parastatals will access the information that will help in policy formulation.

5. The findings will help to add on the body of existing literature. It is also hoped that such findings will help to provide reference to future students and researchers.

1.11 Definition of key terms

Loan recovery-This will refer to the institutions ability to get back the principle and interest from the borrowers.

Portfolio-This refers to loaned out money.

Clean portfolio – Loaned out money that is being paid back in acceptable amounts.

Portfolio at risk- Loaned out money that is likely to be lost.

Credit policies – These are guide lines on which the institution bases to give loans and have them back.

UGAFODE – This will always refer to Ugafode Ltd the microfinance

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviewed information presented by different scholars about credit policies and portfolio management. The chapter is arranged into three parts: credit policies in MFIs, portfolio management and actual literature review based on the objectives of the study. The rationale of the study was to establish the relationship between credit management policies and portfolio management by UGAFODE Microfinance limited. The study utilized various sources of literature that were seen to be relevant to the study variables. The actual literature review is organized according to the stated study objectives.

2.1 Credit policies in Microfinance institutions

Credit policies and Procedures in MFIs are catered for by the Internal Memoranda which provide a framework for the entire management process and sets objective standards and parameters that guide the bank officers in the granting of loans and the management of the loan portfolio. The policy is set to establish a framework within which the credit risk arising from lending will be originated and managed in order to minimize the risk of financial loss (Internal Memorandum 2006).

The policies within UGAFODE involve interaction with customer; visits to premises of customers by officers credit supervisors; credit analysis and appraisal of the customer on character, capacity, collateral, capital and condition (a write up document and executive summary are prepared for presentation to the committee); recommendation by branch loans

committee to the head office; monitoring and recovery of the loan by credit officers. In case of complete failure to recover the loans, the branch management refers the cases to the legal department, which in turn forwards them to the auctioneers for forceful recovery (Internal Memorandum 2006)

2.2 Loan Portfolio Management

Effective management of the loan portfolio and the credit function is fundamental to a bank's safety and soundness. Loan portfolio management (LPM) is the process by which risks that are inherent in the credit process are managed and controlled. Because review of the LPM process is so important, it is a primary supervisory activity. Assessing LPM involves evaluating the steps bank management takes to identify and control risk throughout the credit process. The assessment focuses on what management does to identify issues before they become problems (Milton 2000).

The lifeblood of each lending institution is its loan portfolio and the success of the institution depends on how well that portfolio is managed. Therefore any study of a credit institutions loan portfolio must be base on the financial characteristics of the clients and on the financial sector, economic and competitive conditions and commonly used lending practices within the territory served by the institution, (Madura et al 1992).

Effective loan portfolio management begins with oversight of the risk in individual loans. Prudent risk selection is vital to maintaining favorable loan quality. Therefore, the historical emphasis on controlling the quality of individual loan approvals and managing the performance of loans continues to be essential. But better technology and information systems have opened the door to better management methods. A portfolio manager can now obtain early indications of increasing risk by taking a more comprehensive view of the loan portfolio (Koch 2000).

2.3 Lending policies and portfolio management

Pandey (2003) found out that, lending considers credit standards, which are the criteria that a firm follows in selecting customers for purpose of credit extension. He observed that it is a fundamental credit policy variable that requires intensive analysis, proper weighing and establishing the average collection period and the default rate. Credit standards stipulate the minimum financial strength an applicant must demonstrate in order to be granted credit (Campsey and Bringharm1985). Setting credit standards implicitly requires a measurement of credit quality, which can be defined in customer default.

Effective loan portfolio management begins with oversight of the risk in individual loans. Prudent risk selection is vital to maintaining favorable loan quality. Therefore, the historical emphasis on controlling the quality of individual loan approvals and managing the performance of loans continues to be essential. But better technology and information systems have opened the door to better management methods. A portfolio manager can now obtain early indications of increasing risk by taking a more comprehensive view of the loan portfolio (Koch 2000).

According to Ahimbisibwe (1996) in commercial lending system, incentive and sanction mechanisms are the main instruments for grinding client behavior and have proved more effective than even conditions and rules. Positive financial incentives for borrowers such as interest discounts for timely and full payment have proved in gearing position loan recovery. On the other hand freezing loans or consistently barring defaulters from future loans have also proved to be effective sanctions in long term lending relations as micro-borrowers meet their obligations in order to gain from future business relations.

Credit management policies that favor a system of staff incentives are particularly important. The personal portfolio quality of each loan officer should be used as the basis for performance tied remuneration. Quoting some experiences from Asia, Ahimbisibwe argued that in all cases where such position incentives were used, they have been a success. Careful borrower selection, through monitoring and effective recovery programs was observed (Ahimbisibwe 1996).

According to Mutesasira etal 1997, loan loss risks should always be minimized right from the loan screening process by ensuring that only customers that meet prescribed credit standards are allowed to access the facility. Whenever there is possible evidence that the potential client will be unable to make profitable investments with their loans and repay, they should not be allowed to access credit.

According Hulme (2000), in agreement with Ledgerwood (2002) , the use of group guarantees collateral such as household assets, character based lending and enforcement of collection through legal action have proved to be very effective in loan recovery. The two scholars assert that often, clients pay loans if they feel that they will be embarrassed in front of their family, peers and neighbors. Some microfinance institutions have sued or in rare cases even jailed client for none repayment and managed to recover the loan. Sometimes, simply because of the risk o legal repercussion has been enough to encourage repayments. The choice for micro-entrepreneur was limited because there were few and small micro finance institutions. For these reasons the micro entrepreneurs had incentives to comply with credit commitment because he did not want to lose access to credit from a microfinance institution. Today the market is saturated and highly competitive. This means institutions must think twice lest they get out of business.

Lending policies refer to the established procedures used to collect accounts receivables and they include; Letters, telephone calls, company representative's visits to customers and legal action. (Dickerson et; Van Horne and wachowicz, 1995; Kakuru 2002, Pandey 2003). By this, these scholars are referring to the collection approaches employed to clients who have failed honor their obligations as per their repayment schedules. An effective collection policy ensures prompt payment while a weak collection policy delays payments and in most cases it has been blamed for delinquency in micro finance institution (Hulme, 2008). However it should be noted that the established collection policies do not necessarily ensure prompt payment. This is because situations vary; this research will establish the relevant approach and how effective it is.

Ghatak (2000) brings out the fact that the collection policy is that ensures prompt payment and regular collections the rationale being that not all clients meet their obligations as they mature, with slow payments and none repayment costs rise. Consequently emphasizing collection from slow payers and reducing bad debt losses regularly in collections keeps debtors alert and they tend to meet their obligations promptly and in full.

Hulme(2000) asserts that microfinance institutions use different procedures to ensure that collection of funds lent out is effected, they may issue warning letters, they may visit the clients to pressurize them to pay attach the collateral seize savings, pressurize guarantors or sue the clients. Generally there are different options that help to ensure collection of receivable. But among these, the researcher will establish the most effective methods.

(Wamasembe, 2002). Observed that loan recovery is crucial to the survival and performance of microfinance institutions. To protect the capital of the institution and savings of its clients to earn profit and pay salaries and dividends to investors' microfinance institutions must ensure recovery

of loans. Therefore loan recovery is a survival issue (wamasembe, 2002; Ledgerwood, 2002,). However some clients pay in time. Others are habitually slow payers while others are defaulters. Efficient and effective policies help to recover from them. The failure to recover loans will result into delinquent loans and arrear. In this case, delinquent loans are the loans that have been written off by microfinance institutions, while arrears are the late loans, and they can increase in microfinance institutions for several reasons (Norell2000).

Norell (2000) concurs with Saurina (1998). That the behavior of microfinance institutions is fundamental in explaining its delinquency level. For instance the institution that have_ a very aggressive loan policy are expected to have higher levels of loans in arrears. In this sense, credit growth, type of business and incentives to adopt higher risk policies is the most analyzed group of variables. One of the most important factors in the determination of delinquency rate of financial institutions is the credit expansion speed because important increases of loan growth rates could happen along with reductions in the level of requirements asked to applicants. Also (Clair 1992) and, Solitlla Vilhriala (1994) found some evidence that past loan growth contributes in explaining current delinquency. One possible cause of delinquency is the incentive managers have to take higher risk loan portfolio policies. Entities facing higher solvency Problems could begin a kind of "forward escape" seeking expansion in more profitable segments but facing higher risk scenarios (Saurina 1998).However, aggressive credit policies can help institutions to grow qualitatively. This study establishes aspects to close this gap.

Adverse selection also affects those institutions seeking to increase quickly their share in credit market, since if one entity tries to grab the clients of the other institution the latter would likely release its worst clients.. If this expansion is made in a new area or segment, adverse selection

problems could multiply since the first clients to arrive to the entity would be the worst ones. (Sltilla and Vilihriara, 1994). Credit management policies are major tool microfinance institutions use to screen their clients for purposes of loan extension, to ensure security of loans, to ensure that the loans are collected in specified periods and low buyers are forced to pay (Hulme,2000).

Credit terms are the stipulations under which a firm grants credit to customers (Kakuru 2000). Credit terms specify the length of time over which credit is extended to customers and discount if any (Pande, 2000 Foulks 2006). According to legerwood (2002), the loan term is one of the most important variables in microfinance. It refers to the period of the time during which the entire loan must be repaid. The loan term affects the repayment schedule, the revenue to the microfinance institution, the financing cot of the client and ultimate sustainability of the of the use of the loan. The closer the Organization matches loan terms to its clients needs, the easier it is for clients to the loan and the more likely that the payments will be made in full.

(Hulme 2000) observed that the length of the credit terms is often determined by the industry customs, which tend to vary with the industry. To him, microfinance prefer short term periods because customers default too frequently and bad debt losses can be checked before it is too late to take corrective action and the debt collection costs can be kept minimal or reduced. Thus repayment schedules such as weekly, bi-weekly or monthly are preferred. Micro-borrowers must also agree to the lenders interest rate terms (Craig,2000). Microfinance Institutions are known for their higher interest rates. They charge relatively higher interest rates than banks that ranges from 24%-48% pa for the most of lenders. To Ledger wood (2002) some micro finance

institutions charge their interest rates upfront paid at the beginning of the loan period) while others collect interest periodically and the principle at the end of the loan period.

Ledgerwood (2002) observed that clients must be able to meet the different forms of collateral whether compulsory savings, personal guarantees, house hold or business assets. To ledgerwood, collateral security serves both as a credit term because it must be met before advancing the loan and credit standards because it helps to determine the potential clients' credit worthiness.

Microfinance institutions also use credit terms to determine the class of people it should serve. For example, microfinance institutions use credit terms to ensure that the poorest of the poor do not get access to credit (Ledger wood 2002).

This means, credit terms have a significant effect on portfolio management either on portfolio size, Quality or otherwise. The researcher in this case will be interested in establishing exactly what impact and how?. Then analysis to bridge the unknown gap will be made.

Norell (2000) concurs with Steans (1991) that loan recovery is affected right from the time the client submits the application form. If the loan size is too large for the cash needs of the business extra funds my go to personal use. When the loan needs to be repaid, the client can't pay back without capitalizing the business. In other words the client has to use the equity of the business to pay back the loan, a position that they are always reluctant to take. To Norell 2000, and Steans,1991, this issue raises two major factors, that is ; loan assessment process and size of the loan granted. Consequently, the portfolio quality and size are affected.

With compulsory savings microfinance institutions require clients to hold balance (stated as percentage of the loan) in saving or (or as contribution to group funds) for first or subsequent

loans (Steans 1991,Hulme 2000,Ledger wood 2000, Ledgerwood 2002) compulsory savings differ from Voluntary savings because they are not always available for withdraw. The clients stand to loose them to default or get them on full on payment.

As per assets pledged at less than value of the loan, regardless of the actual market values of the assets owned by the borrower, the art of pledging assets such as furniture and the consequent of realization that they can be lost resulting in inconvenience causes the client to pay the loan (Hulme 2000). With the realization that the poor do not wish to lose their assets and the expectation that on full repayment the institution will all them to access such valuable services again, some microfinance services have allowed to use all collateral is less than the value of the loan granted.

Ghatak (2000) noted that some microfinance institutions have designed short term repayment schedules on weekly and bi-weekly basis, they meet clients on such basis and remind them to pay the loans. The use of group guarantees has worked as a collection tool. The group members meet regularly and remind each other to meet their obligations as agreed.

Ledgerwood (2002) concurred with Hulme that it is important for microfinance institutions to normally seize the assets that have been pledged if a client does not repay the loan. This sends a message to other borrowers that microfinance institutions are very serious about loan repayment and this will deter other clients from defaulting.

In determining credit quality, the form should first establish the character of the potential customer to establish whether the customer will honor the obligation, capacity to pay back which is the gauge from records, business methods and observation of customers' plants and stores. Capital which is the reflection of customer's financial strength and usually determined by

looking at the balance sheet, collateral capacity (security), which are the assets that the customers may offer as security to obtain credit. Conditions generally referring to the general economic trends or special development in certain geographical regions or sections of the economy which may affect customer's ability to meet this obligation (Pandey,2003, Campsey and Brigham 1985 Dickson et al,1995). With such conditions, a certain category of population is reached while denying access to another category.

According to Craig (2001) in agreement with Hulme (2000), microfinance institutions put into consideration the clients' marital status, occupational ability; historical back ground and previous dealings with the customers like bankers, customers, suppliers in order establish character. Any material, inconsistencies with the policies will disqualify the client, while clients that meet policy stipulations, qualify to get the services.

More over the clients targeted by microfinance institutions also have very little capital base and property rights. The burden of capital is therefore compensated with sound collateral alternatives. In some institutions however, capital is mostly emphasized in case of individual loans. (Craig 2001;Hulme 2000). With such minimal requirements a special category of population is served.

The number of branch offices in each entity is used as a proxy indicator of geographical diversification for each institution. In principle, the increase in the number of agencies means access to a variety of markets, which could generate some trouble in monitoring and control diminishing the capacity to evaluate and recover (Murrugaray and Ebentreich, 1999). However, and contrary to what was said before, we must take into consideration the probability that if institutions follow the policy aiming to seek the borrowers in each place, it is possible that the increase in the number of agencies could generate access to segments with better repayment

capabilities, which would increase average quality of loan applicant, which in turn would reduce the expected delinquency rates (Murrugaray and Ebentreich,1999).

According to Kasozi (1998 the knowledge of Micro-entrepreneurs that management is not serious about loan recovery usually starts with small default rates. Overtime, clients copy each and develop a habit of slow or late payments and the default rate shows in delinquency problems. Kasozi further noted that un predictable crises such as illness or death in the family also accounts for difficulties in loan recovery. Kasozi (1998) observed that borrowers are usually called on to provide for the extended family, and are seen as disloyal to them if they refuse. They feel compelled to help, even if the funds are borrowed from microfinance institutions.

A firm that employs very tight credit policies will sell only to financially strong customers. Such policies result in no bad debt loose and less costs of credit management as recovery will be higher (pandey, 2003 Ledgertwood, 2002 Kakuru 2002 ,Van Horne & Wachowicz 1995, Campsey and Brigham 1985). In such circumstances credit policies are loose; the firm gets increased number of customers. The scholars noted that a firm following a lenient credit policy tends to sell credit to customers on very liberal terms and standards. Credits are granted for longer periods, even to those customers whose credit worthiness is not fully known or whose financial position is doubtful, this creates a lot of debts and in most cases results in delinquency problems.

In practice, the poor have few assets and limited property so micro- lenders rely on collateral substitutes such as "social sanctions" denial of future loans to ensure repayments. What is marketable about this is how successful have been at achieving high payment using these collateral substitutes (Amendendariz and Rai, 2002 Rai and Sjostronm, 2002).

According to Rosenberg (2004) the provision of micro-credit with less stringent criteria has seen many people access loan to invest and expand their business. . Despite the fact that micro-credit is easily secured from microfinance institutions without tangible assets that can be seized or sold easily in case of default, the clients' main motivation to repay expectation the microfinance institutions will continue proving them with these valued services in future if they pay promptly today. This motivation has been reinforced by peer pressure, especially in group lending programs. As a result, the microfinance industry has persistently registered high payment rates. However, this also has challenges; in these circumstances any serious outbreaks of delinquency can quickly spinout of control. As clients watch out their peers default, they lose confidence in the institution's ability to serve them in future, and the peer pressure to repay can dissipate (Roseberg, 2004).

The advantage of this method is that the lender transfers his problem to the group because it the groups who have to find out their follow members can and want to pay back. This , besides, the borrower is always tied to the decision of the group and cannot act independently. Furthermore the reputation of the individual member depends on the behavior of the rest of the group. This creates a disincentive for good borrowers to stay with the group and partly explains phenomenon of dropping out.

To Armendariz and Rai (2002) capital does not flow unimpeded to those who can make best use of it. Microfinance institutions need assurance that the loan will be repaid. For that reason they do not lend to those who are too poor to put up collateral. The policy also helps micro institutions to define whether they should serve Urban, Rural or both, trading in business and or others

In UGAFODE Ltd, two types of credit technologies are commonly applied i . e group lending and individual lending. Microfinance competence center manual (2009) Kampala. The most important element in group lending is creation of peer pressure. In individual lending the lender attempts to increased the level of information on the borrower. This can be done by a loan appraisal, consisting of analysis of the borrower's capacity and willingness to pay.

In group lending most micro borrowers are people with zero asset capacity, microfinance institutions innovatively design group guarantee to as a form of collateral. (Hulme2000; Craig 2001: Ledgerwood 2002). Microfinance institutions facilitate groups whose members jointly guarantee each others loans. Guarantees are either explicit with other group members unable to access the loan if all members are not current in their repayment, or actual guarantees with group members liable if the other group members default on their loans. Some microfinance institutions require members to c-contribute a group guarantee fund which is u9sed if one or more borrowers failed to pay. If the microfinance institutions run the fund, it will always deduct up to the extent of defaulted loan that guarantees full payment.

In addition there are other frequently used forms of collateral alternatives in micro-lending as they include:; compulsory savings, and personal guarantee. According to Craig (2000) the above five components (five Cs) of collateral, contribution, character capital and capacity are relevant to all types of micro-lending methodology.

Hulme(200)Argued that the administration and implementation of crdit management policies have a great influence on loan recovery. I f a firm follows tight credit management policies and all the staff adheres to the same the firm will sell to customers with a strong credit worthiness.

The implication is that high repayment will be attained; the bad debts and default rates will be at their minimum.

2.4 Loan recovery policies and portfolio management.

Microfinance institutions also gauge the capacity of customers to pay back by looking at the information provided in the loan application about business incomes and expenditures, information got from friends and business partners, amount and purpose of the of the loan applied for. The microfinance institutions reserve rights to reduce on the amount of loan applied for in order to make manageable or deny the clients' loan altogether in case they are convinced that clients fundamentally lack capacity to pay back (Craig, 2001, Hulme 2000).

To determine the clients' capital, microfinance institutions look at the assets and liabilities of clients as presented in the balance sheet (Craig 2001,Hulme2000). Hulme however observed that in microfinance institutions, measuring and determining the client's capital is very difficult as has serious limitations as clients do not declare most of the assets and most of them do not keep records.

Norell (200) observed that if loans are given out of favoritism, clients may delay payments or default. They often hope that their friends on the microfinance institution staff will encourage the institution to write off the loan rather than take the client to court or seize their property. Adams and Vogel (1996) advanced the incentive arguments to explain low recovery. They articulate that borrowers are more likely to repay when credit and their relation ship with institution is valuable to them. If the loan is perceived as a grant or a political handout or the lender is seen as transitory and unlikely to provide additional services in future then incentive to repay is diminishes and the

results are in most cases defaults and delinquency problems. This research will establish whether this social technology is suiting and or whether it is applied.

According to the GTZ report (1997) microfinance institution with strict loan management policies had reported minimum cases of none recovery and delinquency problems. More over, the deliberate refusal by those institutions to lend to clients with a history on non-repayment further reduced the problem low recovery of loans. The GTZ report (1997) however observed that, careful borrower section is sufficient enough though to remove risks during the loan period. In some microfinance institutions, close loan monitoring and confiscation of collateral have largely helped to reduce such problems. Any weakness in these areas encourage delinquency, delay in repayment, which can easily result in loan loss. Therefore, ongoing up to date monitoring of borrowers and consistent procedures for repossession are necessary.

Overall, the scholars generally concurred that a significant relationship exists between credit management policies and loan recovery. The implementation of weak policies enables weak clients or defaulters to access the loan and this makes recovery very difficult and in most cases resulted in delinquency problems. On the other hand however, strict implementation of strong credit policies enables the microfinance institutions to serve only strong customers and thus recovery high.

According to Hulme (2000) microfinance institutions also focus on clients operating conditions. Most micro-lenders operate in Urban Peri-urburn areas. They prefer such areas because of high population density, easy accessibility, low operational transport costs, low reasonably high opportunities to generate income and most people in such areas are better poor of the poor. Moreover most microfinance institutions do not fund certain businesses such as agriculture

because of its long gestation period. They prefer trading businesses because of short term gestation period and these are mostly in Urban Peri-urban areas.

Craig,(2001) Observed that, microfinance institution take into consideration socio- political and economic conditions as war, ethnic conflicts, political turbulences, inflation drought and many others are likely to hinder clients from repayments.

On issue of collateral security, Craig (2001), Hulme (2000) and Ledgerwood (2002) noted that unlike in the mainstream of commercial banks, although microfinance institutions also value the traditional forms of collateral such as land, buildings, machinery and motor vehicle log books; other forms of collateral such as peer pressure/group, guarantees, house hold and business assets, compulsory savings and personal guarantees are considered.

The other scholars Amendriz Morduch also observed that microfinance institutions generally lend to low income clients who have few assets to, consequently traditional collaterals such as property, land, machinery and other capital assets are often not available. They observed that various innovative means of reducing risk of loss have been developed including collateral substitutes and alternative collateral. One of the most common collateral is peer, either on its own or jointly combined as group guarantees.

Louis and Henry (2003) found out that, there have been persistently high non-performing assets that have pervaded the banking system for a prolonged period of time. This situation was partly a result of poor culture of loan repayment compounded by economic decline suffered in the 1970s and 1980s. The risk aversion tendency is based on the experience of poor loans repayment over many years. This has led to exceptionally high lending rates and interest rate spreads. Since 1994, interest rate spreads have remained between 10-20%, while the lending rates have

fluctuated between 10-25% since 1996. It should be noted that these high rates also constrain private sector demand for credit and those that go ahead to borrow default.

Effective loan recovery policies is related with portfolio growth which in turn leads to financial stability which is mostly about profitability that is expected to have a number of positive effects in terms of performing loans than the non performing loans (Tetime *et al.*, 2002a). The operating policy guidelines should focus on ensuring that MFIs have sustainable growth to guarantee the community access to financial services by the poor, by maintaining a ratio of 20:1 of performing loans to non-performing loans since previous research shows that non-performing loans are part of many financial institutions (Robyn, 2002). This provides tangible means like expanded loans advances and credits, growth in financing sources, import and export benefits and expansion facilities.

According to Craig (2001,) microfinance institutions in most countries have less legal protection due to weak regulations. As such they tend to create strong relationship with the clients and to create a bond. This method works well as most clients fear to disappoint their friends. In case of default, some microfinance institutions call gathering and announce defaulters. The fear for such public embarrassment and the need to preserve personal dignity on the part of clients has worked well for micro-lenders.

Ahimbisibwe (1996) says that micro-credit institutions have suffered from inadequate planning and inefficient operations. These deficiencies have entitled an imbalance between the institution sizeable supply led by loan portfolio and mobi0lization of savings. Subsequently micro financial institutions have become more of disbursement avenues rather than full service of financial

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institutions. With low motivation impetus, they have become victims of inadequate credit evaluation, poor loan management and monitoring and inevitably leading to low recovery rates.

Suruma (1996) states that the problem of moral integrity remains a fundamental problem inside and outside financial institutions. Inside-Frauds and outright thefts are continuous problems, outside non-repayment of loans by diversion of repayment funds to new activities remain an obstacle to loan recovery.

Generally, various factors lead to low recovery rates and the situation is always worse in developing countries and worst with rural communities (Webster 1991).

The prevailing economic environment influences loan repayment. High repayments are visibly seen in countries with higher per capita incomes and low inflationary tendencies and very poor in low per capita centers. To her, it is difficult to recover loans in poorer areas because of less favorable conditions over all. This indicates that all the other economic factors need to be observed in detail of order to evaluate the extent to which each of them influences loan recovery in microfinance institutions.

There is another category of character based loans. According to Hulme (2000) Some microfinance institutions lend to people based on a good reputation in the community. Prior to making a loan, the credit officer visits the establishment of the community and asks about the potential clients' character and behavior. If the client scores over and above the expectation of the credit officer, the loan is advanced to him on the promise that the client protects his name and reputation. Therefore loan repayment is guaranteed because the client will not allow to be humiliated by associating him to defaulters.

However, (Craij, 2001) in his study effective credit and portfolio growth by banks did not find direct correlation between loan recovery policies and portfolio growth. He observed that portfolio growth is influenced by many factors of which are beyond the control of portfolio manager. Therefore study is set to find the extent to which loan recovery policies influences loan portfolio growth.

2.5 Summary of the Literature review

The literature review covers major themes of the study. It is commonly mentioned with all scholars that credit policies are crucial in organizations for risk to be minimized. When the risk is minimal it is translated into reduced portfolio at risk and portfolio growth. The literature further found out that much as the MFIs are serious about their lending policies and loan recovery policies, still they have persistently registered non-performing loans. The literature further indicated that there much as portfolio management policies are always written as memoranda to all staff to adhere to them, they are not always followed and as a result lending no thorough screening is done before loans are disbursed. However, much as many scholars agreed on effective credit policies for efficient portfolio growth, some scholars did not see direct relationship between them. Therefore this is seen as a gap that this study filled with evidence from the field.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter covers the methodology that was be used in the study. It specifically deals with the location of the study, study population, sample size, sample procedures, methods of data collection, analysis and presentation of data.

3.1 Research Design

The study adopted a case study design where both qualitative and quantitative methods of collection and analysis were used. A case study design was used because it enabled a researcher to carry out in-depth investigation for his study. The design adopted both qualitative and quantitative approaches. This is because the data to be collected was both factual and numerical (quantitative) and subjective (opinionated) and text (qualitative). Appropriate methods were adopted to collect data. The research design helped the researcher to obtain representative information about the respondents. This research design was selected because different categories of respondents are to be studied at one point in time (Sarantos, 1988).

3.2 Study population

The study covered Ugafode top management and operational staff that comprised of; managing director, board member, general manager, financial controller, accountants and loan officers. These categories were chosen because they have adequate information relevant to the subject matter under study.

3.3 Sample size and selection

The study sample comprised of two categories of staff namely; the top management which was purposively selected and operational staff where stratified random sampling was used to select the categories of the respondents to participate in the study. A total of 115 was selected from a targeted population of 156.

3.3.1   Sample size

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

Where n = required sample size

N = Population size

e = Estimation error =5% (Ideal).

Category of	Targeted Population	Sample size	Method of
respondents.			selection
Top Management	5	5	Purposive
Operations Staff	151	110	Random
Total	156	115	

3.4 Sampling procedure.

The researcher selects top management purposively. This is because they were specifically targeted for the study. Operational staff was chosen using stratified random sampling since they

were in different categories, then within each category simple random sampling was used to get the required number of respondents to participate in the study.

3.5. Methods of data collection.

3.5.1 Survey

A survey method was used to collect data from the operational staff. This method was used because it enabled the researcher collect data from a wider population cheaply and within short time. The method also helped a researcher collect accurate data since respondents give answers to the asked questions in their own modes.

3.5.2 Interviews.

This was used to collect data from the top executive. Both formal and informal interviews were administered with special reference to objectives of the study. These helped to supplement the data that was collected using other methods with the intention of ensuring validity and reliability of the data collected.

3.5.3 Documentary review.

The researcher referred to documents relevant to the study like credit manuals, portfolio performance reports, human resource manuals and operation manuals. These helped in analysing performance trend for period under study.

3.6 Data collection tools

3.6.1 Questionnaire

This consisted of self- administered questionnaire and it was administered to operational staff. The questions within the questionnaire were closed ended and they were based on the objectives of the study.

3.6.2 Interview guide

This tool was used to collect data from top management. This tool was preferred because it enabled a researcher get first hand information. It also helped a researcher carry out the in depth investigation especially where probe was used.

3.7 Validity and Reliability of Instruments

Content validity index (CVI) method was used to establish the validity of all the designed questionnaires using the following formula;

$$CVI = \underline{n}$$

$$N$$

Where n= number of items rated as relevant

and   N= Total number of items in the questionnaire.

The research instrument was valid because the Content Validity Index was 0.7 which was above 0.5.

Reliability of the questionnaire and interview guide were tested using the Cronbach's coefficient Alpha (α) method of internal consistency given by the following formula;

$$\alpha = \frac{K}{K-1}\left[\frac{1-\sum \delta^2 k}{\delta^2}\right]$$

Where α = Alpha coefficient

δ^2 = Variance of the total test

$\sum \delta^2 k$ = Sum of variances of the k questions in the instrument

K = Number of questions in the in the research instrument

The research instrument was reliable because Cronbach's coefficient Alpha (α) was 0.67 which was a above 0.5

3.8 Procedure of data collection

The researcher obtained an introductory letter from Uganda Management Institute. It was taken to the relevant authorities of UGAFODE to get permission to conduct the study by the researcher. The managing director approached and permission was granted. After granting the permission, the researcher proceeded to make appointments with the selected respondents. Thereafter, the researcher administered questionnaires and the required data was collected. The researcher personally administered questionnaires to the respondents in order to avoid delay, to avoid collecting wrong data, ensure completeness and accuracy and confidentiality of the data collected was strictly adhered to.

3.9 Data analysis

Qualitative and quantitative methods of data analysis were used.

3.9.1   Quantitative analysis

Quantitative analysis was based on factual and numerical field data. The coded data was entered in the computer using a software programme known as (Statistical Package for Social Scientists) SPSS where data was processed into descriptive statistics to ease analysis. SPSS was also used to generate tables, charts and figures to aid in the presentation. The study used correlation techniques (Pearson product-moment correlation and linear regression analysis) to assess the relationship between credit policies and portfolio management.

3.9.2   Qualitative analysis

Qualitatively, thematic analysis was used whereby different themes and sub themes were developed under which the presentation and interpretation were done. Subjective and text analysis were part of qualitative analysis methods. Other qualitative methods included the pilot study, use of relevant quotes from the respondents in addition to secondary data to compare with the primary data.

3.10 Measurement of variables

The variables were measured using a likert scale. A likert scale consists of a number of statements which express either favorable or unfavorable attitudes towards the given opinions to which the respondent is asked to respond. Each response was given a numerical score, indicating its favorableness or unfavourableness and the scores were totaled to measure the respondents' attitudes. The scale of 1-5 was used to help the researcher measure the extent to which research objectives are achieved whereby 5=strongly agree, 4 =Agree, 3 =undecided, 2 =Disagree and 1

=Strongly disagree (Denscombe, 2000). The choice of this measurement was that each point on the scale carries a score and it's the most frequently used summated scale in the study of social attitudes.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter contains presentation and interpretation of the study findings. The chapter contains demographic characteristics of respondents and presentation of findings in line with the study objectives and research hypotheses.

4.1   The response rate

Not all the targeted respondents were able to respondent to the questionnaires. Of the 115 targeted respondents, responses were solicited from 110 respondents implying a response rate of 95.6%, meaning that 4.4% of the targeted respondents did not return the questionnaires. However, the response was representative enough to arrive at reliable and valid conclusions.

Table 4.1: Specific response rates per category

Category of respondents	Targeted sample	Actual response	Percentage response rate
Top management	5	3	60
Operations staff	110	107	97.3
Total	115	110	95.6

Source: Field data

Results in table 4.1 show that top management and operations staff of respondents were involved in the study. However, not all the targeted respondents in the sample gave the data. Out of 115 targeted respondents, only 110 respondents were accessed making a percentage of 95.6% response rates. This was taken to be a good and reasonable response rate for the findings to be reliable.

4.2: Background Characteristics of the respondents.

These included age, sex, level of education, position held and duration of service in the position mentioned. This information was presumed by the study to be important because such aspects can influence the opinion of the respondents on the subject matter under investigation.

4.2.1 The age group of the respondents

The study tried to find out the age distribution of the respondents. This was intended to find out whether the sample was fairly selected in terms of age category. This would in turn help us find out whether the sample is a true representative of the population. The findings were presented in table 4.2

Table 4.2: Age distribution of respondents

Age group (years)	Frequency	Percent
21-30	27	24.5
31-40	50	45.5
41-50	29	26.4
51 and above	4	3.6
Total	**110**	**100.0**

Source: Primary data

Table 4.2 shows that majority of the respondents that participated in the study were in the age bracket of 31-40 years at 45.5%, followed by those in the age bracket of 41-50 years at 26.4%), followed by those aged 21-30 Years at 24.5% and the least were in the age bracket of 51 and

above years at 3.6%. Majority of the respondents were in the age bracket of 31-40 years which is the experienced working class hence they are able to give informed views on the subject matter under investigation. However, looking at the age distribution one can draw the conclusion that the sample was fairly selected to be a representative of the population.

4.2.2: Gender distribution of the respondents

The study tried to find out the gender distribution of the respondents. This was intended to find out whether the sample was fairly selected in terms of gender category. This in turn would help us find out whether the sample should be taken to be a true representative of the population. The elicited response was presented in figure 1.

Gender distribution of respondents

36.4%

63.6%
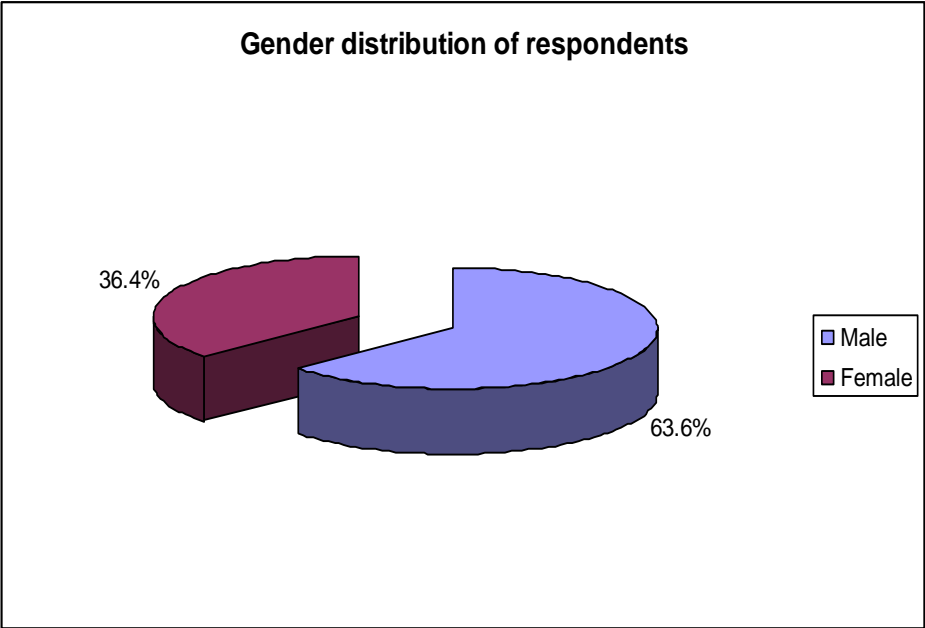
Male
Female

Figure 2:Showing Gender distribution of the respondents

Figure 2 shows that majority of the respondents (63.6%) were males and the least (36.4%) were females. This gender disparity could be explained by the trend in Uganda's formal employment

where more males than females are employed. Although there was gender disparity, the sample was fairly representative enough for the results to be reliable and valid because it was scientifically selected.

4.2.3 The education level of respondents

The Education levels of respondents were another variable considered for this study. This was intended to find out whether the sample was fairly selected in terms of education levels. This in tern would help us find out the degree of understanding of the respondents to be utilized in the sample selected. The elicited response was presented in table 4.3

Table 4.3: Education level of respondents.

Level of education	Frequency	Percent
Diploma	37	33.6
Degree	63	57.3
Post degree	10	9.1
Total	110	100.0

Source: Primary data

Table 4.3 shows that that majority of the respondents (57.3%) were degree holders, followed by those with diplomas at 33.6% and the least (9.1%) were post degree holders. This shows that all the respondents the study utilized were knowledgeable enough to interpret the questions put to them and at the same time to give reliable information.

4.2.4: Positions held by respondents

The study asked the respondents to reveal their positions they were occupying in the organization. This was intended to find out whether the sample was representative enough to

represent the population from where the sample was selected. The elicited responses were presented in table 4.4 below;

Table 4.4: Position held by respondents

Position held	Frequency	Percent
Board member	1	0.9
Managing director	1	0.9
General Manager	1	0.9
Financial controller	1	0.9
Accountant	33	30
Loans officer	73	66.4
Total	110	100.0

Source: Primary data

Table 4.4 shows that majority of the respondents (66.4%) were loans officers, followed by hose who were accountants at 30% and the least were those who were board member, Managing director, General Manager and Financial controller all at 0.9%. Looking at the position held, one can easily conclude that the sample was representative enough for the respondents to give balanced information.

4.2.5: Duration of service in the above Position

The researcher categorized the duration of service in the above positions held by the respondents as those who have served between two to five years, between five to ten years and those with more than ten years. The intention of finding out the duration of service was to get to find out whether the respondents were experienced enough to give accurate and reliable information about credit policies and portfolio management.

The study revealed that majority of the respondents (61.8%) have worked for a period of between 5 to 10 years, 20.6% have worked for more than 10 years and 17.6% have worked for 2-5 years. This analysis shows that majority of the respondents were taken to be knowledgeable and experienced enough about the subject matter which was under investigation.

4.3. Findings based on study objectives

4.3. 1 Lending policies for portfolio management

The respondents were asked to reveal whether lending policies have led to effective portfolio management. Respondents were asked to indicate whether they strongly agree (SA), agree (A), undecided (UD), disagree (D) and strongly disagree (SD) using 5-likert scale. The analysis was done using the mean and standard deviation. A mean above 3 indicates an agreement of respondents; a mean of 3 shows undecided and a mean of below 3 shows disagree by respondents. The standard deviation (SD) of close to 1 shows agreement, while the standard deviation of close to 0 indicates disagreement of the respondents. The analysis further grouped strongly agree and agree to mean agree and strongly disagree and disagree to disagree and percentages were computed which were used for further analysis. The elicited results were shown on table 4.5

Table 4.5: Lending policies for portfolio management (N=107)

Lending policies for portfolio management	Response Category					Mean	S.D
	SA (%)	A (%)	UD (%)	D (%)	SD (%)		
Before a loan is disbursed, it passes through various committees for approval	63 (58.9%)	44 (41.1%)	0 (0%)	0 (0%)	0 (0%)	5.00	1.45
Information got from customers during appraisal is verified before loan approval	75 (70.1%)	32 (29.9%)	0 (0%)	0 (0%)	0 (0%)	5.00	1.45
Interest rate offered on loans is fair to borrowers	34 (31.8%)	52 (48.6%)	1 (0.9%)	12 (11.2%)	8 (7.5%)	4.01	1.13
There is a restriction on the maximum amount given in form of loans	32 (29.9%)	43 (40.2%)	5 (4.7%)	25 (23.4%)	2 (1.9%)	3.5	1.01
All loans given have tangible collateral securities which are always verified to determine their actual value	54 (50.5%)	50 (46.7%)	3 (2.8%)	0 (0%)	0 (0%)	4.86	1.41
Customers who pay back loans in time are given big amount of loans	34 (31.8%)	47 (43.9%)	5 (4.7%)	11 (10.3%)	10 (9.3%)	3.80	1.23
Customers are given training on the utilization of the money before loans are given out	21 (19.6%)	31 (29.0%)	5 (4.7%)	27 (25.2%)	23 (21.5%)	2.43	.23
Customers intending to borrow must have a guarantor who is having an account with the Bank	45 (42.0%)	59 (55.1%)	0 (0%)	3 (2.8%)	0 (%)	4.86	1.41

Source: Primary data

Table 4.5 shows that majority of the respondents agreed that there are effective lending policies used by the bank. This is explained by the fact that the mean of most of the responses was above 3, while the standard deviation was close to 1. The study revealed that lending policies were created by: before a loan is disbursed it passes through various committees for approval (99.1%), information got from customers during appraisal is verified before loan approval (100%), interest rate offered on loans is fair to borrowers (80.4%), there is a restriction on the

maximum amount given in form of loans (70.1%), all loans given have tangible collateral securities which are always verified their actual value (97.2%), customers who pay back loans in time are given big amount of loans (75.7%), customers intending to borrow must have a guarantor who is having an account with the bank (97.1%). However, the study found out that customers are not given training on the utilization of the money before loans are given out (48.6%). This is because it's computed mean was found to be below 3 (Mean=2.43) and standard deviation was close to zero (SD=0.23). However, much as there are effective lending policies, the lending rate has remained low. This observation was also confirmed by the key respondents that included the Board Member of the bank, managing director and the general Manager who said that much as the bank has good lending policies, lending rate has remained low.

4.3.2 Portfolio Management in Microfinance Institutions

The respondents were asked to respond to elements that were used to measure effective portfolio management in Microfinance Institutions. Respondents were asked to indicate whether they strongly agree (SA), agree (A), undecided (UD), disagree (D) and strongly disagree (SD) using 5-likert scale. Descriptive statistics as a technique of analysis was employed using the mean and standard deviation. A mean above 3 indicates an agreement of respondents; a mean of 3 shows undecided and a mean of below 3 shows disagreement by respondents. The standard deviation (SD) of close to 1 shows agreement, while the standard deviation of close to 0 indicates disagreement of the respondents. The elicited results were shown on table 4.6

Table 4.6: Elements of portfolio management in Microfinance Institutions (N=107)

Portfolio Management	Response Category					Mean	S.D
	SA (%)	A (%)	UD (%)	D (%)	SD (%)		
There is a good mechanism of controlling financial fraud in the MFIs	33 (30.8%)	35 (32.7%)	5 (4.7%)	27 (25.2%)	7 (6.5%)	3.17	1.10
There is an efficient system of financial reporting in the MFIs	51 (47.7%)	53 (49.5%)	4 (3.7%)	0 (0%)		4.86	1.31
There is an efficient system of screening clients who apply for loans to minimize the risk of repaying the loans	49 (45.8%)	56 (52.3%)	2 (1.9%)	0 (0%)	0 (0%)	4.91	1.34
Interest rate is always adjusted to march with inflation rate in country	23 (21.5%)	29 (27.1%)	5 (4.7%)	37 (34.65)	13 (12.1%)	2.43	.69
Serious measures are always put in place to ensure that customers meet their obligation of repaying the loans	61 (57.0%)	44 (41.1%)	2 (1.9%)	0 (0%)	0 (0%)	4.91	.89
Collateral securities are always emphasized to minimize the risk of the customer who fail to repay	45 (42.0%)	51 (47.7%)	(0%)	11 (10.3%)	0 (0%)	4.48	1.12
There is a persistent increase in loans given out by the MFI to the clients	45 (42.0%)	41 (38.3%)	0 (0%)	18 (16.8%)	3 (2.8%)	4.02	1.10
The MFI is registering a persistent increase in the profits arising out of repayment of the loans	19 (17.7%)	23 (21.5%)	0 (%)	51 (47.7%)	14 (13.1%)	1.96	.34
The MFI is expanding its operations by opening new branches due to its profit it gets from loans disbursement	23 (21.5%)	27 (25.2%)	0 (0%)	43 (40.2%)	14 (13.1%)	2.34	.57
Loan recovery rate is above the set target due to good loan recovery policies put in place by the MFI	47 (43.9%)	36 (33.6%)	0 (0%)	24 (22.4%)	0 (0%)	3.88	1.00

Source: Primary data

Table 4.6 shows that majority of the respondents agreed that there are various effective ways used in portfolio management. This was explained by the fact that the mean of most of the responses were above 3, while the standard deviation was close to 1. The study revealed that

there are various ways used in portfolio management: majority of the respondents (63.3%) revealed that there is a good mechanism of controlling financial fraud in MFIs, those who responded that there is an efficient system of financial reporting were 97.2%, 98.1% revealed that there is an efficient system of screening clients who apply for loans to minimize the risk of non-performing assets. Those who revealed that serious measures are always put in place to ensure that customers meet their obligation of repaying the loans were 98.1%, those who revealed that collateral securities are always emphasized to minimize the risk of the customer who fail to repay were 89.7%. Those who revealed that there is a persistent increase in loans given out by the MFI to the clients were 80.3% and those who revealed that loan recovery rate is above the set target due to good loan recovery policies put in place by the MFI were 77.5%.

However, those who revealed that interest rate is always adjusted to march with inflation rate in country were 48.6%, those who revealed that   MFI is registering a persistent increase in the profits arising out of repayment of the loans customers were 39.2% and 46.7% revealed that MFI is expanding its operations by opening new branches due to its profit it gets from loans disbursement. This analysis shows that there are still some challenges in portfolio management. This observation was also confirmed by key informants who revealed that MFIs are still having problems in their portfolio management of which some are originating from external environment like inflation which always affect the lending rates and eludes the profit although some problems originate from poor management. They further revealed that much as MFIs are expanding, their profit levels are not proportionately increasing.

4.3.3 Relationship between lending policies and portfolio management

The study tried to find out whether there was any relationship between lending policies of MFIs and their portfolio management. The analysis was made using Pearson coefficient of rank correlation. The elicited response was presented in table 4.7

Table 4.7: correlation results of lending policies and portfolio management

		Lending policies	Portfolio management
Lending policies	Pearson Correlation Sig. (2-tailed	1.000	.431**
		.	.006
	N	107	107
Portfolio management	Pearson Correlation Sig. (2-tailed)	.431**	1.000
		.006	.
	N	107	107
** Correlation is Significant at the 0.01 (2-tailed) ** Correlation is significant at the 0.05 (1-tailed)			

Source: Primary data

Table 4.7 shows a moderate positive correlation between lending policies and portfolio management (r=0.431; p<0.05). This analysis shows if there is a unit improvement in lending policies, clean portfolio is likely to increase by 18.6% (r squared, referred to as coefficient of determination). The study found out that what makes effective lending policies was to: putting a good mechanism of controlling financial fraud, putting in place an efficient system of financial reporting, putting in place an efficient system of screening clients who apply for loans to minimize the risk of failure to repay the loan, ensuring that collateral securities are always emphasized to minimize the risk of the customer who fail to repay and loan recovery rate is above the set target due to good loan recovery policies put in place by the MFI. However, the

response from the key informants revealed that even when there are good lending policies, portfolio growth has remained very low and as the result the financial growth of the MFI has remained low. This is because MFI officials do not adhere to the policies put in place by board members and from top management. As a result even those who would not qualify for the loans, either their businesses are not clear or their past payment records are not verified, end up getting loans and eventually fail to pay back the loans.

4.3.4 Loan Recovery policies for portfolio management

The respondents were asked to reveal whether loan recovery policies have led to effective portfolio management. Respondents were asked to indicate whether they strongly agree (SA), agree (A), undecided (UD), disagree (D) and strongly disagree (SD) using 5-likert scale. The analysis was done using the mean and standard deviation. A mean above 3 indicates an agreement of respondents; a mean of 3 shows undecided and a mean of below 3 shows disagree by respondents. The standard deviation (SD) of close to 1 shows agreement, while the standard deviation of close to 0 indicates disagreement of the respondents. The analysis further grouped strongly agree and agree to mean agree and strongly disagree and disagree to disagree and percentages were computed which were used for further analysis. The elicited results were shown on table 4.8

Table 4.8: Loan recovery for portfolio management (N=107)

Loan recovery policies for portfolio management	Response Category					Mean	S.D
	SA (%)	A (%)	UD (%)	D (%)	SD (%)		
Clients always follow their agreed time of paying back the loans	10 (9.3%)	36 (33.6%)	0 (0%)	34 (31.8%)	27 (25.2%)	2.85	.58
The MFI has a mechanism of supervising the clients on how the borrowed money is utilized and assisting them on loan repayment	41 (38.3%)	47 (43.9%)	0 (0%)	19 (17.7%)	0 (0%)	4.11	1.14
Rewards are given out to those who repay the loans promptly	34 (31.8%)	52 (48.6%)	0	12 (11.2%)	9 (8.4%)	4.01	1.10
Customers are sensitized on the dangers of not repaying the loans	42 (39.2%)	46 (43.0%)	0 (0%)	19 (17.7%)	0 (0%)	4.11	1.14
Legal measures are applied to those who default	54 (50.5%)	50 (46.7%)	3 (2.8%)	0 (0%)	0 (0%)	4.86	1.31
Customers are required to have guarantors who are depositors in the MFI who will repay the loan should clients default	55 (51.4%)	47 (43.9%)	5 (4.7%)	0 (0%)	0 (0%)	4.77	1.30
Loans are given to those who have a clean past record of repaying the loans	21 (19.6%)	31 (29.0%)	0 (0%)	32 (29.9%)	23 (21.5%)	2.43	.69
Knowledgeable and skilled personnel in loan recovery are employed by the MFI	45 (42.0%)	49 (45.8%)	0 (0%)	13 (12.1%)	0 (0%)	4.39	1.10

Source: Primary data

Table 4.8 shows that majority of the respondents agreed that there effective loan recovery policies. This is explained by the fact that the mean of most of the responses was above 3, while the standard deviation was close to 1. The study revealed that loan recovery policies were created by the following: MFI has a mechanism of supervising the clients on how the borrowed money is utilized and assisting them on loan repayment (82.2%), rewards are given out to those who repay the loans promptly (80.4), customers are sensitized on the dangers of not repaying the loans

(82.2%), legal measures are applied to those who default (97.2%), customers are required to have guarantors who are depositors in the MFI who will repay the loan should clients default (95.3%) and knowledgeable and skilled personnel in loan recovery are employed (87.8%). However, the study found out that loan recovery policies have not enabled clients to always follow their agreed time of paying back the loans. This is because its computed mean was found to be below 3 (Mean =2.85) and standard deviation was close to zero. Majority of the respondents (57%) disagreed that loan recovery policies has enabled clients always follow their agreed time of paying back the loans. It was also found that loan recovery policies have not enabled loans to be given to those who have a clean past record of repaying the loans. This is because its computed mean was found to be below 3 (Mean =2 43) and standard deviation was close to zero. Majority of the respondents (51.4%) disagreed that loan recovery policies have not decided that loans are given to those who have a clean past record of repaying the borrowed money with interest. This observation was also confirmed much as there are good loan recovery policies; loans are still being given to those whose clean record of repaying the borrowed money is questionable and at the sometime borrowers always fail to meet their obligation of paying the interest on the agreed time.

4.3.3 Relationship between Loan Recovery policies and portfolio management

The study tried to find out whether there was any relationship between loan recovery policies of MFIs and their portfolio management. The analysis was made using Pearson coefficient of rank correlation. The elicited response was presented in table 4.9

Table 4.9: correlation results of loan recovery policies and portfolio management

		Loan recovery policies	Portfolio management
Loan recovery policies	Pearson Correlation Sig. (2-tailed	1.000	.452**
		.	.003
	N	107	107
Portfolio management	Pearson Correlation Sig. (2-tailed)	.452**	1.000
		.003	.
	N	107	107
** Correlation is Significant at the 0.01 (2-tailed) ** Correlation is significant at the 0.05 (1-tailed)			

        Source: Primary data

Table 4.9 shows a moderate positive correlation between loan recovery policies and portfolio management (r=0.452; p<0.05). This analysis shows if there is a unit improvement in loan recovery policies, clean portfolio is likely to increase by 20.4% (r squared, referred to as coefficient of determination). The study found out that what makes effective loan recovery policies was that: MFI has a mechanism of supervising the clients on how the borrowed money is utilized and assisting them on loan repayment, rewards are given out to those who repay the loans promptly, customers are sensitized on the dangers of not repaying the loans, Legal measures are applied to those who default, customers are required to have guarantors who are depositors in the MFI who will repay the loan should clients default and knowledgeable and skilled personnel in loan recovery are employed by the MFI. However, the response from the key informants revealed that even when there are good loan recovery policies, loan recovery rate has remained low most of the time. This because most of the borrowers are people who run small businesses whose return is very small and therefore unable to get profits from where interest could be paid. The problem of poor loan recovery is also created by the fact that many who

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borrow end up using the money to meet their domestic needs like paying school fees for their children as well as meeting their basic needs at the expense of investing the money in business where returns are expected. This makes loan recovery a major problem.

Another problem according to key informants is that there is a tendency by the MFI staff to give loans even to those whose repayment record is not known. This was found to be caused by competition where MFIs as well as commercial banks compete for customers in loan acquisition. This has also contributed to poor loan recovery.

4.3.12 Contribution of each independent variable on the dependent variable

There was a need to find out the contribution of each independent variable on the dependent variable. The intention for this analysis was to find out the correlation in terms of magnitude each variable is contributing on dependent variable. This interaction was done using linear regression analysis where portfolio management was taken as dependent variable; lending policies and loan recovery policies were taken as predictor variables. The results were presented in table 4.10.

Table 4.10: Linear regression result for the predictors of portfolio management

Model		Standardized Coefficient		Standardized Coefficient	T	Sig.
1		B	Std.Error	Beta		
	Constant	31.967	6.063		10.436	000
	Lending policies	2.275	.136	1.922	.250	.007
	Loan recovery policies	3.220	.154	2.850	21.266	.001

Model Summary

R Square	Adjusted R Square	F	Sig.
.586	.534	12.321	0.006

Predictors: (Constant, Lending policies, Loan recovery policies

Dependent Variable: Portfolio management

Table 4.10 shows that the predictor variables positively influence the dependent variable by 53.4% (Adjusted R square = 0.534, F =12.321; p <0.006). This observation shows that lending policies and loan recovery policies are significant elements for credit policies of MFIs since their contribution is above 50% as indicated by adjusted R square. The findings show that if lending policies are improved clean portfolio is likely to increase by 2.275. A unit improvement in loan recovery policies is likely to increase clean portfolio by 3.220.

4.4 Hypothesis testing

The study tested a hypothesis as a way of accepting or rejecting it as this was the basis on which the analysis was based from where the conclusion was drawn.

This hypothesis predicted that "Credit policies have a significant positive effect on portfolio management".

Null hypothesis:

H_0 : Credit policies have a significant positive effect on portfolio management.

Alternative hypothesis:

H_1 : there is no significant positive effect between them

$\qquad \alpha$ level: $\alpha = .05$

The hypothesis was tested using Spearman's coefficient of rank correlation and the results were summarized in the table 4.11

Table 4.11: Correlation between credit policies and portfolio management

		Credit policies	Portfolio management
Credit policies	Pearson Correlation	1.000	.402**
	Sig. (2-tailed	.	.007
	N	107	107
Portfolio management	Pearson Correlation	.402**	1.000
	Sig. (2-tailed)	.007	.
	N	107	107

Table 4.11 shows that there is a moderate positive relationship between credit policies and portfolio management (r =0.4023; p =0.007. This means that the correlation though positive, is not statistically significant since it is below 0.5 (below 50%). This means therefore that the null hypothesis (H_0) was rejected and the alternative hypothesis (H_1) which does not recognize the existence of significant relationship between them was accepted.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the study, discussion of the findings, conclusions and recommendations. It also presents contributions of the study and areas for further research. The discussion of the findings, conclusion and recommendations are presented objective by objective.

5.1   Summary of the findings

The purpose of the study was to assess the effect of credit management policies on portfolio management in Ugafode Microfinance Ltd. Credit management was taken as independent variable with components of lending policies and loan recovery policies. On the other hand portfolio management was taken as dependent variable with components of portfolio at risk and portfolio growth. The objectives of the study were: to find out the effectiveness of lending policies on portfolio management and to assess the effectiveness of loan recovery policies on portfolio management.

The study took a case study design where both qualitative and quantitative methods of data collection and analysis were used. Data was collected using questionnaire and interview guide. Both descriptive and inferential statistical techniques of analyses were used.

The study revealed that there is some good lending policies being implemented by the MFI in managing its loan portfolio. But even when this was so, loan portfolio has remained at risk where clients borrow and many fail to pay back the borrowed money with interest.

The results further revealed that loan recovery policies implemented by the MFI contribute moderately to portfolio growth. This means that much as the institution has put in place good loan recovery policies, portfolio growth has not gown as expected.

5.2 Discussion of findings

The discussion of the findings for the study was done according to the study objectives.

5.2.1　To find out the effectiveness of lending policies on portfolio management.

The study findings revealed a moderate positive correlation between lending policies and portfolio management (r=0.431; p<0.05). This analysis shows if there is a unit improvement in lending policies, clean portfolio is likely to increase by 18.6% (r squared, referred to as coefficient of determination). The study is in conformity with that of (Pandey, 2003, Campsey and Brigham 1985 Dickson et al, 1995) who found out that lending policies that involve determining credit quality, first establishing the character of the potential customer to establish whether the customer will honor the obligation, capacity to pay back which is the gauge from records have proved important in influencing portfolio growth in MFIs. The study is also in agreement with that of Hulme (2000) and that of Craig (2001) who found that microfinance institutions in their lending policies put into consideration the clients' marital status, occupational ability; historical back ground and previous dealings with the customers like bankers, customers, suppliers in order to establish character. Any material, inconsistencies with the policies will disqualify the client, while clients that meet policy stipulations, qualify to get the services. The findings are also in conformity with that of (Kock, 2000) who found out that effective loan portfolio management begins with oversight of the risk in individual loans. Prudent risk selection is vital to maintaining favorable loan quality. Therefore, the historical

emphasis on controlling the quality of individual loan approvals and managing the performance of loans continues to be essential.

However, the response from the key informants revealed that even when there are good lending policies, portfolio growth has remained very low and as the result the financial growth of the MFI has remained low. This is because some MFI officials do not adhere to the policies put in place by board members and from top management. As a result even those who would not qualify for the loans, either their businesses are not clear or their past payment records are not verified, end up getting loans and eventually fail to pay back. This is in agreement with that of (pandey, 2003 Ledgertwood, 2002 Kakuru 2002, Van Horne & Wachowicz 1995, Campsey and Brigham 1985) who found out that credits are granted for longer periods, even to those customers whose credit worthiness is not fully known or whose financial position is doubtful and this creates a lot of debts and in most cases results in delinquency problems.

5.2.2   To assess the effectiveness of loan recovery policies on portfolio management

The findings reveal a moderate positive correlation between loan recovery policies and portfolio management ($r=0.452$; $p<0.05$). This analysis shows if there is a unit improvement in loan recovery policies, clean portfolio is likely to increase by 20.4% (r squared, referred to as coefficient of determination). This portfolio management in form of portfolio growth was attributed to good loan policies the institutions formulate and implement.

The finding is in agreement with that of (Craig, 2001, Hulme 2000) who found out that with good loan recovery, microfinance institutions gauge the capacity of customers to pay back by looking at the information provided in the loan application about business incomes and expenditures, information got from friends and business partners, amount and purpose of the

loan applied for. The microfinance institutions reserve rights to reduce on the amount of loan applied for in order to make manageable or deny the clients' loan altogether in case they are convinced that clients fundamentally lack capacity to pay. The findings also revealed that MFIs have good informants revealed that even when there are good loan recovery policies, loan recovery rate has remained low most of the time. This is because most of the borrowers lack effective supervision and efficient guidance on financial management as most borrowers lack this yet this is supposed to be the work of loans officers. This lack of financial discipline, has led to the problem of loan repayment. The problem of poor loan recovery is also created by the fact that some clients who borrow get favors from loan officers even when they do not meet the loan requirement. This makes them even to think that they will still get favors.

However, the response from the key informants revealed that even when there are good loan recovery policies, loan recovery rate has remained low most of the time. This is because most of the borrowers lack effective supervision and efficient guidance on financial management as most borrowers lack this yet this is supposed to be the work of loans officers. This lack of financial discipline, has led to the problem of loan repayment. The problem of poor loan recovery is also created by the fact that some clients who borrow get favours from loan officers even when they do not meet the loan requirement. This makes them even to think that they will still get favors and their loans will be written off. This makes loan recovery a major problem.

This finding was in agreement with that of (Norell, 200) who observed that if loans are given out of favoritism, clients may delay payments or default. They often hope that their friends on the microfinance institution staff will encourage the institution to write off the loan rather than take the client to court or seize their property. Adams and Vogel (1996) advanced the incentive arguments to explain low recovery. They articulate that borrowers are more likely to repay when

credit and their relation ship with institution is valuable to them. If the loan is perceived as a grant or a political handout or the lender is seen as transitory and unlikely to provide additional services in future then incentive to repay diminishes and the results are in most cases defaults and delinquency problems.

5.3   Conclusion

Conclusions of this study were based on the study objectives.

5.3.1 To find out the effectiveness of lending policies on portfolio management.

Much as there is some moderate good lending policies put in place by MFIs in management of portfolio growth, the study concluded that loan portfolio has remained at risk because not all clients that borrow are capable of paying back. This is because some MFI officials do not adhere to the strict lending policies put in place by board members and top management. As a result even those who would not qualify for the loans, either they are too poor or their past payment records are not verified, end up getting loans and some are running small businesses whose return is very small and therefore unable to get profits from where interest and the principle could be repaid.

5.3.2   To assess the effectiveness of loan recovery policies on portfolio management

The study further concluded that much as there is a moderate positive correlation between loan recovery policies and portfolio management, loan recovery rate has remained low most of the time. This is because most of the borrowers lack effective supervision and efficient guidance on financial management as most borrowers lack this yet this is supposed to be the work of loans officers.   This lack of financial discipline, has led to the problem of loan repayment. The

problem of poor loan recovery is also created by the fact that some clients who borrow get favours from loan officers even when they do not meet the loan requirement. This makes them even to think that they will still get favors and their loans will be written off. This makes loan recovery a major problem.

5.4 Recommendations

Basing on the study findings, the following recommendations based on the objectives of the study do emerge:

5.4.1 To find out the effectiveness of lending policies on portfolio management.

There is a need to emphasize the lending policies already in place to ensure that every employee of the MFI is obliged to adhere to them. This can be achieved through continuous training of staff, putting in place reward policies to those who work within the limits of the policies but without compromising creativity and innovation of the staff. There is also a need to put in place punishments for those loans officers who operate out side the institution rules and regulations. Although this will limit the number of borrowers, it will increase the institute's capacity to lend to only those where the risk of repaying is minimal. This will lead to port folio growth.

5.4.2 To assess the effectiveness of loan recovery policies on portfolio management

Since most of the borrowers who fail to repay lack supervision and efficient guidance on financial management, the study recommends that all clients who qualify for a loan should first be given the basic skills on how to keep books of account as well as business management. This should be accompanied by constant supervision by the loans offers to monitor how business

progresses. This will create the relationship between the client and the institution that will benefit the client in terms of business management and the institution by recovering its loans.

Since there are some clients who borrow get favours from some loan officers even when they do not meet the loan requirement and therefore unable to pay back, the study recommends that strict rules and regulations in institutions be intensified where each staff will be responsible for his/her action where those with poor conduct be punished and those who comply be rewarded. This will create discipline among workers and eventually there will be efficient loan portfolio growth.

5.5 Limitations of the study

Even when all the efforts were made to control for limitations, this research study was conducted within the confines of mixed factors, which were beyond the control of the researcher; thereby generating a source of limitations for the study.

The first limitation warranting attention of this study pertains to the length of the survey instrument and the scales that were used as well as the interview guide used. The instruments were generally long although there were few variables that were being measured and this could have created problems to some respondents who always do not have enough time allocated for responding to every question on the research instruments. Also the inclusion of the "undecided measure" on the survey instrument as their response could have had an effect on the accuracy of some statistical techniques used as well as the analyses that were made.

The second limitation this study met was the sensitivity of some questions in the research instruments used to collect data from respondents. There was a possibility where accurate answers were dodged and compromised answers given. This could have compromised on the accuracy and validity of the study findings.

5.6 Contributions of the study

The study stated the problem of investigation in chapter one to the effect that limited research had been conducted in the area of credit policies and portfolio management by MFIs particularly taking the views of many stakeholders managing the MFIs. Researches that had been conducted focused on loan officers and financial controllers alone as source of information but this study included board member, managing director, general manager, and accountant and loan officers. In general the researcher is strongly convinced that the study of credit policies in relation to portfolio management by MFIs following the quantitative and qualitative scientific procedures and the methodological approaches offers original information and adds on the body of the literature on the two areas of study: credit policies and portfolio management. But in specific terms, the study has made the following contributions:

1) This study has made a contribution in the use of both quantitative and qualitative methods of data collection and analysis by adopting a triangulation a approach since most of the literature reviewed were on the side of quantitative analysis. Sarantakos (2005) has recommended that triangulation allows the researcher to view a particular point in research from more than one perspective and hence to enrich knowledge and or/test validity. This is what this study did.

2) The study has made a contribution in making recommendations for the subsequent scholarly research efforts aimed at enhancing the knowledge of credit policies and portfolio management by MFIs.

3) Through the study findings and conclusions, an effort has been made to make recommendations of significant policy and management implications to policy makers.

Institutionally and managerially, the recommended areas will go along way in distilling issues critical for the well functioning of portfolio management under credit policies. The MFIs will be availed with up-to-date information on credit policies upon which decision-making for running the financial institutions in portfolio management can be anchored.

5.7 Areas for further Research

The findings of the study together with the conclusions drawn on each of the study objectives, limitations and recommendations, there are opportunities for further research that would give further insight into the area of credit policies and portfolio management by MFIs. These areas include:

1) A longitudinal study of the relationship between credit policies and portfolio management by MFIs.

2) This study focused on credit policies and portfolio management by taking UGAFODE as a case study. Therefore, future research opportunities can be exploited by conducting the same study in other MFIs for comparisons of the findings.

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Appendix 1: Questionnaire for Staff

Dear respondent,

This is a research leading to the award of a Masters Degree in Management studies(PAM) of UMI. The purpose of this study is to investigate the effect of credit management policies on portfolio management by microfinance institutions.

You are kindly requested to feel free and express your opinion on each of the issues raised as objectively as possible.

The information that you will provide will be treated with utmost confidentiality and under no circumstance will it be personalized. The basic research ethics are to be observed and adhered to

Your positive and quick response will be highly appreciated.

Thank you for your cooperation

Yours truly, Kamwehanga Denis.

Section A: Background Information (Bio-data of respondents)

1.   Age

    ☐ 21-30 years   ☐ 31-30 years

    ☐ 41-50 years   ☐ 51 and above

2.   Sex

    ☐ Male   ☐ Female

3.   Level of education

    ☐

Primary	☐	Secondary

☐ Tertiary   ☐ University

4.   Position held

☐ Accountant   ☐ Chief Finance Officer

☐ Manager   ☐ Loans officer

Others (specify)………………………………………..

5.   Duration of service in the above position

☐ Less than two years   ☐ Between two to five years

☐ Between five to ten years   ☐ More than ten years

In the remaining part of the questionnaire, you are requested to objectively express your opinion in regard to the effect of credit policies on portfolio management in micro finance institutions.

Thematic areas are being considered, please simply tick appropriate alternative.

Scale: 1=Strongly Agree, 2=Agree, 3=Undecided, 4=Disagree, 5=Strongly Disagree

Section B: Lending policies for portfolio management	1	2	3	4	5
1. Before a loan is disbursed, it passes through various committees for approval					
2.Information got from customers during appraisal is verified before loan approval					
3. Interest rate offered on loans is fair to borrowers					
4. There is a restriction on the maximum amount given in form of loans					

Statement					
5. All loans given have tangible collateral securities which are always verified to determine their actual value					
6. Customers who pay back loans in time are given big amount of loans					
7. Customers are given training on the utilization of the money before loans are given out					
8. Customers intending to borrow must have a guarantor who is having an account with the Bank					
Section C: Loan Recovery Policies for portfolio management					
1. Clients always follow their agreed time while paying back the loans					
2.The Bank has a mechanism of supervising the clients on how the borrowed money is utilized and assisting them on repayment					
3. Rewards are given out to those who repay the loans promptly					
4. Customers are sensitized on the dangers of not repaying the loans					
5.Legal measures are applied to those who default					
6.Customers are required to have guarantors who are depositors in Bank who will repay the loan should client default					
7. Loans are given to those who have a clean record of repaying the loans					
8. Knowledgeable and skilled personnel in loan recovery are employed by the Bank					
Section D: Portfolio Management					
1. There is a good mechanism of controlling financial fraud in Ugafode					
2. There is an efficient system of financial reporting in the ugafode.					
3. There is an efficient system of screening clients who apply for loans to minimize the risk of non-performing assets					
4. Interest rate is always adjusted to march with inflation rate in country					
5.Serious measures are always put in place to ensure that customers meet their obligation of repaying the loans					
6. Collateral securities are always emphasized to minimize the risk of the customer who fail to repay					
7. There is an increase in loans given out by the bank to the clients					
8. The bank is registering an increase in the profit arising out of repayment of the loans					
9. The bank is expanding its operations by opening new branches due to its profit it gets from loans disbursement					
10.Loan recovery rate is above the set target due to good loan recovery policies put in place by the bank					

Appendix 11: Interview guide for Board Member and Managing director

I am Kmwehanga Denis, a student of Uganda Management Institute, pursuing a degree of Master of Management Studies (Public Administration and Management Option).   As part of the requirement for the fulfillment of the award, I am required to present a research report on the topic, "Credit management policies and portfolio management by microfinance instituitions". You are kindly requested to respond to the related questions herein so as to facilitate the study. The study is purely academic and therefore the responses will be used for only this purpose and will be treated with utmost confidentiality. Thank you in advance

Section A: Background Information (Bio-data of respondents)

6.   Age

☐ 21-30 years   ☐ 31-30 years

☐ 41-50 years   ☐ 51 and above

7.   Sex

☐ Male   ☐ Female

8.   Level of education

☐ Primary   ☐ Secondary

☐ Tertiary   ☐ University

9.   Position held.

☐ Accountant   ☐ Chief Finance Officer

☐ 71

☐ Board member   Managing Director

Others (specify)……………………………………..

10.   Duration of service in the above position

☐ Less than two years   ☐ between two to five years

☐ Between five to ten years ☐ More than ten years

Section B: Lending policies

1. You are aware of the lending policies being implemented by UGFODE microfinance ltd?

 a) Yes   (b) No

2. Mention the lending policies that currently being implemented by UGAFODE microfinanceltd…………………………………………………………………………………..

…………………………………………………………………………………………………

3. Who participated in formulating lending policies that are currently being implemented?………………………………………..

……………………………………………………………………………………………………

4. Give benefits of lending policies that are under implementation by UGAFODE microfinance ltd ………………………………………………………………………………………….

………………………………………………………………………………………………….

5. Are these benefits being derived by the institute?   a) Yes   b) No

6. Are the lending policies effective in ensuring portfolio growth?

 a) Yes   b) No

7. If the answer to no.6 above is no, give reasons …………………………………..

……………………………………………………………………………………..

8. What is it that needs to be done in order to improve on the lending policies so as to bring about portfolio growth? …………………………………………………………………………..

……………………………………………………………………………………………

Section C: Loan recovery policies and portfolio management

1. Does UGAFODE has loan recovery policies in place?

a) Yes   b) No

2. If the answer to no.1 above is yes, mention the loan recovery policies currently under implementation …………………………………………………………………………….

……………………………………………………………………………………………

3.Who participated in formulating them?

4. Mention the importance of these loan recovery policies in line with portfolio growth

…………………………………………………………………………………………….

5**.** Are the loan recovery policies effective in influencing portfolio growth?

   a) Yes   b) No

6. If the answer to no. 5 above is no, give reasons …………………………………..

…**……………………………………………………………………………………….**

7. Are you satisfied with the portfolio growth in your institution?

   a) yes   b) No. 7 above is no, give the reasons………………………………

8. What is it that needs to be done to ensure that loan recovery policies are adhered to in order to improve loan portfolio growth? ………………………………………………………………

……..

THANKS FOR YOUR COOPERATION