UGANDA MANAGEMENT INSTITUTE

CREDIT MANAGEMENT AND THE PERFORMANCE OF AGRICULTURE LOANS IN UGANDA: A CASE OF HOFOKAM LIMITED

By

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10/MMSBA/23/097

A DISSERTATION SUBMITTED TO THE HIGHER DEGREES DEPARTMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER DEGREE IN MANAGEMENT STUDIES (BUSINESS ADMINISTRATION) OF UGANDA MANAGEMENT INSTITUTE

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DECLARATION

I, Isingoma Charles Kaahwa hereby declare that this study entitled "*Credit Management and the Performance of Agriculture Loans in Uganda: A Case of Hofokam Limited*" was carried out by myself and that it is my original work that has never been presented to any other University or Institution by anybody else for any academic award. This is my own research work and where other sources of individuals' research work were used, acknowledgement has been duly given.

Signed: ……………………………………… Date: ………………………………………

Isingoma Charles Kaahwa

10/MMSBA/23/097

APPROVAL

This is to certify that this report entitled "*Credit Management and the Performance of Agriculture Loans in Uganda: A Case of Hofokam Limited*" has been carried out by Isingoma Charles Kaahwa under our supervision and is submitted with our approval for examination.

Signed: ……………………………………… Date: ………………………………………

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Supervisor

DEDICATION

This dissertation is dedicated to my Dear wife, Edivine Isingoma; my children: Claus Humphrey Kabuye, Claire Synthia Mugisa, Cabrini Bertila Businge, Colette Fortunate Nakaiza and Clauldine Crispina Nampoza. I further dedicate this dissertation to my dear parents: Kaahwa Lawrence Ssalongo (RIP) and Mrs. Matilda Nalongo Kaahwa who brought me into this world.

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ACRONYMS

CVI	:	Content Validity Index
UMI	:	Uganda Management Institute
HOFOKAM	:	Hoima, Fort Portal, Kasese Microfinance
GNP	:	Gross National Product
NGO	:	Non Governmental Organisations
MAAIF	:	Ministry of Agriculture, Animal Industry and Fisheries
MFI	:	Microfinance Institutions
AMFIU	:	Association of Microfiance Institutions in Uganda
MDI	:	Micro Deposit Taking Institution
SACCO	:	Savings and Credit Cooperative Organization

ABSTRACT

Despite several efforts by government, the private sector and Non Governmental Organisations (NGOs) to support agriculture through agricultural loans, the performance of agricultural loans to develop agriculture in Uganda is still below average. The study sought to examine the effect credit management have on the performance of agriculture loan as a product in HOFOKAM Limited. The study adopted a case study correlational survey design with a population of 99 respondents from which purposive sampling and simple random sampling methods were used to select the respondents. Data were collected from both the staff and clients of HOFOKAM using self administered questionnaires and interview guide. The findings indicated that there were positive significant relationships between credit risk assessment, credit monitoring, credit control and the performance of agricultural loans which was confirmation that credit management was a major determinant of agricultural loans performance at HOFOKAM. From the regression results, credit risk assessment, credit monitoring and credit control were strong predictors of agricultural loans performance. This is implication that improvement in credit risk assessment, credit monitoring and credit control would enhance the performance of agricultural loans at HOFOKAM. The study recommends therefore, that management at HOFOKAM offer specialized training to staff and clients in the area of credit management and also create awareness about the existing national polices and regulations to staff and clients. Management could consider putting in place a fully fledged customized credit management system to coordinate the risk assessment, monitoring and control functions. To study the true nature and quality of credit risk assessment, credit monitoring, credit control and the performance of agricultural loans, a longitudinal study is more appropriate. Since the model could only explain 30.6% in variance of the performance of agricultural loans, the study recommends that another study be carried out comprising of other variables which were not part of the model.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Agriculture is the backbone of Uganda's economy contributing 80% of the Gross National Product (GNP) (MAAIF, 2009). Several efforts have been made by government, the private sector and Non Governmental Organisations (NGOs) to support agriculture through agricultural loans. Loan products offered by financial institutions is one effort to support this. However, the performance of agricultural loans in Uganda still leaves a lot to be desired. The study sought to examine the effect credit management on the performance of agriculture loan product in HOFOKAM Limited. According to the study, credit management is the independent variable and performance of credit is conceptualized as the dependent variable for the study. In this chapter, the background of the study, the statement of the problem, the purpose of the study, the research questions, the hypotheses, the scope of the study, the significance, justification and operational definition of terms and concepts are presented.

1.1 Background to the Study

1.1.1 Historical Background

World over, financial services offered by Microfinance Institutions (MFIs) include savings deposits, credit services, insurance services, money transfers and business counseling (Ledgerwood, 2009). Microfinance has developed as an economic development approach intended to benefit low income women and men by advancing savings, credit and other services to them. In Uganda, just like in other developing countries, microfinance is slowly being integrated into the formal financial system and is helping the low income earners especially the rural areas to access manageable small loans (AMFIU, 2007). Microfinance includes both financial intermediation and social intermediation. Microfinance is not simply banking, it is a development tool. Microfinance activities usually involve;- small loans, typically for working capital, informal appraisal of borrowers and investments, collateral substitutes such as group guarantees or compulsory savings, access to repeat larger loans, based on repayment performance, streamlined loan disbursement and monitoring and secure savings products (Ledgerwood, 2009).

Microfinance institutions (MFIs) are organizations that provide savings, micro-insurance and/or credit facilities to micro and small scale business people (Ledgerwood, 2009). The whole microfinance industry sprouted from the need to avail the poorest of the poor formal financial services. Thus it essentially offers them access to loans so as to “climb up the first rung of the ladder to leave the circle of poverty and dependency.” This very noble and ambitious aim made by Muhammad Yunus, positively the best known representative of microcredit business and founder of Grameen Bank in Bangladesh (Lupia, 2003).

MFls provide financial services to poor people who have experienced difficulties obtaining these services from most formal financial institutions because their businesses, savings levels and credit needs are all small. The microfinance industry in Uganda continues to grow very fast and steadily and in a dynamic way. Although it is still limited in terms of outreach, there are efforts to narrow the gap between the supply and demand of the low income earners. The regulated institutions like banks and, credit institutions and MDIs serve almost 3 quarters of the entire microfinance market. The rest of the market is under tier 4 which is composed of the credit only in addition to SACCOs which are allowed to mobilize savings from only their members. (The AMFIU Annual report 2007). The existing literature of full of research on credit management and loan performance, however, there has been little or no research on the effect of credit management on agricultural loan performance in Uganda.

1.1.2 Theoretical Background

The study was guided by the institutional and principal agent theories but a lot of attention was drawn to the principle agency theory. The principal agent theory operationalised the independents variable whereas, the institutional theory operationalised the dependent variable. The institutional theory states to the deeper and more resilient aspects of organizational structure. Making considerations on the processes by which structures became established as authoritative guidelines for at the organisation. It made inquires into how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse. According to (Scott, 2001), these social structures are both imposed on and upheld by the actors (e.g. an individual, an organisation, etc.) behaviour.

On the other hand, the principal agent theory as advocated by Donahue (1989) explains the relationship role played by managers. Donahue's were based on the borrower/lender relationship and the need of the recipient, as the principal, to minimize the risks posed by the agent. An important element of any principal-agent model is to specify an observable that will be the main element of the contract. When the agent is the borrower, measuring performance should ideally be based on a mix of indicators including output, outcome, and impact. Donahue argued that credit managers including all officers concerned with credit management must play the agent role. Therefore credit managers take on the role of agent for elected representatives. The principal-agency theory holds that shirking is likely to occur when there is some disagreement between policy makers and the bureaucracy. The democratic perspective focuses on responsiveness to citizens and their representatives (Strom 2000; Lupia, 2003). However, Soudry (2007) identifies this principal/agent relationship among the possible risks whereby credit managers show apathy towards principal" preferred outcomes or even overriding of the principals preferences thus resulting into non compliance.

1.1.3 Conceptual Background

Credit management is a process of managing volatility within the acceptable ranges which begin with and grow from corporate priorities (Ledgerwood, 2009). The aim of the process is to ensure that it supports the growing needs of the institution while maintaining sufficient control over default risk (Asiimwe, 2003). The process of credit management begins with accurately assessing the credit-worthiness of the customer base. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. Proper credit management calls for setting specific criteria that a customer must meet before receiving this type of credit arrangement. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer. In this study, it is clear that the whole process of credit management commences with the evaluation process of the borrower during which customer appraisal is carried out to ascertain the credit worthiness of the customer. This is carried out to establish how risky the customer is and vice versa.

Microfinance has evolved as an economic development approach intended to benefit low income women and men. The term refers to the provision of financial services to low income clients, including the self employed. Financial services generally include savings and credit; however, some microfinance organizations also provide insurance and payment services. (Ledgerwood, 2009). Microfinance is the provision of financial services to the economically active poor or the un-bankable who are formerly neglected by formal financial institutions like Banks (Robinson *et. al.*, 2001). In this study, what constitutes microfinance was defined and what it entails in regard to the services that are extended to customers. Similarly, who micro credit targets were also identified which comprises of majorly the economically active poor or the un-bankable.

Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the potential customer's current financial condition, including the current credit score. The current ratio between income and outstanding financial obligations will also be taken into consideration. Competent credit management seeks to not only protect the vendor from possible losses, but also protect the customer from creating more debt obligations that cannot be repaid when due. When the process of credit management functions efficiently, everyone involved benefits from the effort.

In at least half of the financial institution failures in Uganda, insider loans accounted for a substantial proportion of the bad debts. The threat posed by insider lending to the soundness of the banks was exacerbated because many of the insider loans were invested in speculative projects such as real estate development, breached large-loan exposure limits, and were extended to projects which could not generate short-term returns with the result that the maturities of the bank's assets and liabilities were imprudently mismatched. Governor Bank of Uganda revealed that another factor contributing to bank failure were the high interest rates charged to borrowers operating in the high-risk segments of the credit market. This involved elements of moral hazard on the part of both the banks and their borrowers and the adverse selection of the borrowers.

1.1.4 Contextual Background

According to a World Bank report of 2002, Uganda the country's banking industry was described as extremely weak, with huge non-performing loans and some banks staggering on the verge of collapse. According to Honohan's typology of bank crises distinguishes between (i) epidemics caused by macroeconomic shocks; (ii) epidemics caused by poor management and microeconomic deficiencies; and (iii) "endemic crises in government permeated banking systems" in which banks were subjected to non commercial principles which undermined their solvency (Honohan, 1997: 2-10).

In Uganda, at the beginning of the 1990s, there was no specialized formal financial institution delivering microfinance, but except for some non-governmental organizations and government programs. By 2007 the financial sector in Uganda had bank of Uganda as the central bank, 18 commercial banks, 4 credit institutions, 2 development banks., 4 Micro Deposit Taking Institutions (MDIs), I national security fund, The Uganda securities exchange and more than 1000 MFI including SACCOs. The Ugandan financial sector structure is arranged in tiers 1,2,3 and 4 (The AMFIU Annual Report 2007). MFIs are increasingly a central source of credit for the poor in many countries. The typical repayment schedule offered by a MFI consists of either weekly or monthly repayments after loan disbursement. The total weekly repayment or monthly repayments are either brought to the institution individually or collected by the group members to be banked by the any one of the group officials led by the credit officer.

Like many other micro lending institutions in Uganda, HOFOKAM developed the agriculture loan product to suit the entity's operational framework. The agriculture loan product was developed to target farmers whose access to financial services is constrained by factors such as lack of collateral security, limited information, bureaucracy and limited availability of financial services. Despite the impressive performance of agriculture loan product in the early years, the declining performance of the product has caught the attention of the management of the institution. The trend in the performance of the agriculture loan product jeopardized the financial institution's goal to improve capacity utilization of the product from 72% to 85%, growth of average loan size of the product from UGX. 300,000/= to 326,000/=, maintaining the loan tenure of the product at 5.2 months and reduction of product attrition from 64% to 50%. According to HOFOKAM Annual Report (2010), there was lack of standardized times of group meetings. Seasonal variations dominated very long dry spell and floods. The report also pointed out that members were multi borrowers which caused them to find difficulty in servicing their loans.

1.2 Statement of the problem:

According to Che (2002), credit performance is a function of the performance of the internal credit management systems and procedures of a financial institution where by stakeholder credit management has a significant influence on the overall loan performance. This is also true for MFIs of which HOFOKAM is a player. However, HOFOKAM Limited is faced with declining agriculture loan performance. The poor product performance is characterized by perceived risk of the product where repayments are received on a balloon system/quarterly which increases the risk of default. According to the company's Annual Report (2010), this holds the revolving of loan able financial resources which constrains the profitability, liquidity and return on investment. Similarly, the lack of capacity utilization, stagnated average loan size, increasing loan tenures, increasing loan attrition and reducing return on ROI (Agricultural Loan Performance Monitoring Report, 2009) may explain the poor credit management at the MFI. Despite, the poor credit management of company, the management of the MFI has made attempts to improve the credit function through system and procedure integration of the credit function. However, this has caused slow results in the performance of the agricultural loan facility failing to address the credit management challenges affecting the performance of the agricultural loan facility. One wonders whether the poor performance of agricultural loans at HOFOKAM is explained by inadequacies in credit management.

1.3 General Objective:

The study examined the effect of credit management on the performance of agriculture loans in HOFOKAM Limited.

1.4 Specific Objectives:

The study aimed at addressing the following specific objectives:

i) To establish the effect of credit risk assessment on the performance of agriculture loans in HOFOKAM;

ii) To examine the effect of credit monitoring on the performance of agriculture loans in HOFOKAM; and

iii) To establish the effect of credit control on the performance of agriculture loans in HOFOKAM.

1.5 Research Questions

The study was guided by the following research questions:

i) What is the effect of credit risk assessment on the performance of agriculture loans in HOFOKAM?

ii) What is the effect of credit monitoring on the performance of agriculture loans in HOFOKAM?

iii) What is the effect of credit control on the performance of agriculture loans in HOFOKAM?

1.6 Hypotheses

The study set out to verify the following hypotheses:

H^1 Credit risk assessment positively affects the performance of agricultural loans

H^2 Credit monitoring positively affects the performance of agricultural loans

H^3 Credit control positively affects the performance of agricultural loans

1.7 Conceptual Framework

According to Sarantos (1988), a conceptual framework is described by Miles and Huberman as either a graphical or narrative form of the main dimensions to be studied or the presumed relationship among them. Sekaran (2003) states that a conceptual framework helps postulate or hypothesize and test certain relationships which improve the understanding of the situation. The figure below examines the relationship between credit management and performance of credit. Credit management plays a pivotal role in the enhancement of effective and efficient performance of credit. Therefore, the study attempted to establish how credit management impacts on performance of credit in HOFOKAM.

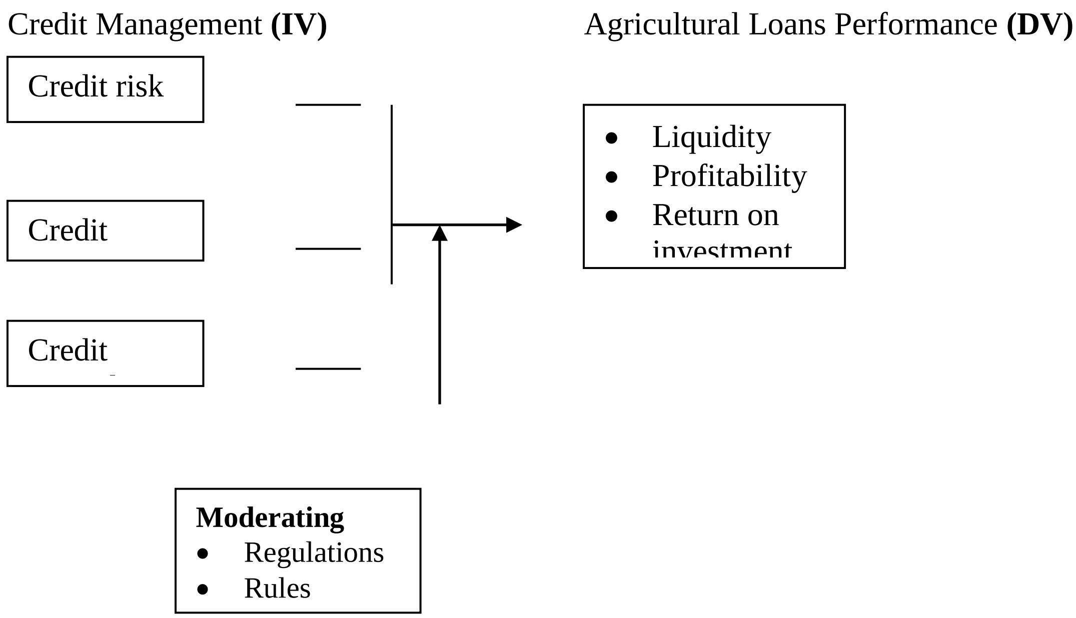

Fig I: Conceptual Framework

Source: *Kono, 2009; Abbink, Irlenbusch and Renner (2006); Barnes, Gaile and Kibombo (2001)*

Figure 1 above explains the interaction between the independent variable (credit management) and the dependent variable (performance of credit) and the expected out come. The independent variable comprises of dimensions that include credit risk assessment, credit monitoring and credit control which were used to guide the study. All these items above are the core areas of credit management. The framework explains the relationship between credit management and performance of credit. It is assumed that the existence of regulations, rules and policies as factors of the moderating variable will affect the performance of credit, whereas, business environment and borrowers as the factors of extraneous variables, also contribute to the effect on the performance of credit.

1.8 Scope of the Study

Content Scope: The study was confined to the effect of credit management on the performance of agricultural loans in HOFOKAM. Credit management comprised of credit risk, credit monitoring and credit control, whereas, agricultural loan performance comprised of liquidity, profitability, recovery, market share and competitiveness.

Geographical Scope: The study was carried out at HOFOKAM Headquarters, which is located in Fort Portal, Kabarole District. HOFOKAM was selected since the MFI offers services to the districts of Hoima, Fort Portal, Kabale and Masindi from which the MFI's name is derived.

Time Scope: The study covered a period starting 2005 to 2010 given that this is the period during which the product has been in existence.

1.9 Significance of the Study

It was hoped that the findings of the study would guide policy makers on the prominent issues required to improve the efficiency of credit performance in HOFOKAM where challenges of credit management are still being faced.

It was hoped that the findings of the study would guide future research in MFIs institutions in credit management for better performance of credit.

It was hoped that the findings of the study would also promote the existing knowledge in understanding the association between credit management and performance of credit among MFIs in Uganda.

1.10 Justification of the study

The deteriorating credit management in HOFOKAM which attributes to the increasing loan default rate requires that a study be carried out and the findings studied so as to suggest recommendations for improvement. It is evident that the growing loan default rate which is affecting performance of credit at the MFI which needs to be rectified so as to enhance organizational profitability. Likewise, to derive the importance of credit management, the study seeks to generate findings on the association between credit management and performance of credit in the financial sector.

1.11 Operational Definitions

Control: Device or mechanism installed or instituted to guide or regulate the activities or operation of an apparatus, machine, person, or system.

Credit Management: Activity aimed at serving the dual purpose of (1) increasing sales revenue by extending credit to customers who are deemed a good credit risk, and (2) minimizing risk of loss from bad debts by restricting or denying credit to customers who are not a good credit risk.

Monitoring: Monitoring is the routine tracking of the key elements of programme/project performance, usually inputs and outputs, through record-keeping, regular reporting and surveillance systems as well as health facility observation and client surveys.

Performance: The accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed.

Risk assessment: Risk assessment is the determination of quantitative or qualitative value of risk related to a concrete situation and a recognized threat (also called hazard).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter sets out to review related literature to examine the effect of credit management on the performance of agriculture loans. It first reviews the theoretical issues in credit management then extends the study to factors (Independent Variable) affecting performance of agriculture loans (Dependent Variable). The factors included credit risk, credit monitoring and credit control. The existing literature included studies that are related to the research topic which were reviewed, evaluated, research gaps identified and the contribution of this study towards the existing literature highlighted.

2.2 Overview of Credit Management

Credit Management is the whole process and systems through which the MFIs lending operations strive to:- offer services which meet the demands of the clients, operate as efficiently as possible by minimizing costs, charge interest rates which are sufficient to overall costs, motivate clients to repay loans as per agreed terms, achieve sustainability of operations through a high degree of efficiency exercised (Shoji, 2009).

2.2.1 Credit policy

Credit policies are also known as lending policies and they act as internal regulations of an MFI. These regulations govern and guide the lending operations and how the staffs especially the credit officers conduct business on behalf of the microfinance institution.

The credit policy is intended to provide a dynamic framework for credit management and it sets up the standards and benchmark that guides the credit officers, managers, supervisors and directors in the day to day running of the business. The credit policy's primary goal is to guide the institutional staff in the process of credit portfolio management with the view of achieving organizational objectives. Credit policies are divided up into two parts, pre- disbursement and post-disbursement policies. The credit policy includes documented guidelines on credit applications, screening, selection, documentation, disbursement, loan portfolio management and loan monitoring (Kono, 2009) The company's credit policy is important in that it has all the information guiding on operations of a credit institution. This policy should always be updated in order for the institution to be up-to date with the current credit standards. An institution's credit policy has a direct effect on its credit business (Roodman & Morduch, 2009).

2.2.2 Effective Credit Policy

An institution's credit policy has a direct effect on its credit business in that it can easily turn away potential customers and eventually slow down the promotion and growth of the loan portfolio. A credit policy that is too liberal will attract and encourage slow paying customers that will lead to delayed repayments and hence cash in flow problems. An effective credit policy should therefore promote, attract, and retain good customers for the institution, without having a negative impact on its credit performance. Accordingly, effective credit policies are customer- focused, understandable by both staff and clients, consistent in application so that no portions of the policy contradict other provisions of the same policy, the policy should be preventive so that its in-built mechanism for preventing fraud, costly negligence and other negatively impacting occurrences. The policy should be instructive so that it helps credit officers and other stakeholders as a manual for doing the right thing in every loan processing situation. The policy should be comprehensive so that it covers all key areas of the lending and credit business (Shoji, 2009).

2.2.3 Credit Cycle

The credit cycle represents the process through which credit is managed (from client to loan recovery). The credit cycle has the following processes; Promotion/ client identification, loan application, loan screening/ appraisal, loan approval, documentation and contracting, loan disbursement, loan administration and monitoring, loan repayment

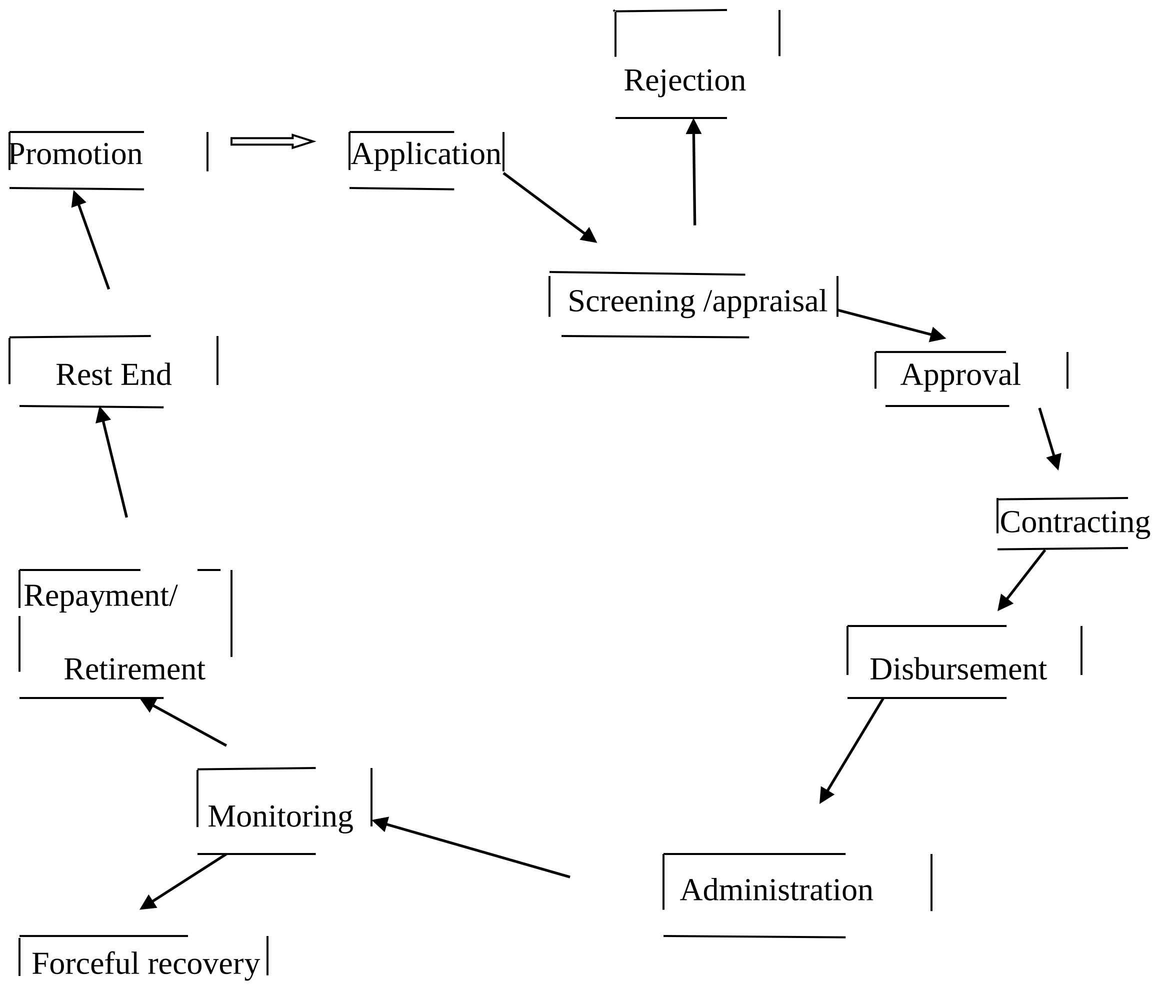

Fig. 2.1: The Credit cycle

Source: Credit Appraisal and Monitoring by Friends Consult, 2009 p. 15

2.2.4 Credit Appraisal process

The Credit appraisal process is the systematic evaluation of a loan application to determine whether a loan should be granted or not, and if so, how much. It is the detailed examination and analysis of loan applicant, to determine whether or not the requested loan should be approved. Credit Appraisal, is an important stage in credit management of any financial institution. All MFIs need to undertake this process before any loan is approved. Appraisal involves the due diligence work that includes verifying the loan application, information gathering, examining and analyzing information gathered, examining or assessing the ability of the borrower and for recommending to management and the credit committee whether to approve a loan to a client. Loan appraisal is a good yardstick to know whether a client deserves a loan or not. Loan appraisal is done to assess the loan applicant's ability and willingness to repay the loan. Loan appraisal is important in ensuring that loans disbursed are likely to be recovered, and on time (Shoji, 2009).

2.2.5 Credit insurance

Micro insurance is the provision of insurance services and products to the members/ clients. Insurance is the pooling of risks at a premium with a purpose of compensating the unfortunate member in case of a happening of the insured event. Value proposition of the insurance products that include peace of mind, portfolio continuity and expanding product offering. Clients manage risks at predictable costs; clients access insurance services, knowledge enhancement and reaching the underserved (Kono, 2009).

Loans in financial institutions are insured to insurance companies at an agreed percentage for any risk depending on a financial institution. It is deducted from the loan upon disbursement but the ranges of the insurance to be deducted vary from institution to institution. Insurance companies charge premiums depending on the type of risk; like accidents, death, permanent disabilities etc. The insurance company covers the outstanding loan amount depending on whether the risk was insured. Insurance covers helps to reduce on the default of the otherwise would be defaulting clients. Credit insurance is very important where large amounts of credit are extended. It is much harder, and much more expensive, to get credit insurance when the risks increase. Both the credit crunch and the recession greatly increase the risk of customers defaulting on the money owed, so it becomes much harder to obtain insurance cover.

2.3 Credit Risk Assessment and Financial Performance

Credit risk has been one of the most active areas of recent financial research. According to Abbink, Irlenbusch and Renner (2006), the objectives of credit risk management are to minimize bad loans by improving the risk/return profiles of the port folio, price credit risk adequately or risk based pricing, maximize benefits from potential credit opportunities, setting of concentration and exposure limits, active portfolio management, adhere to credit policies and maintain a reliable database. Barnes, Gaile and Kibombo (2001) contend that in credit risk modeling, the probability of default (PD) is one of the key parameters to be estimated for a financial institution’s performance sustainability to be ensured. It shows, however, that too little attention is paid to the different possible definitions of default in practice, although a clear understanding of the definition of default is crucial for a correct interpretation of any estimate of a PD.

According to the Basel Committee on Banking Supervision (2005), a default is deemed to have occurred when the bank considers that the borrower is unlikely to pay the credit obligations to the lending financial institution in full, without any alternative by the financial institution to actions such as realizing security. Che (2002) points out that the assessment of a loan proposal from different points of view to decide whether the credit institution should go for finance or not, i.e. the study of the borrower specially justifying credit status of the borrower is of importance. In order to select the borrower, Churchill (2002) is of the view that security should not be the only thing to be relied upon. So it's the responsibility of the loan officers to investigate the client from different view points i.e. the strength and weakness of the client so that the client will be able to repay the loan according to the repayment schedule with profit included therein. Modern concepts of credit investigation cover a well developed loan proposal analysis from six points of view which include managerial aspect comprising of sincerity, honesty, integrity, and educational background, experience of the borrower and ability of the management to run the project efficiently (Kono, 2009).

Organizational aspect which includes under what type of organization the activities will be undertaken. The technical aspect comprising of location of the business, land and building, machineries equipment, requirements to be used like power, fuel, water, materials etc. The marketing aspect constituting of marketability of the product to be produced, projected sales volume, scope of market expansion, possible threat of competition etc. The financial aspect including total requirement of fund for the business activities and how much will be required as loan from the credit institution, borrowers contributions in the business, cash inflows and out flow statement, sales forecast, balance sheet, profit and loss account etc. (Khandker, 2005)

Effective credit risk assessment and loan accounting practices should be performed in a systematic way and in accordance with established policies and procedures. To be able to carefully value loans and to determine appropriate loan loss provisions, it is particularly important that credit institutions have a system in place to reliably classify loans on the basis of credit risk. Both accounting frameworks and Basel II recognize credit grading systems as tools in accurately assessing the full range of credit risk so as cause financial sustainability in lending institutions. Additionally, Basel II recognizes that all credit classifications, not only those reflecting severe credit deterioration, should be considered in assessing probability of default and loan impairment. A well-structured credit risk grading system is an important tool in differentiating the degree of credit risk in the various credit exposures of the lending institutions. This allows a more accurate determination of the overall characteristics of the loan portfolio, probability of default and ultimately the adequacy of provisions for loan losses (Shoji, 2009)

2.4 Risk Monitoring and Financial Performance

Credit monitoring is a financial service offered to people who are concerned about fraud and identity theft. When someone utilizes credit monitoring, an agency keeps an eye on that person's credit report and financial activities, looking for signs that unauthorized activity is occurring. Financial experts disagree about the efficacy of credit monitoring. Some people feel that such services are extremely valuable, because while they cannot prevent fraud, they can catch it early, before it balloons into a major problem which could require months or years to fix. For people who have been victims of fraud in the past, credit monitoring can also be useful tools for security, making people feel more comfortable (Roodman & Morduch, 2009)

The credit risk monitoring system provides the relevant information for senior management to make its experienced judgments about the credit quality of the loan portfolio and provides the foundation upon which a lending institution's loan loss or provisioning methodology is built. That is, the same information should be utilized by senior management to monitor the condition of the loan portfolio and in the lending institution's methodology for determining amounts of loan loss provisions for credit risk assessment, accounting and capital adequacy purposes. A lending institution's loan loss methodology is influenced by many factors, such as an institution's sophistication, business environment and strategy, loan portfolio characteristics, loan administration procedures and management information systems (Ray & Sjostrom, 2004). However, there are common elements a lending institution should incorporate in its loan loss methodology, many of which are elements of the lending institution's credit risk monitoring system. A lending institution's loan loss methodology should; include written policies and procedures for the credit risk systems and controls inherent in the methodology, including roles and responsibilities of the lending institution's board of directors and senior management (Kurosaki & Khan, 2009).

Credit monitoring in general involves a detailed analysis of the entire loan portfolio, performed on a regular basis; identification of loans to be evaluated for impairment on an individual basis and segment the remainder of the portfolio into groups of loans with similar credit risk characteristics for evaluation and analysis on a collective basis and; identification of individually assessed loans that are impaired; addressing the methods used to determine whether and how loans are individually evaluated. Likewise, credit monitoring should be based on current and reliable data, address how loss rates are determined and what factors are considered when establishing appropriate time frames over which to evaluate loss experience, consideration of current collateral values and other credit risk mitigating factors incorporated in the loan agreement, where applicable. Likewise, addressing the lending institution's policies and procedures for loan charge-offs and recoveries is paramount, competent staff to analyze, estimate, review and other provisioning methodology functions are required and a systematic and logical method to consolidate the loan loss estimates and accounting standards are followed (Kondo, Aniceto, Clarence & Infantado, 2008).

As described above, a bank's credit risk monitoring system should meet fundamental requirements and procedures including the appropriate tools to assess credit risk accurately. These fundamental requirements, procedures and tools are equally necessary for assessment of credit risk, accounting and consideration for regulatory capital adequacy purposes. Accordingly, these fundamentals serve as common elements in assessing credit risk for all three purposes. Therefore, this commonality allows use of the same systems for each of the three purposes (Banerjee, Duflo, Glennerster & Kinnan, 2009). Common systems strengthen the reliability and consistency of the resulting figures, enhance the consistency in the outcomes achieved for the three different purposes, and minimize the potential risk of disincentives to follow sound provisioning practices for one or more of the measurement purposes. Generally, common types of data that are used in assessment and valuation processes include credit risk grades, historical loss rates, characteristics used to group loans for collective assessment and observable data used to estimate credit losses or to adjust historical loss rates. (Legderwood, 2009)

2.5 Risk Control and Financial Performance

This is an important issue because there is currently no standardized method used by financial institutions for the assessment of credit risk. A critical evaluation of the most popular credit risk assessment methods like the judgmental method, credit-scoring and portfolio models, highlight a number of limitations when used on their own (Alexander-Tedeschi & Karlan, 2009). Credit control also known as credit management, is a term used to describe the process of evaluating the level of risk associated with potential customers and assigning credit privileges to those customers accordingly (Chowdhury, 2007). Credit control ensures that that two goals must be achieved with credit control, thus sales revenue or profit must be improved by approving customers who present little in the way of credit risk and encouraging them to make use of that line of credit (www. Imanam.oxfordjournals.org).

At the same time, the credit management process also seeks to identify potential customers who do present a significant amount of risk, and either impose a lower credit limit on their accounts or deny credit privileges altogether. When used effectively, credit control helps to keep the overall risk assumed by the creditor within a reasonable range. Doing so has the effect of preventing a great deal of stress on the business in terms of its current debt load. A balanced approach to the task will position the company so that even if a few of the higher-risk customers do default on their account balances, the damage done to the bottom line of the company is kept to a minimum. The business remains viable and is able to provide goods and services to other clients without fears of being unable to meet its obligations (Banerjee, *et al.*, 2009).

With many companies, the process of credit control is assigned to a specific department within the overall operational structure. Assessing the creditworthiness of a prospective client is normally the task of either a member or group within the overall accounting team, but may also be a function of a risk management division or the credit department. Smaller credit institutions are more likely to bundle the task of qualifying potential clients for credit privileges into the general accounting function, while larger credit institutions may operate a separate credit management department. In both scenarios, the decisions made by the credit control team will be in harmony with the credit control policy developed and put in place by the owners and managers (Kurosaki & Khan, 2009).

Depending on the nature of the business, there may be some variance in how those credit control policies are written, and what criteria a customer must meet in order to secure credit privileges. Some businesses actually focus on consumers who are higher credit risks, especially those who have gone through a period of financial reversal and are showing signs of overcoming those past obstacles. Here, the company may choose to extend limited credit privileges along with a slightly higher rate of interest on any balances carried from one billing period to the next. Over time, as the customer responsibly manages the credit account, the company may choose to increase the credit line, while also submitting positive feedback to the various credit agencies.

2.6 Summary of Literature Review

A review of existing literature on credit risk management and agricultural loans performance was done in accordance with the dimensions of credit risk management. The literature revealed that credit assessment, control and monitoring were paramount in influencing the performance of agricultural loans. This confirmation that a change in either of the dimensions of credit risk management affected the performance of agricultural loans.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter describes how the study was conducted. It focuses on the research design and approaches that were adopted, the study area, target population, sampled population, sample size and selection. The chapter examined data collection instruments, sampling techniques and procedures, pre-testing of instruments, methods and procedures for data collection and analysis.

3.2 Research Design

This study adopted a single-case study to help explain the current situation on agricultural loan performance at HOFOKAM and analyze the inherent problem. A single-case design was adopted because the HOFOKAM is the only MFI in the zone covering Hoima, Fort Portal, Kabale and Masindi districts offering agricultural loans. The design was descriptive and analytical in nature employing both quantitative and qualitative data. This design enabled the study to be carried out at a particular time and the notion of combining quantitative and qualitative data in a case study research offered the promise of getting closer to the whole of a case in a way that a single method study could not achieve (Oso & Onen, 2009).

3.3 Study Population

The target population was 127 comprising of 7 staff of HOFOKAM and 120 group members of the village groups (HOFOKAM, 2010).

3.4 Sample size

A sample of 99 respondents was selected basing on a table for determining sample size by Krejcie and Morgan (1970). For the village groups, the responses from the chairpersons of the groups were representative of the views of the group members whereas, the staff provided the responses of the MFI.

Table 3.1: Sample Size

Category	Population	Sample	Sampling technique
Staff	7	7	Purposive sampling
Chairpersons Village Groups	120	92	Simple random sampling
Total	**127**	**99**	

Source: HOFOKAM, 2010

Table 3.1 above shows the population distribution and sample size distribution of the HOFOKAM staff and the chairpersons of the Village groups of the selected village groups. The staff comprised the study because they are involved in the day to day arrangement of credit lines whereas, chairpersons comprised of the study so as to provide the views of the clients/borrowers.

3.4.1 Sampling Technique and Procedure

The study used simple random sampling and purposive sampling techniques to select respondents. Purposive sampling is a sampling technique that allows a researcher to use cases that have required information with respect to the objectives of one's study. Cases of subjects are therefore handpicked because they possess the required information.

Purposive sampling technique was used to select key informants who are the staff. This category of respondents were chosen from the HOFOKAM headquarters since they are concerned with the decision making and planning processes of the MFI and possessed the required information with respect to objectives of the study. This saved on time and finances, and ensured proper representation of a cross-section. The simple random sampling technique was used to select the chairpersons of village groups. This method of sampling involved giving a number to every respondent in the accessible population, placing the numbers in a container and then picking any number at random.

3.5 Data Collection Methods

The data collection methods are techniques of collecting data and since in this research both quantitative and qualitative methods were used, the primary data was collected using questionnaire and interview guide.

3.5.1 Questionnaire survey

Data were collected using questionnaire. The researcher developed questionnaire that contained specific objectives of the study for respondents to complete in writing. The questionnaire was structured (close ended). The structured questionnaire elicited specific response which is easy to analyze as per Amin (2005). It gave an accurate profile of the situation and the data provided described who, what, how, when and where of the variables in the study and also established the relationship between the independent and dependent variables.

3.5.2 Interviews

Face to Face interviews were conducted. Interviews are a good tool as they enabled the researcher gather in-depth information around the topic to meet specific needs. The researcher was also able to clarify unclear issues in the questionnaire to the respondent.

3.6 Data Collection Instruments

The tools that the researcher used to collect data included a self administered questionnaire (Appendix I) and an interview guide.

3.6.1 Self Administered Questionnaire

Questionnaire is a carefully designed instrument for collection of data in accordance with the research questions and hypothesis. Self administered, pre-tested, close ended questionnaires was given to respondents, who included staff and chairpersons. The questionnaire was used because of its efficiency and convenience in collection of qualitative and quantitative data to make triangulation feasible (Mugenda and Mugenda, 2003). It is also less expensive than interviews and a lot of people can be reached in a short space of time. The use of questionnaires was considered most appropriate so that consistency can be maintained in all respondents. The research instrument was divided into four sections. Section I comprised of demographic information, section II, comprised of statements on credit management, section III comprised of statements on performance of credit and the section IV consisted of the moderating factors. This was done to get perceptions from the different categories of respondents on credit management and performance of credit at HOFOKAM.

3.6.2 Interview Guide

An interview guide was used to collect data from key informants who are management staff. This data assisted in clarifying data collected by the structured questionnaires since it involved a face to face interaction and it also provided a whole range of views.

3.7 Quality of Data Collection Instruments

In order to make sure that quality and relevant data was collected, the research instruments were tested for reliability and validity as follows;

3.7.1 Validity

The validity of the study is concerned with the extent to which data collection instruments accurately measure what they intend to. Validity and reliability are important concepts in the acceptability of the use of an instrument for research purpose. Validity refers to the appropriateness of the instrument in collecting the data that is supposed to be collected while reliability refers to its consistency in measuring whatever it is intended to measure (Amin 2005). The validity was measured by both content and face validity. Content validity measures the extent to which the content of the instrument corresponds to the content of the theoretical frame work of the study (Amin, 2005). Here, the expert views were obtained by talking to experts both academicians and practitioners in the field of Microfinance Management. These were required to comment on the relevance of the questions/items in the instrument. Content validity was assessed by using the questionnaire which measured the same concepts. If the measurements are consistent with the theoretical expectation, then the data have construct validity. Validity of the instrument was obtained using the Content Validity Index (CVI) as presented in the table below.

Table 3.2: Validity

Variable	Anchor	Content Validity Index
Credit risk assessment	5 Point	.789
Credit monitoring	5 Point	.854
Credit control	5 Point	.898

Source: *Primary data*

3.7.2 Reliability

The reliability of the questionnaires was improved through pre-testing of pilot samples from staff. This enabled the re-phrasing of some questions. Furthermore, reliability of the scales was done with the application of the Cronbach Coefficient Alpha for the computations so as to check for the internal consistency of the scales (Cronbach, 1950). According to Cronbach (1950), coefficient alpha of 0.6 and above is considered adequate.

Table 3.3: Reliability

Variable	Anchor	CVI	Cronbach Alpha Value
Credit risk assessment	5 Point	0.621	.758
Credit monitoring	5 Point	0.602	.797
Credit control	5 Point	0.629	.859
Performance of agricultural loans	5 Point	0.881	.865

Source: *Primary data*

According to Cronrbach (1950), coefficient alpha of 0.6 and above is considered adequate. From the results all the Cronrbach alpha coefficients ranged from .758 to .865, therefore meeting the acceptable standards.

3.8 Data Collection procedure

After obtaining an introductory letter from the Uganda management Institute introducing the researcher to the target respondents, appointments were made with the selected potential respondents. There was self administration of the research project with face to face interactions with the respondents at their places of convenience to avoid interruption. To aid eliciting information, the researcher opted for the questioning while picking the important points with regard to the study. On being granted permission the researcher first of all carried out a pilot study of the research and progress with data collection from the respondents by personal distribution, administration and collection of data.

3.9 Data Management and Analysis

After collecting the questionnaires and the interview schedules, the researcher carried out central editing to check the questionnaire for obvious errors such as wrong entry, missing or inappropriate replies and contacted the respondents for clarifications where necessary.

3.9.1 Quantitative Data Analysis

The researcher presented data using descriptive and analytical statistics where frequency tabulations were used to present the data on sample characteristics whereas, for the research objectives, item mean, Pearson correlation matrix and regression analysis were used. The researcher used correlation analysis to test the relationships between the independent and dependent variables whereas, regression analysis were used to study the combined effect of the independent variables on the dependent variable (Oso and Onen, 2009). Data was coded and analysed using the Statistical Package for Social Sciences (SPSS) software.

3.9.2 Qualitative Data Analysis

Data was organised and edited when collected. The researcher then created themes, categories and patterns to be able to distinguish them by the use of codes. Relationships among these themes were established and in-depth explanations and interpretations made.

3.9.3 Measurement of Variables

The measurement of the variables was carried out with the adoption of scales/items developed by authors who have carried out research in the fields of credit management and performance of agricultural loans. The items were anchored on a five point Likert scale ranging from strongly disagree (1) to strongly agree (5).

CHAPTER FOUR

ANALYSIS, PRESENTATION AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter presents the results of the study, interpretation of results and analysis of results. The chapter comprises of three sections. Section one presents the sample characteristics which include gender, age, tenure of employment, position and level of education. Section two deals with the presentation of the results on the study objectives using item mean results and correlation results. Section three studies the combined effect of the independent variables on the dependent variable using regression analysis. The presentation of results begins with a description of the sample characteristics using frequency tabulation. Item means are used to present the results of the study objectives.

4.2 Response Rate

Out of the sample of 99, there were 82 respondents from whom data was collected using questionnaires and interviews. A total of 99 questionnaires were disseminated, 82 were returned giving a response rate of 82.8%. This is confirmation that the collected data were representative of the views of the respondents and could be relied on to generalize the findings of the study to make conclusions and recommendations.

Table 4.1: Response rate

Administered questionnaires	99
Returned Usable Questionnaire	82
Percentage response rate	82.8%

4.3 Sample Characteristics

To present sample characteristics, frequency distributions were used to indicate variations of respondents based on gender, age, tenure of employment, position and level of education. The sample characteristics were presented basing on the responses in Tables 4.2 to 4.6.

4.3.1 Respondent Category by Gender

Frequency tabulation was used to present the gender distribution of the respondents in table 4.2 below.

Table 4.2: Distribution of Respondents by Gender

		Frequency	Percentage	Cumulative Percent
Valid	Male	50	61.0	61
	Female	32	39.0	100
Total		**82**	100.0	

Source: *Primary data*

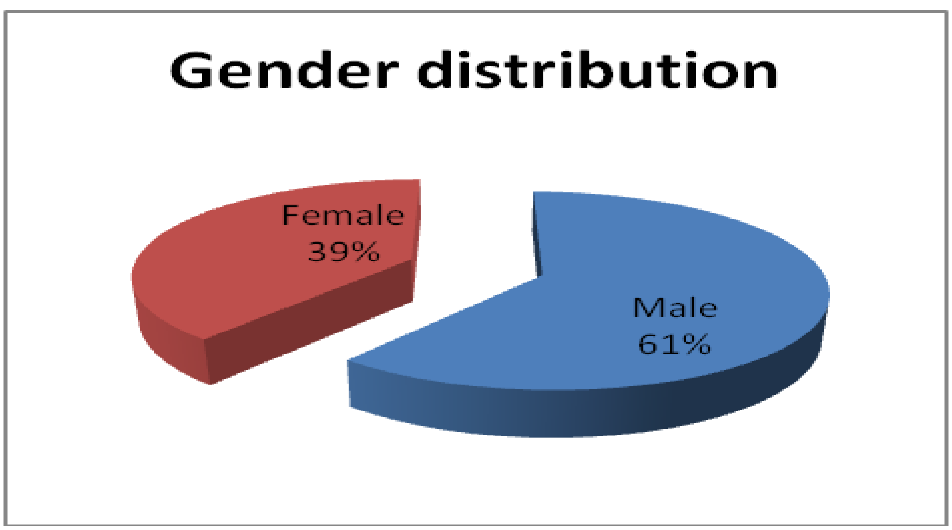

Figure 4.1: Gender distribution

The results from Table 4.2 above show that 61% of the respondents were males whereas 39% were females. From the findings, it is apparent that the males were more responsive compared to their female counterparts implying that, there were more male staff employed by HOFOKAM compared to the female staff. Similarly, there were more male borrowers compared to female borrowers. A summary of the gender distribution is presented in pie-chart figure 4.1.

4.3.2 Respondent Category by Age Group

Frequency tabulation was used to present the age group distribution of the respondents in Table 4.3 below.

Table 4.3: Distribution of Respondents by Age Group

		Frequency	**Percentage**	**Cumulative Percent**
	20-25	5	6.1	6.1
	26-30	14	17.1	23.2
	31-35	29	35.4	58.5
	36 - 40	22	26.8	85.4
	40+	12	14.6	100.0
Total		**82**	100.0	

Source: *Primary data*

Age group distribution

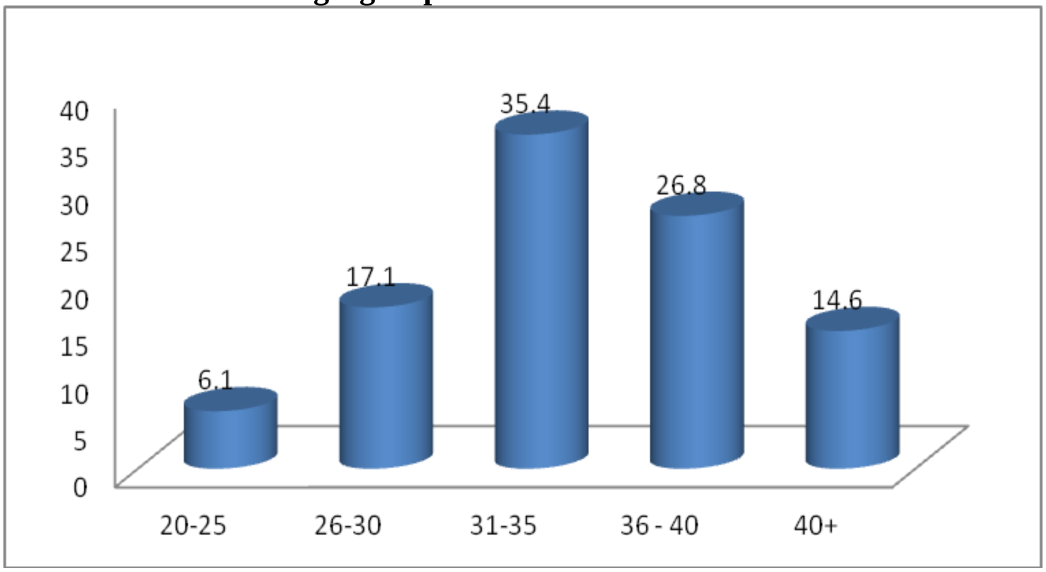

Figure 4.2: Age Group distribution

From the results in Table 4.3 above, the majority of the respondents (35.4%) belonged to the 31-35 years age group, followed by those in the 36-40 years age group (26.8%), then those in the 26-30 years age group (17.1%), then followed by those in the 40 years and above age group (14.6%); and lastly those in the 20-25 years age group (6.1%). From the results, it is clear that 62.2% of the respondents were within a range of 31 to 40 years which is evidence that the majority of the farmers and staff were youths. A summary of the age group distribution in the bar graph in figure 4.2.

4.3.3 Respondent Category by Tenure in Credit Financing

Frequency tabulation was used to present the tenure in credit financing distribution of the staff. Table 4.4 below presented the results:

Table 4.4: Distribution of Respondents by Tenure in Credit Financing

	Frequency	Percentage	Cumulative Percent
Less than 1 year	5	6.1	6.1
2 – 5 yrs	22	26.8	32.9
6 –9 yrs	35	42.7	75.6
10 – 13 yrs	13	15.9	91.5
Above 14 yrs	7	8.5	100.0
Total	**82**	100.0	

Source: *Primary data*

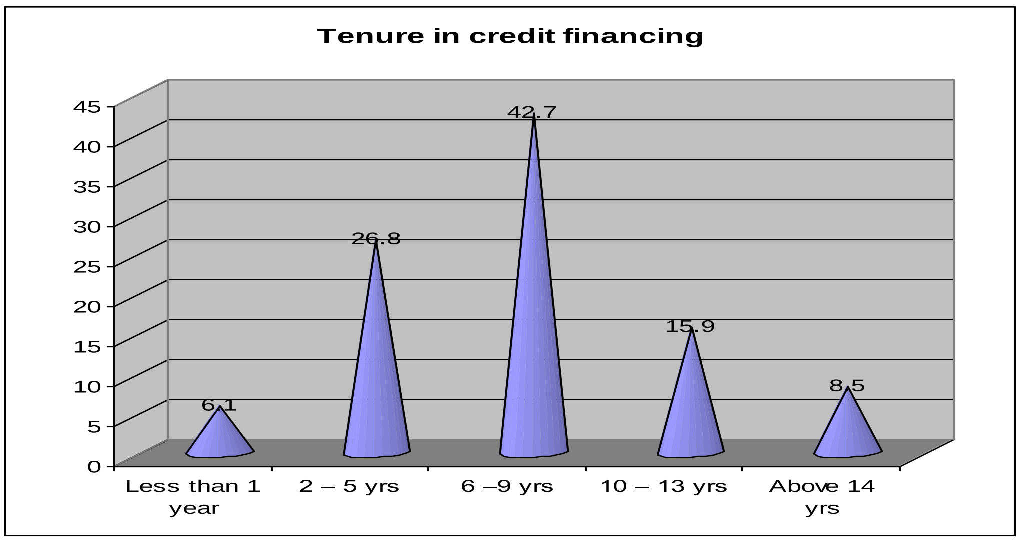

Figure 4.3: Tenure in credit financing distribution

In regard to period spent by the respondents involved in credit financing either offering and or benefiting, 42.7% had been involved for 6-9 years, 26.8% had been involved for 2-5 years, 15.9% had been involved for 10-13 years, 8.5% had participated for over 14 years and 6.1% were involved for less than 1 year. From the results, the majority of the respondents had participated in credit financing for 6-9 years which is implication that the respondents had acquired experience in credit management as a result of their involvement and participation in credit financing for long period of time. This is evidence that the respondents who comprised the study would provide the required information for the study. A summary of the results is presented in the cone graph in figure 4.3.

4.3.4 Respondent Category by Position

Frequency tabulation was used to present the position distribution of the respondents. Table 4.5 below presented the results:

Table 4.5: Distribution of Respondents by Position held

	Frequency	Percentage	Cumulative Percent
Middle management	2	2.4	2.4
Supervisor	3	3.7	6.1
Officer	2	2.4	8.5
Farmer	75	91.5	100.0
Total	**82**	100.0	

Source: *Primary data*

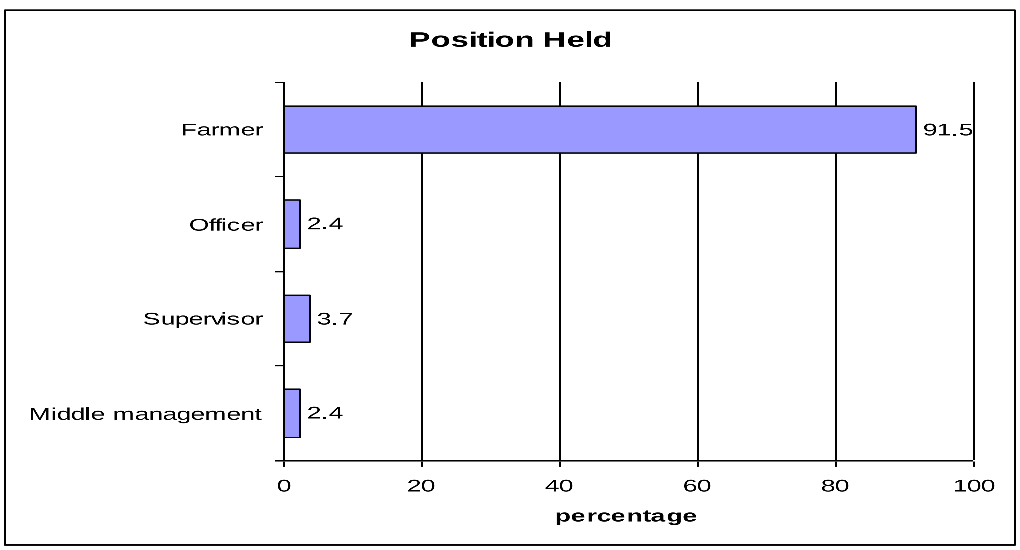

Figure 4.4: Position held distribution

From the results in Table 4.5, 91.5 % of the respondents comprised of farmers whereas, 8.5% consisted of managers, supervisors and officers. From the results above, the farmers were more responsive compared to their counterparts. This is because they comprised of the largest fraction of the sample for the study. A summary of the results is presented in the bar graph in figure 4.4.

4.3.5 Respondent Category by Level of Education

Frequency tabulation was used to present the level of education distribution of the respondents. Table 4.6 below presented the results:

Table 4.6: Distribution of Respondents by Level of Education

		Frequency	Percentage	Cumulative Percent
	Certificate	22	26.8	26.8
	Diploma	45	54.9	81.7
	Degree	12	14.6	96.3
	Masters	3	3.7	100.0
Total		**82**	100.0	

Source: *Primary data*

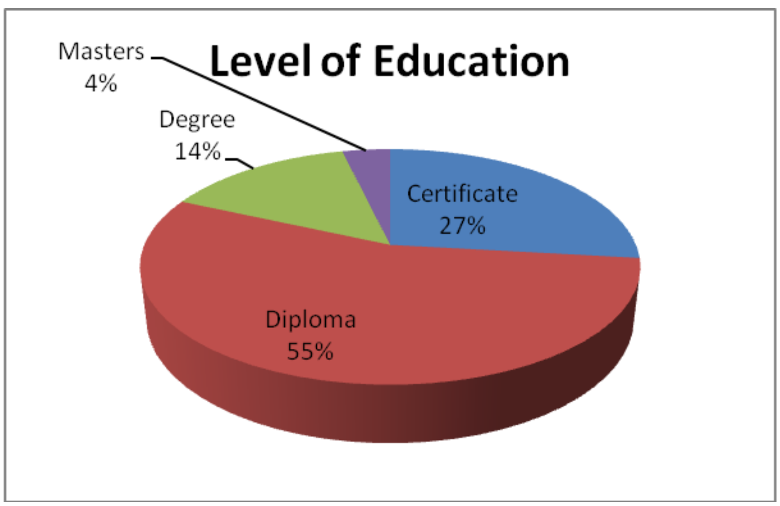

Figure 4.5: Level of Education distribution

According to the results in Table 4.6, more than half of the respondents (54.9%) were diploma holders, 26.8% were certificate holders, 14.6% held degrees and 3.7% were masters holders. From the findings, the majority of the responses were acquired from the degree holders and diploma holders. This implies that data was collected from respondent who were able to provide the required information about agricultural financing. A summary of the results is presented in the pie-chart in figure 4.5.

4.4 Specific Results

The researcher presented specific findings using summary statistics such as item means, correlations and regression analysis in line with research objectives as presented below.

4.4.1 Objective One: Effect of credit risk assessment on the performance of agriculture loans

In order to evaluate the effect of credit risk assessment on the performance of agriculture loans at HOFOKAM, item mean and frequencies percentage results were generated to show the average response of the respondents on each item. The items were attached on a five point Likert scale. The results are presented Table 4.7 below:

Table 4.7: Respondents' Views on Credit Risk Assessment

Item	SD	D	NS	A	SA	Mean	SD
There are always internal controls at HOFOKAM to mitigate the credit risk of agricultural loans	8	15	12	38	27	3.89	.85
All loans disbursed at HOFOKAM are covered with an insurance policy	14	19	7	33	27	3.62	.82
The staff at HOFOKAM follow an approved procedures in loan appraisals	14	22	9	30	25	3.55	.84
The staff at HOFOKAM are usually sensitized on risk management	5	21	2	45	27	4.01	.62
At HOFOKAM exposure to credit risk is increasing	7	11		44	38	4.22	.72
The management of HOFOKAM is always involved in credit risk mitigation	2	23	8	27	40	3.72	.80
At HOFOKAM, we regularly refer to our past experiences on credit risk	5	9		51	35	3.83	1.15
At HOFOKAM, the risky decisions about credit are usually held at the appropriate level	7	8	5	40	40	3.89	.79
HOFOKAM is committed to the timely processing of loan appraisals	35	27	9	14	15	2.28	1.08
The management of HOFOKAM usually accepts risks when benefits outweigh the costs	3	7	7	60	23	3.98	.72
At HOFOKAM, we always integrate risk management into planning at all levels	1	3		47	49	4.05	.54
There is usually adequate reporting on credit risk related activities at HOFOKAM	44	21	9	16	10	2.72	.67
The management of HOFOKAM is usually keen on fraud in the credit department	24	21	5	28	22	3.15	.67
At HOFOKAM, there is an internal auditing to check on credit risk	7	9	2	57	25	3.86	.81
All loans at HOFOKAM are secured by readily marketable collateral	18	22	5	27	28	3.58	1.01
There is a policy in place for arrears at HOFOKAM	10	24	4	33	29	3.65	.87
At HOFOKAM, there are additional costs charged in case of late payments	1	32	9	32	26	3.66	.76
At HOFOKAM, a credit committee was setup to screen all loans to be disbursed	10	17	4	47	22	3.85	.80
At HOFOKAM, a credit manual is in place to guide credit officers on credit risk assessments	23	23	4	25	25	3.09	.95

Source: *Primary data*

From the results in Table 4.7 above showed that there was agreement that HOFOKAM always integrated risk management into planning at all levels (Mean=4.05; 96%), the staff at HOFOKAM were usually sensitized on risk management (Mean=4.01;72%), exposure to credit risk was increasing at the MFI (Mean=4.22; 82%), there were always internal controls to mitigate the credit risk of agricultural loans (Mean=3.89; 65%), the risky decisions about credit were always held at the appropriate level (Mean=3.89; 80%) and the management of HOFOKAM accepted risks when benefits outweigh the costs (Mean=3.89; 83%). On the contrary, the respondents disagreed that HOFOKAM was committed to the timely processing of loan appraisals (mean=2.28; 62%) and there was adequate reporting on credit risk related activities (Mean=2.72; 65%). The results on credit risk assessment imply that much as the management of HOFOKAM was committed to ensuring that credit risk was evaluated before loan disbursement, there were still challenges related to timeliness in loan processing and adequate reporting during loan appraisals which enhanced the rate at which credit risk was increasing at the MFI.

4.4.1.1 Credit Risk Assessment and Performance of Agriculture Loans

To study the relationship between credit risk assessment and performance of agriculture loans at HOFOKAM, Pearson's correlation test was used and the results are presented in Table 4.8 below.

Table 4.8: Credit Risk Assessment and Performance of Agriculture Loans

		Credit Risk Assessment	Performance of Agriculture Loans
Credit Risk Assessment	Pearson Correlation	1	.665**
	Sig. (2-tailed)		.000
Performance of Agriculture Loans	Pearson Correlation	.665**	1
	Sig. (2-tailed)	.000	
***. Correlation is significant at the 0.01 level (2-tailed).*			

Source: *Primary data*

Correlation results indicated a significant and positive relationship between credit risk assessment and performance of agriculture loans ($r = 0.665^{**}$, $p<.01$) which is in line with hypothesis one. This implies that when there is commitment by management and staff HOFOKAM on credit risk assessment, this will enhance the effectiveness and efficiency of agricultural loans at the MFI. This position was also shared by the senior managers such as the head of credit who revealed that credit risk assessment was the first step that the MFI used to ascertain the eligibility of the borrowers and if not handled properly the performance of the loan would be compromised from the initial stage.

4.4.2 Objective Two: Effect of credit monitoring on the performance of agriculture

In order to evaluate the effect of credit monitoring on the performance of agriculture loans at HOFOKAM, item mean results were generated to show the average response of the respondents on each item. The items were attached on a five point Likert scale. The results are presented Table 4.9 below:

Table 4.9: Respondents' Views on Credit Monitoring

	SD	D	NS	A	SD	Mean	Std. Dev
At HOFOKAM, Loans are monitored closely by the credit officers	5	17	3	39	36	3.85	.66
Loans are monitored closely by the management of HOFOKAM using manual check or MIS system	20	13	3	42	22	3.98	.93
At HOFOKAM, there is internal audit system to monitor closely the credit operations	10	11	1	40	38	4.02	.84
At HOFOKAM, there is a clear methodology for credit monitoring	12	7	7	38	36	3.71	.71
The staff at HOFOKAM are well trained on credit monitoring	18	17	16	22	27	3.58	.56
Through credit monitoring in HOFOKAM there is effective loan performance	17	18	16	27	22	3.58	.50
Credit reviews are done periodically by the credit committee of HOFOKAM	17	19	16	27	21	3.66	.59
The management of HOFOKAM monitors staff on effective revenue utilization	14	18	19	27	22	3.54	.50
The management of HOFOKAM ensures day to day monitoring of income	11	23	22	22	22	3.48	.50
The availability of monitoring frameworks has enhanced tracking of loans performance at HOFOKAM	14	16	21	27	22	3.51	.64
The current credit monitoring frameworks help HOFOKAM to measure loan performance	19	14	32	18	17	3.46	.53
Through credit monitoring, management at HOFOKAM is able to identify risks likely to affect credit	12	7	7	38	36	3.75	0.79

Source: *Primary data*

The results in Table 4.9 above on credit monitoring revealed that at HOFOKAM, there was an internal audit system to monitor closely the credit operations (Mean=4.02; 78%), loans were monitored closely by the management of HOFOKAM using manual check or MIS system (Mean=3.98; 64%), loans were monitored closely by the credit officers (Mean=3.85; 75%) and through credit monitoring, management was able to identify risks likely to affect credit (Mean=3.75; 74%) among others. The results clearly show that the management of HOFOKAM was committed to ensuring that measures to monitor credit were put in place as a means of promoting effectiveness and efficiency in the loan portfolio of the MFI. This is emphasized by the Head of Credit who pointed out that in order for the loan portfolio of the MFI to realize growth, there was need to put in place measures to monitor credit processes.

4.4.2.1 Credit Monitoring and Performance of Agriculture Loans

To study the relationship between credit monitoring and performance of agriculture loans at HOFOKAM, Pearson's correlation test was used and the results are presented in Table 4.10 below.

Table 4.10: Credit Monitoring and Performance of Agriculture Loans

		Credit Monitoring	Performance of Agriculture Loans
Credit Monitoring	Pearson Correlation	1	.565**
	Sig. (2-tailed)		.000
Performance of Agriculture Loans	Pearson Correlation	.565**	1
	Sig. (2-tailed)	.000	
***. Correlation is significant at the 0.01 level (2-tailed).*			

Source: *Primary data*

Correlation results indicated a significant and positive relationship between credit monitoring and performance of agriculture loans ($r = 0.565^{**}$, $p<.01$) which is in agreement with hypothesis two. This implies that to realize effective and efficient agricultural loan performance, the management of HOFOKAM should put in place internal controls to monitor credit schemes offered by the MFI. The correlation results point to the fact that credit monitoring is paramount in ensuring effectiveness and efficiency of agricultural loans at HOFOKAM.

4.4.3 Objective Three: Effect of credit control on the performance of agriculture loans

In order to assess the effect of credit control on the performance of agriculture loans at HOFOKAM, item mean results were generated to show the average response of the respondents on each item. The items were attached on a five point Likert scale. The results are presented Table 4.11 below:

Table 4.11: Respondents' Views on Credit Control

	SD	D	NS	A	SA	Mean	Std. Dev
HOFOKAM matches loan term given to client to client's needs	39	27	9	18	7	2.75	1
At HOFOKAM, the appropriate loan amount is dependent on the purpose of the loan	13	15	14	38	20	3.68	0.87
At HOFOKAM, the appropriate loan amount is dependent on the ability of the client repay the loan	5	21	2	45	27	4.02	0.88
HOFOKAM ensures that borrowers have sufficient cash inflow to cover loan payments before advancing a loan	8	15	7	38	32	3.95	0.74
At HOFOKAM, a percentage of the borrower's savings are used as loan security	8	15	12	38	27	3.54	0.7
The management of HOFOKAM takes appropriate actions to correct any deviations from the budget guidelines	14	22	9	30	25	3.08	0.93
At HOFOKAM, the assessment costs are entirely met by the client	7	11		44	38	4.25	0.87
HOFOKAM sets a minimum loan amount for clients	1	3		47	49	4.20	0.75
HOFOKAM sets a maximum loan amount for clients	8	15	12	38	27	3.86	0.95
Clients usually graduate in loans depending on a certain criteria laid down in the policies set by HOFOKAM	14	19	7	33	27	3.62	1.1
External audit is usually done at the end of the financial year	19	22	4	30	25	3.3	0.96
Incomes of the institution are usually monitored with reports to check on the profits made	12	17	6	38	27	3.67	0.87
Credit officers at HOFOKAM are given targets to meet	14	16		33	37	3.74	0.74
Credit officers at HOFOKAM are paid according to their performance	17	22	12	27	22	3.17	0.67
Loan cost control is essential for the performance of HOFOKAM	8	15	8	36	33	3.64	0.84
Big loan approvals are made upon disbursement by top management	8	14	7	33	38	3.89	0.78
Global mean						**3.65**	

Source: *Primary data*

According to the results in Table 4.11 above on credit control, the respondents revealed that the appropriate loan amount was dependent on the ability of the client to repay the loan (Mean=4.02; 72%), the assessment costs were entirely met by the client (Mean=4.25; 82%), there was a set minimum loan amount for clients (Mean= 4.20; 96%), HOFOKAM ensured that borrowers had sufficient cash inflow to cover loan payments before advancing a loan (Mean=3.95; 70%) and big loan were disbursed upon approvals made by top management (Mean=3.89; 71%). The global mean results of 3.65 revealed that there was emphasis on credit control at HOFOKAM through setting of credit floors and ceilings for the different borrowers.

4.4.3.1 Relationship between credit control on the performance of agriculture loans

To study the relationship between credit control on the performance of agriculture loans, Pearson's Correlation Test was used and the results are presented in Table 4.12 below.

Table 4.12: Credit Control on the Performance of Agriculture Loans

		Credit Control	Performance of Agriculture Loans
Credit Control	Pearson Correlation	1	.730**
	Sig. (2-tailed)		.000
Performance of Agriculture Loans	Pearson Correlation	.730**	1
	Sig. (2-tailed)	.000	
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: *Primary data*

Correlation results indicated a significant association between credit control on the performance of agriculture loans ($r = 0.730^{**}$, $p<.01$) which is in line with hypothesis three. From the results, it was revealed that efforts by management had been made to put in place internal controls on credit rationing much as there were still challenges that hindered the effective and efficient delivery of the internal controls instituted to ensure credit control. According to the Head of Credit, *"the entire process of credit management depended entirely of the ethical conduct of both the staff and the clients, where by if there is manifestation of deviant behaviours by those involved in the credit management processes, this would compromise the performance of agricultural loans at the MFI"*.

4.5 Regression Model for Credit Management and Performance of Agriculture Loans

A regression analysis was carried out to examine the extent to which study variables (credit risk assessment, credit monitoring and credit control) predict the performance of agricultural loans. The results are presented in Table 4.13 below.

Table 4.13: Prediction Model

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	.052	.092		.563	.574
Credit risk assessment	.066	.026	.110	2.529	.012
Credit monitoring	.465	.060	.515	7.761	.000
Credit control	.283	.064	.296	4.451	.000
Dependent Variable: Performance of agricultural loans					
R	.467				
R Square	.441				
Adjusted R Square	.426				

Source: *Primary data*

According to Table 4.13, credit risk assessment, credit monitoring and credit control predict 42.6% of the performance of agricultural loans (Adjusted R Square = .426). The regression model was significant and thus reliable for making conclusions and recommendations. The most significant predictor of the performance of agricultural loans was credit monitoring (Beta= 0.515, t= 7.761, Sig. = 0.000) followed by credit control (Beta= 0.296, t= 4.451, Sig. = 0.000) and then followed by credit risk assessment (Beta= 0.110, t= 2.529, Sig. = 0.012). The findings revealed that credit risk assessment, credit monitoring and credit control were strong predictors of the performance of agricultural loans.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion, conclusions, and recommendations arising out of the results in chapter four and suggests areas for further study.

5.2 Summary of the Findings

The study sought to investigate the effect of credit management on the performance of agriculture loans in HOFOKAM Limited. This was carried out by way of unpacking the factor components of credit management and thereafter related them with the performance of agricultural loans. Data was collected by way of a self administered questionnaire which was closed ended and the data was analyzed with use of the Statistical Package for Social Scientists which was used to present results in tabulations of frequencies, item means, correlations and regression analysis. A big majority of the respondents belonged to the 31-35 years age group, whereby most of them had a tenure of 6-9 years in credit financing. In terms of positions, the farmers who were represented by the Village chairpersons were more responsive with the majority of the respondents having attained diploma level of education.

According to the correlational findings of the study variables, the findings revealed positive and significant relationships between credit risk assessment, credit monitoring, credit control and the performance of agricultural loans. This is indication that the performance of agricultural loans was determined by credit risk assessment, credit monitoring and credit control. The correlational results are in line with the regression analysis which revealed that credit risk assessment, credit monitoring and credit control predicted the performance of agricultural loans.

5.3 Discussion of the Findings

A discussion of the findings was carried out following the study objectives. Here the researcher assessed how the findings of the study were in agreement or disagreement with extant literature that was reviewed.

5.3.1 Effect of credit risk assessment on the performance of agriculture loans

The findings revealed that there was risk integration during planning at all levels, the staff were usually sensitized on risk management, exposure to credit risk was increasing at HOFOKAM, the risky decisions about credit were always held at the appropriate level much as, there little/no commitment to timely processing of loan appraisals and there was inadequate reporting on credit risk related activities. This is also supported by the correlation results which revealed a significant and positive relationship between credit risk assessment and performance of agriculture loans was observed. In agreement with the findings, Abbink, Irlenbusch and Renner (2006) posit that the objectives of credit risk management are to minimize bad loans by improving the risk/return profiles of the port folio, price credit risk adequately or risk based pricing, maximize benefits from potential credit opportunities, setting of concentration and exposure limits, active portfolio management, adhere to credit policies and maintain a reliable database.

On the other hand, Barnes, Gaile and Kibombo (2001) contend that in credit risk modeling, the probability of default (PD) is one of the key parameters to be estimated for a financial institution's performance sustainability to be ensured. On this note, Che (2002) points out that the assessment of a loan proposal from different points of view to decide whether the credit institution should go for finance or not, i.e. the study of the borrower specially justifying credit status of the borrower as of importance. According to the findings, it is the responsibility of the loan officers of the MFI to investigate the client from different view points when assessing the strengths and weaknesses of the clients so that the clients would be able to repay the loan according to the repayment schedule with profit included therein. Therefore, effective credit risk assessment should be performed in a systematic way and in accordance with established policies and procedures of the MFI. To be able to carefully value loans and to determine appropriate loan loss provisions, it is particularly important that HOFOKAM institutes a system to reliably classify loans on the basis of credit risk.

Therefore, the MFI should carry out systematic evaluation of a loan application to determine whether loans should be granted or not, and if so, are they given to clients who possess the capability of repaying the money back. This requires that the assessment involves the due diligence work that includes verifying the loan application, information gathering, examining and analyzing information gathered, examining or assessing the ability of the borrower and for recommending to management and the credit committee whether to approve a loan to a client. Through a detailed examination and analysis of loan applicants, the MFI will be in position to reduce or control credit risk. All MFIs need to undertake this process before any loan is approved and consequently disbursed. Loan assessment is a good yardstick to know whether a client deserves a loan or not.

5.3.2 Effect of credit monitoring on the performance of agriculture

According to the findings on credit monitoring and the performance of agriculture, there were internal audit systems to monitor closely the credit operations, loans were monitored closely by both management and concerned staff and through credit monitoring, management was able to identify risks likely to affect credit among others. The correlation results revealed a significant and positive relationship between credit monitoring and performance of agriculture loans which was confirmation that credit monitoring determined the effectiveness and efficiency of agricultural loans. In agreement with the findings, Roodman and Morduch (2009) asserts that when someone utilizes credit monitoring, an agency keeps an eye on that person's credit report and financial activities, looking for signs that unauthorized activity is occurring. Other proponents of credit monitoring posit that such credit monitoring is extremely valuable, because while it cannot prevent fraud, it can catch it early, before it balloons into a major problem which could require months or years to fix (Barnes, Gaile & Kibombo, 2001).

Therefore, credit risk monitoring systems provide the relevant information for senior management to make its experienced judgments about the credit quality of the loan portfolio and provides the foundation upon which a lending institution’s loan loss or provisioning methodology is built (Abbink, Irlenbusch & Renner, 2006). The same information is utilized by senior management to monitor the condition of the loan portfolio and in the lending institution’s methodology for determining amounts of loan loss provisions for credit risk assessment, accounting and capital adequacy purposes.

5.3.3 Effect of credit control on the performance of agriculture loans

From the findings on credit control and the performance of agriculture loans, it was revealed that the appropriate loan amounts were dependent on the ability of the client to repay the loan, the assessment costs were entirely met by the client, there was a set minimum loan amount for clients, HOFOKAM ensured that borrowers had sufficient cash inflow to cover loan payments before advancing a loan and big loan approvals were made upon disbursement by top management. In line with the item mean results, the correlation results indicated a significant association between credit control on the performance of agriculture loans. In line with the findings, Alexander-Tedeschi and Karlan (2009) contend that credit control also known as credit management ensures that that two goals must be achieved with credit control, thus sales revenue or profit must be improved by approving customers who present little in the way of credit risk and encouraging them to make use of that line of credit. When used effectively, credit control helps to keep the overall risk assumed by the creditor within a reasonable range. Doing so has the effect of preventing a great deal of stress on the business in terms of its current debt load (Banerjee, *et al.,* 2009).

During credit control two goals must be achieved, thus sales revenue or profit must be improved by approving customers who present little in the way of credit risk and encouraging them to make use of that line of credit (Kurosaki & Khan, 2009). Kurosaki & Khan (2009) assert that when used effectively, credit control helps to keep the overall risk assumed by the creditor within a reasonable range. Assessing the creditworthiness of a prospective client is normally the task of either a member or group within the overall credit team, but may also be a function of a risk management division or the credit department (Barnes, Gaile & Kibombo, 2001). Smaller credit institutions are more likely to bundle the task of qualifying potential clients for credit privileges into the general accounting function, while larger credit institutions may operate a separate credit management department. In both scenarios, the decisions made by the credit control team will be in harmony with the credit control policy developed and put in place by the owners and managers (Kurosaki & Khan, 2009).

5.4 Conclusions

From the findings of the study, conclusions were drawn basing on the research objectives of the study.

a) Effect of credit risk assessment on the performance of agriculture loans

The findings authenticate that credit risk assessment was a fundamental part of the performance of agriculture loans. This implies that emphasis on the set credit risk assessment procedures by staff will go a long way to enhance the effectiveness and efficiency of agricultural loans at HOFOKAM. This is confirmation that credit risk assessment was principal in enhancing the performance of agriculture loans at HOFOKAM

b) Effect of credit monitoring on the performance of agriculture

In general, the findings on the association between credit monitoring on the performance of agriculture loans revealed that there was some level of credit monitoring at HOFOKAM much as the process was being encountered with challenges which posed a negative effect on the performance of agriculture. The positive significant relationship between credit monitoring on the performance of agriculture is explanation that to attain effective and efficient agricultural loan performance, there was need to strengthen the credit monitoring processes followed at HOFOKAM.

c) Effect of credit control on the performance of agriculture loans

The findings established that credit control determined the performance of agricultural loans at HOFOKAM which is implication that the existence of the required internal credit controls and management and staff's commitment to implementation of the set internal controls, would enhance the performance of agriculture loans at HOFOKAM.

5.5 Recommendations

In light of the research findings, the following recommendations are made:

Effect of credit risk assessment on the performance of agriculture loans

The findings revealed that credit risk assessment impacted on and the performance of agricultural loans. Therefore, management should be committed to ensure that the credit risk assessment processes are not abused by staff and are adhered to by all concerned staff. As this is the medium through which clients' illegibility is assessed in order to extend credit to them.

Effect of credit monitoring on the performance of agriculture loans

The findings on the relationship between credit monitoring and the performance of agricultural loans revealed that with effective credit monitoring systems the possibility of realizing growth in the performance of agricultural loans could achieved. Therefore, to realize efficiency in the performance of agricultural loans at HOFOKAM, the management of the MFI should draw a lot of emphasis on credit monitoring and evaluation as away of assessing the performance of the credit portfolio.

Effect of credit control on the performance of agriculture loans

The findings revealed that that credit control had a significant effect on the performance of agricultural loans. Therefore, the management of HOFOKAM should strengthen the credit control function through instituting effective and efficient internal controls as a means of reducing non performing assets of the MFI. This should be supported by stringent measures that discourage loan default and deviant behaviours from staff.

Others

As a means of enhancing the performance of agricultural loans at HOFOKAM, there should be benchmarking of other MFIs that have attained effective and efficient performance of agricultural loans through credit management. This should be supported with stakeholder involvement as a means to bring all users on board.

Management should consider putting in place a training program for all staff in credit management clearly identifying it effect on loan performance. This plan should have active participation from stakeholders and should be adhered to by management as a means of creating a sense of responsibility among staff. Through the training insights will created among staff on how to foster and effective and efficient credit management process that will promote loan performance.

5.6 Areas for Further Research

This study concentrated on credit risk assessment, credit monitoring, credit control and the performance of agricultural loans. Future research should attempt to widen the scope of the study to cover other regions to ascertain the findings.

The study adopted a cross sectional design which studied the state of affairs at the HOFOKAM at a point in time. To study the true nature and quality of the effect of credit risk assessment, credit monitoring and credit control on the performance of agricultural loans, a longitudinal study is more appropriate.

From the findings, the regression analysis revealed that the model could only explain 42.6% in variance of the performance of agricultural loans; a study should be carried out comprising of other factors which were not part of the model.

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APPENDIX I

QUESTIONNAIRE

Dear respondent,

I am a student at Uganda Management Institute pursuing a Masters degree in Management Studies (Business Administration). I am researching on **Credit Management and the Performance of Agriculture Loans in Uganda: A Case of HOFOKAM Limited**. Given your unique experience and position in credit financing, you have been chosen purposely for the study. Your response is therefore very instrumental to the success of my project. Kindly assist by answering the following questions as honestly as possible. The data sought shall be purely for research purpose and will therefore be treated with anonymity and utmost confidentiality.

SECTION A: Personal Profile

Kindly tick (√) the appropriate answer option.

1. What is your gender?

Male	Female

2. Your Age of Range

20-25	26-30	31-35	36 - 40	40+

3. How long have you been in credit financing

Less than 1 year	2 – 5 yrs	6 –9 yrs	10 – 13 yrs	Above 14 yrs

4. Your Position/Title held

Senior Management	Middle management	Supervisor	Junior officer

5. Your highest level of education

Certificate	Diploma	Degree	Masters	PhD

Instructions: Please tick the box on a scale of 1-5 which best explains your opinion by using: 1. Strongly Disagree 2. Disagree 3. Neither Agree nor Disagree 4. Agree 5. Strongly Agree

SCALE	**1**	**2**	**3**	**4**	**5**
	Strongly Disagree (SD)	**Disagree (D)**	**Neither Agree nor Disagree (NS)**	**Agree (A)**	**Strongly Agree (SA)**

Section III: Credit Risk Assessment

	SD	D	N	A	SA
There are always internal controls at HOFOKAM to mitigate the credit risk of agricultural loans	1	2	3	4	5
All loans disbursed at HOFOKAM are covered with an insurance policy	1	2	3	4	5
The staff at HOFOKAM follow an approved procedures in loan appraisals	1	2	3	4	5
The staff at HOFOKAM are usually sensitized on risk management	1	2	3	4	5
At HOFOKAM exposure to credit risk is increasing	1	2	3	4	5
The management of HOFOKAM is always involved in credit risk mitigation	1	2	3	4	5
At HOFOKAM, we regularly refer to our past experiences on credit risk	1	2	3	4	5
At HOFOKAM, the risky decisions about credit are usually held at the appropriate level	1	2	3	4	5
HOFOKAM is committed to the timely processing of loan appraisals	1	2	3	4	5
The management of HOFOKAM usually accepts risks when benefits outweigh the costs	1	2	3	4	5
At HOFOKAM, we always integrate risk management into planning at all levels	1	2	3	4	5
There is usually adequate reporting on credit risk related activities at HOFOKAM	1	2	3	4	5
The management of HOFOKAM is usually keen on fraud in the credit department	1	2	3	4	5
At HOFOKAM, there is an internal auditing to check on credit risk	1	2	3	4	5
All loans at HOFOKAM are secured by readily marketable collateral	1	2	3	4	5
There is a policy in place for arrears at HOFOKAM	1	2	3	4	5
At HOFOKAM, there are additional costs charged in case of late payments	1	2	3	4	5
At HOFOKAM, a credit committee was setup to screen all loans to be disbursed	1	2	3	4	5
At HOFOKAM, a credit manual is in place to guide credit officers on credit risk assessments	1	2	3	4	5

Section IV: Credit Control

	SD	D	N	A	SA
HOFOKAM matches loan term given to client to client's needs	1	2	3	4	5
At HOFOKAM, the appropriate loan amount is dependent on the purpose of the loan	1	2	3	4	5
At HOFOKAM, the appropriate loan amount is dependent on the ability of the client repay the loan					
HOFOKAM ensures that borrowers have sufficient cash inflow to cover loan payments before advancing a loan	1	2	3	4	5
At HOFOKAM, a percentage of the borrower's savings are used as loan security	1	2	3	4	5
The management of HOFOKAM takes appropriate actions to correct any deviations from the budget guidelines	1	2	3	4	5
At HOFOKAM, the assessment costs are entirely met by the client	1	2	3	4	5
HOFOKAM sets a minimum loan amount for clients					
HOFOKAM sets a maximum loan amount for clients	1	2	3	4	5
Clients usually graduate in loans depending on a certain criteria laid down in the policies set by HOFOKAM	1	2	3	4	5

External audit is usually done at the end of the financial year	1	2	3	4	5
Incomes of the institution are usually monitored with reports to check on the profits made	1	2	3	4	5
Credit officers at HOFOKAM are given targets to meet	1	2	3	4	5
Credit officers at HOFOKAM are paid according to their performance					
Loan cost control is essential for the performance of HOFOKAM	1	2	3	4	5
Big loan approvals are made upon disbursement by top management	1	2	3	4	5

Section VI: Credit Monitoring

	SD	**D**	**N**	**A**	**SA**
At HOFOKAM, Loans are monitored closely by the credit officers	1	2	3	4	5
Loans are monitored closely by the management of HOFOKAM using manual check or MIS system	1	2	3	4	5
At HOFOKAM, there is internal audit system to monitor closely the credit operations	1	2	3	4	5
At HOFOKAM, there is a clear methodology for credit monitoring	1	2	3	4	5
The staff at HOFOKAM are well trained on credit monitoring	1	2	3	4	5
Through credit monitoring in HOFOKAM there is effective loan performance	1	2	3	4	5
Credit reviews are done periodically by the credit committee of HOFOKAM	1	2	3	4	5
The management of HOFOKAM monitors staff on effective revenue utilization	1	2	3	4	5
The management of HOFOKAM ensures day to day monitoring of income	1	2	3	4	5
The availability of monitoring frameworks has enhanced tracking of loans performance at HOFOKAM	1	2	3	4	5
The current credit monitoring frameworks help HOFOKAM to measure loan performance	1	2	3	4	5
Through credit monitoring, management at HOFOKAM is able to identify risks likely to affect credit	1	2	3	4	5

Section V: Agricultural Loan Performance

	SD	**D**	**NS**	**A**	**SA**
At HOFOKAM, loan repayments are promptly settled by clients.	1	2	3	4	5
The number of defaulters at HOFOKAM is reducing	1	2	3	4	5
There is an MIS system in place to monitor loan performance at HOFOKAM	1	2	3	4	5
The interest of the acquired loan is favorable for the repayment of the loan.	1	2	3	4	5
HOFOKAM gives a grace period before commencement for the loan repayment.	1	2	3	4	5
Given the interest rate of the loan, clients are willing to stick to HOFOKAM	1	2	3	4	5
Penalties are given by HOFOKAM for late repayments	1	2	3	4	5
HOFOKAM offers favorable loan repayment terms.	1	2	3	4	5
Profitability on credit given is adequate for the future of HOFOKAM's development.	1	2	3	4	5
At HOFOKAM, the group loans perform better than individual loans.	1	2	3	4	5
Every credit officer at HOFOKAM is assigned with various loan categories	1	2	3	4	5
Every credit officer at HOFOKAM closely monitors the loans assigned to them	1	2	3	4	5
Every credit officer at HOFOKAM is in charge of assessing the clients he/she is in charge of	1	2	3	4	5
At HOFOKAM , an incentive is given to the credit officer whose loan performance is up to standard	1	2	3	4	5

Targets are set by the management of HOFOKAM to achieve good loan performance	1	2	3	4	5
The clients of HOFOKAM are given rewards or an incentive for good loan repayments	1	2	3	4	5
At HOFOKAM, clients are given loans basing on ability to pay	1	2	3	4	5
At HOFOKAM, clients are given loans basing on their willingness to pay	1	2	3	4	5