



UGANDA MANAGEMENT INSTITUTE

**INSTITUTIONAL MANAGEMENT POLICIES AND
LOAN RECOVERY BY MICROFINANCE
INSTITUTIONS (MFIS) IN UGANDA.**

A Case of Faulu Uganda

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DECLARATION

This dissertation is my original work and has not been presented for a degree in any other University or Institute.

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Dedication

This work is dedicated to the clients of Faulu Uganda Limited who provided the data that has led to the conclusion of this study.

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List of Abbreviations and Acronyms

CGAP	Consultative Group to Assist the Poorest
CMF	Commercial Micro Finance
FGD	Focus Group Discussion
FY	Financial Year
IFPRI	International Food Policy Research Institute
INAFI	International Network of Alternative Financial Institutions
MDI	Microfinance Deposit taking Institutions
MED-Net	Micro Economic Development Network
MFI	Micro Finance Institutions
MRFC	Malawi Rural Finance Company
NGOs	Non Governmental Organizations
NPART	Non Performing Assets Recovery Trust
SACCOs	Savings and Credit Cooperatives
SPSS	Statistical Package for Social Scientists
UMI	Uganda Management Institute
UMU	Uganda Microfinance Union
UWFT	Uganda Women Finance Trust

Abstract

This study ought to examine the relationship between Institutional Management Policies and Loan Recovery. in Faulu Uganda.

Data was collected from Faulu clients and employees using two sets of semi structured questionnaires. A focus group discussion was also held with a group of Faulu clients. The data was analysed using frequency tables, charts and graphs. SPSS was to analyse the correlation and regression relationships of the study variables of institutional management policies and loan recovery.

The findings of the study show that there is a positive relationship between institutional management policies and loan recovery. The results revealed that 77.6% of the loan recovery is brought about by institutional management policies. Institutional policies regarding product design came out the strongest in affecting loan recovery. It is therefore recommended that MFIs need to review the products they offer to their clients to ensure they meet the clients' needs. The policy of increasing loan size progressively with repeat customers can increase loan recovery. Clients being aware of the policies will compel them to comply and thus increase loan recovery thereby minimizing losses to the MFI.

Loan Officers of the MFIs play a big role in enhancing loan recovery if they explain the institutional policies to the clients and comply with them.

This minimizes the losses caused by high non- repayment rates that weaken the microfinance institutions capital base and profitability.

A suggestion for study further is therefore proposed in the area of business training for MFI clients as a strategy towards minimizing client business failure.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents the background to the study and the statement of the problem. The general objective of the study was to examine the relationship between institutional management policies and loan recovery. The research questions, scope of the study and its significance together with the justification of the study are also presented in this chapter. The study was an investigation on the relationship between institutional management policies and loan recovery in Ugandan Micro Finance Institutions (MFIs). It was a case study of Faulu Uganda Limited, cross sectional in design. Institutional management policies was the independent variable and loan recovery the dependent variable. This relationship is presented in the conceptual framework.

1.1 Background to the Study

The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the '*susus*' of Ghana, '*chit funds*' in India, '*tandas*' in Mexico, '*arisan*' in Indonesia, '*cheetu*' in Sri Lanka, '*tontines*' in West Africa, and '*pasanaku*' in Bolivia, as well as numerous savings clubs and burial societies found all over the world. (CGAP 2006). In Uganda, you find such groups as '*Sekiriba kyattaka*' (the burial cloth), '*Muno Mukabi*' (a friend in need). The formalization of microfinance started through the cooperative unions which were established in the early 1950s (Wamasembe 2001). The current model of micro credit is based on the Grameen Bank of Bangladesh.

The United Nations declaration of 2005 as the year of Micro Finance underscores the importance of Micro finance. Micro finance is increasingly benefiting millions of families all over the globe. Information gathered from programs on every continent indicates that micro credit is reaching over thirteen million poorest people, six million more over the last two years, an increase of 82 percent. With an average of five members per family that means the over thirteen million people poorest clients are better able to support sixty million family members. Thirteen million of these families are in Africa, Micro credit Summit (2000).

In Uganda at the end of 2003, approximately 1,500 MFIs were serving more than 935,000 small savers and close to 4,000,000 borrowers. Microfinance services were spearheaded by NGOs, to extend financial services to the rural poor and lower income earners who would need financial resources to improve on their levels of income. They were considered high-risk clients and they could not meet the basic collateral security required by commercial banks.

The government of Uganda places great importance to Microfinance to the extent that a minister of state in charge of Micro finance was appointed in the Ministry of Finance, Planning and Economic Development. An Act of Parliament, the Microfinance Deposit-taking Institutions (MDI) Act 2003, has been enacted towards regulating the activities of the MFIs in a bid to protect the public dealing with the MFIs.

Micro finance provided by NGOs was highly subsidized by donors who rendered the service on charitable terms. Repayment was not a key factor of MFIs business analysis when they were highly subsidized as NGOs. This contributed to loan default, a problem that has persisted.

In Uganda, various MFIs increasingly have to write off huge amounts of loans due to client failure to meet, honor, or pay back their loans. Some have large amounts of funds under ‘the portfolio at risk’ more than 1 day, 30 days or even 180 days. Portfolio at risk beyond 180 days is not allowed in microfinance business and is supposed to be written off as bad debts. Civil society is accusing MFIs of using undue force in an effort to recover loans from clients. Some clients have been handed over to debt collectors and others have ended up in prison for non-payment of loan funds. The New Vision Newspaper of Friday 29 June 2007, ran a ‘‘Notice to Loan Defaulters’’ with pictures of ten people by a Law firm with a statement’’ Should we fail to hear from you within one week from the date of this advertisement, our client has instructed us to use all lawful means possible to recover the outstanding amounts from you.’’ All this goes to show that it is not well in the area of loan recovery by MFIs. Failure to recover the loans advanced by MFIs lowers the MFIs profits and the long run will affect its capital base. Even the very purpose of the MFI, to extend credit to the poor may not be achieved due to decreasing resources.

A review of the loan information of Faulu Uganda 2004-2006 reveals that Faulu had a problem with loan recovery. The trend analysis of loan recovery from 2004 to 2006

shows that the number of loans paid past time increased from 1,506 (Shs 436,006,001 in value) to 2,678 (Shs.1,000,584,685 in value) in 2004 to 2005 reflecting an increase of 43.7%. However, there was a decline to 1,922 (Shs 431,952,662 in value) in 2006. The same information indicates poor loan recovery leading to subsequent write off as bad debts as evidenced in FY 2005 where an amount totaling to Shs301,822,569 in value and in FY 2006, loans totaling Shs 436,230,507 in value were written off as bad debts.

1.2 Statement of the Problem

Loan recovery is a problem for Ugandan MFIs. Micro-financing enables low income people to access small loans with convenience and speed through the support of group security, and bridging cash gaps in their work system, (Okurut *et al.*, 2004).

Micro Finance Institutions are however experiencing problems in recovering loans from their clients. These include writing off of huge sums of loans as bad debts. MFIs have taken their clients to courts of law. Uganda has been plagued by a very poor credit repayment culture as evidenced by the high level of non performing assets in the portfolio of most MFIs and commercial banks some of which are now under liquidation.” Senkubuge, (2004). A survey was conducted by IFPRI in 1999, on MFIs in Asia, Africa and Latin America to offer a new in-depth analysis of the distribution and performance of MFIs at the international level. It found out that in terms of performance, African MFIs have the lowest repayment rates. (IFPRI Policy Brief No.6 July 2000).

Poor loan recovery affects the Micro Finance Institution's profitability and in the long run weakens the institution's capital base. This could lead to the eventual close down of the MFI.

The objective of the study was therefore to examine the relationship between Institutional management policies and loan recovery.

1.3 General Objective

The study examined the relationship between institutional management policies and loan recovery by MFIs in Uganda, Faulu Uganda.

1.4 Specific Objectives of the Study

The study was guided by the following objectives;

- i. To examine how product design and lending methodologies affect loan recovery at Faulu Uganda.
- ii. To examine whether customer appraisal and monitoring affect loan recovery at Faulu Uganda.
- iii. To examine how loan officers' skills and efficiency affect loan recovery at Faulu Uganda.

1.5 Research Questions

To achieve the above objectives the study was guided by the following research questions;

- i. What is the relationship between product designs, lending methodologies and loan recovery at Faulu Uganda?

- ii. What is the relationship between customer appraisals and monitoring and loan recovery at Faulu Uganda?
- iii. What is the relationship between loan officer’s skills, efficiency and loan recovery at Faulu Uganda?

1.6 Hypotheses of the Study

Institutional management polices favourable for the clients will improve loan recovery by the MFI.

Products designed and lending methodologies geared towards the client needs will improve loan recovery.

Skilled and efficient Loan Officers will improve loan recovery by MFIs.

1.7 Conceptual framework

The relationships between variables are presented below.

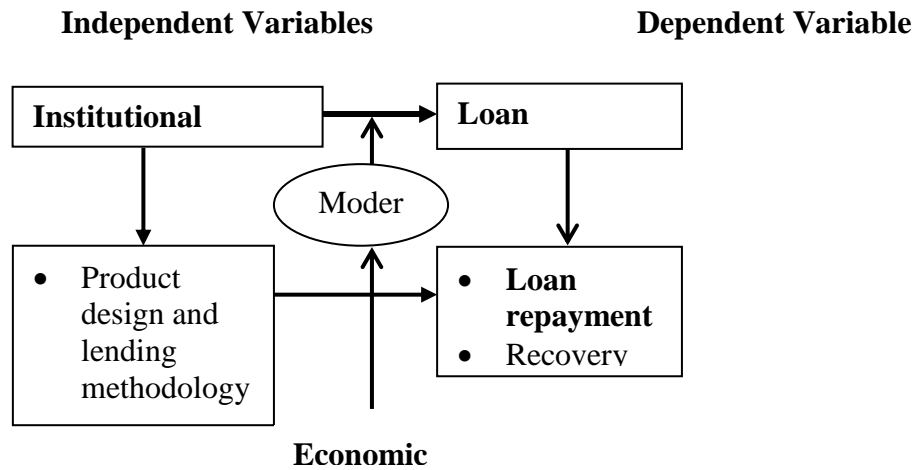


Figure 1: Conceptual framework

Source: Primary data and Literature Review

Institutional Management Policies is the independent variable and was operationalised and broken down into product design, lending methodologies, customer appraisal, monitoring and loan officers' efficiency and skills. Loan Recovery is the Dependent Variable. This was broken into loan repayment made within the agreed time, the repayment made past time and the loans that were defaulted. The act of giving out loans is controlled by the institutional management policies. How these policies impact the clients will affect their ability to pay back the loan and ultimately loan recovery. However the loan giving business is done in the open market that is affected by the economic environment at the time. The economic environment is highly influence by government policy, especially interest rates. That is why the moderating variable were introduced into the conceptual framework but were not be studied.

1.8 Significance of the Study

The findings of the study are of significance to the Micro Finance Institutions (MFIs) which could use them together with the recommendations in decisions of what policies to strengthen to accelerate loan recovery. Also potential investors who would like to invest in MFIs and loan business will use the findings to understand the culture of loan recovery in the economy. The study findings will also add on the wealth of knowledge about the business operations of MFIs in Uganda that other researchers can use. And the study was to fulfill the requirement of obtaining a master degree in Management Studies of Uganda Management Institute (UMI)

1.9 Justification of the study

Loan recovery is a problem affecting many Ugandan MFIs. Loans that are not recovered leading to write-offs as bad debts affect the MFIs' profitability and eventually the capital base. The different actions taken against defaulting clients many times affect the MFIs' reputation, as the general public and political leaders do not favor them. Therefore, a study into Institutional Management Policies that could help Ugandan MFIs towards maximizing loan recovery was justifiable.

1.10 Scope of the study

This section explains the limits of the study in respect of content, geographical and time scope.

1.10.1 Content Scope

The study carried out was limited to examining the relationship between institutional management policies and loan recovery by MFIs in Uganda. Institutional management policies was the independent variable and loan recovery the dependent variable. The study sought to examine the relationship between institutional management policies and loan recovery. Both primary and secondary data collected was based on these two variables and their main dimensions. This is shown in the conceptual framework of the study.

1.10.2 Geographical Scope

The study was conducted in one MFI (Faulu Uganda) in Kampala District. Two branches, Kiira road and Kawempe branch generated the study sample.

1.10.3 Time Scope

The study took into account the period between 2004 – 2006, covering a period of three years. It was during this period that micro finance institutions had revolved and embarked on advancing loans to the public as their main service with a business attitude. The data falling within this period was enough to fully study the relationship between of institutional management policies and loan recovery by MFIs in Uganda.

1.11 Operational Definitions

Micro finance: the provision of loans with specified terms for repayment.

Loan recovery refers to the process of getting back what was given out as the principal and the interest charged, (Khandler, et al, 2002). The analysis of loan recovery, the dependent variable, was broken into loan repayment and loan default.

Institutional management policies is the rules and regulations of dealing with MFI clients.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviewed the already existing literature about the variables under study that is Institutional management policies and loan recovery in Micro Finance Institutions (MFIs) basing on the objectives of the study. The purpose of this chapter was to identify what other researchers and academicians have written about the two variables, thus it helped the researcher to establish the information gap about the relationship between institutional management policies and loan recovery. The main sources of literature included textbooks, journals and publications by the Institute of Bankers, review of financial reports of Faulu, the internet, and published research reports among many others.

2.1 The Concept of MFIs in Uganda

Microfinance is defined as “the provision of small loans and other financial services to the poor entrepreneurs who are otherwise excluded from conventional banking services.” (Centre for Global Studies Policy Brief, 2002). In addition to financial intermediation, some MFIs also provide social intermediation services including help in group formation and development of self-confidence, financial literacy, and other services. The study was limited to micro credit lending. Typical accounts of microfinance history tell us that in the 1970s an imaginative experimenter, most often it is Muhammad Yunus in Bangladesh, but sometimes it is the workers for Acci International in Brazil or

Opportunity International in Colombia, discovered that poor people will repay small loans, Roodman & *et al* (2005). The Grameen Bank, for example, today boasts of a Nobel Prize, 1,700 Branches, 16,000 employees, and 6 million Customers, 96% of them being women). <http://www.grameen-info.org>

The Uganda Microfinance Effectiveness Review (2004) reported that – “at the end of 2003, approximately 1,500 MFIs were serving more than 935,000 small savers and close to 4,000,000 borrowers in the country.” Faulu Uganda limited the MFI under study is among the main MFIs in Uganda.

The coming up of MFIs was received with a lot of excitement by the small scale businesses since they required less stringent terms as compared to commercially oriented institutions like banks. (Bank of Uganda Working Paper, WP/04/01 Pages 8-9). Micro business started as a service by NGOs but MFIs have embraced a more business-oriented outlook, maintaining their target groups of economically active poor while focusing on achieving operational and financial sustainability, clear policy and strategic framework and commitment to good practice, (Uganda Microfinance Effectiveness Review, 2004).

The Micro Deposit taking Institutions (MDI) Act (2003) requires MFIs to be sufficiently capitalized under the new shareholding arrangement. In order to attract the private sector investors who are mainly motivated by the expected return on their investment MFIs must deal with clients that will repay their loans.

Government policies on poverty eradication have led to the emergency of Savings and Credit Cooperative Organisations (SACCOs) to supplement the activities of MFIs in Uganda. The number of SACCOs has also mushroomed during this period, after the Vice President of Uganda publicly encouraged the creation of new SACCOs as a means by which poor Ugandans in rural areas could generate wealth through self-help. By the early 2004, there were an estimated 1,300 SACCOs in the country up from 250 in 1998 (Uganda Micro Finance Effective Review, 2004).

2.2 Loan Recovery in Ugandan MFIs

Loan recovery was the problem under study and so is the dependent variable. Loan recovery refers to the process of getting back what was given out as the principal plus the interest charged, Khandler, *et al*, (2002).

A survey by IFPRI in 1999, found out that loan portfolio, performance and recovery has been the biggest challenge by most MFI. African Microfinance institutions have the lowest repayment rates.

In Uganda, loan recovery has been a major problem. Kamuhanda (2006), points out that in 1995, the government was involved in direct delivery of micro credit through the ‘*Entandikwa* Credit Scheme. The purpose was to promote rural and agricultural financing, targeting the section of the population that could not obtain credit through traditional commercial lending. The scheme totally failed and according to Bank of Uganda, by January 2007 the government had recovered less than Ush 5000M (\$0.3M)

out of Shs 9.4Billion (\$5.1M) handed out as loans under the scheme; East African Newspaper.

Senkubuge, (2004), explains that ‘‘Uganda has been plagued by a very poor credit repayment culture as evidenced by the high level of non performing assets in the portfolio of most MFIs and commercial banks some of which are now under liquidation.’’ For example, Uganda Cooperative Bank was liquidated due to poor loan recovery from the customers, which led to liquidity problems.

Adams and Vogel (2003), advance the incentive argument to explain low loan recovery. They articulate that borrowers are more likely to repay when credit and their relationship with the lenders is valuable to them. If a loan is perceived as a grant or political handout or the lender is viewed as transitory and unlikely to provide additional services in the future then the incentive to repay is diminished. The case of the *Entandiikwa* programmer in Uganda supports this argument as it was considered a political handout by many and resulted in very high default rates.

A case study done by Khandler *et al* (2002) reports that in many developing countries, the loan recovery rates of micro finance deposit taking institutions and other credit institutions are quite low ranging between 25%-50% giving three main reasons for this. These include common views among borrowers that credit from formal sources do not have to be repaid, the high co-linearity between loan repayment and production risks and the inability of credit institutions to enforce loan contracts.

Webster in Working Paper No.20 of the World Bank reports that the economic environment causes poor collection; she indicates the relationship between income per capita and collection performance. High repayments are located in countries with higher Per Capita Incomes and the reverse is true. Thus suggesting that it is difficult to recover loans in poorer areas because of less favorable conditions over all, Webster, (2003). The harsh economic conditions make business operations difficult.

Mwaniki (2006), points out that in all MFIs loan default is a major issue because it affects portfolio quality, profitability, financial sustainability and out reach for the organisations. This implies that in all circumstances the management of MFI must design policies and procedures to avert the problem of loan default.

Loan recovery through the legal framework is a challenge for Microfinance practitioners. Most MFIs continually face difficulties while enforcing repayments from willful and capable loan defaulters. The recovery process through the legal system tends to be both strenuous and fruitless, with little gains if any currently recorded. Even for large size loans, MFIs prefer to utilize other means of loan recovery rather than the legal route because of fear for double losses, that is time and money. They engage commercial debt collectors who end up taking a percentage of the amounts collected

Weak Management Information Systems is another challenge of loan recovery by most MFIs in Uganda and responsible for bad loans in the end. In many of the MFI programs,

information on who is in arrears or default by what amount and why is often incomplete or inaccurate. In the absence of this information, management of the loan recovery becomes virtually impossible. A client can easily fall in arrears and later default without the knowledge of the credit officer but later absents themselves from group meetings and even migrating from the area altogether. Good loans can also get bad when the borrowers fall sick, which stops them from working, death also leads to default, unless family members inherit both the project and debt Oketch *et al*, (1994).

Gerhard, (2003) points out that most MFIs in Uganda offer different loan repayment terms. The main ones include periodical repayment, monthly and quarterly either at the same or different dates. The customer is given an option of selecting the best repayment plan that best suits her or his operations. Periodical instalments involve combining the interest and principal payment. This makes the debt burden easily calculable for the borrower since the instalment has the same amount over the life of the loan. Bullet involves the payments of the interest on periodical basis and the principal amount repaid in full at the end of the loan period. This gives the borrower time to strengthen his or her liquidity. Such arrangements are not used in Uganda MFIs yet.

2.3 Institutional Management Policies

2.3.1 The Relationship between Product Design, Lending Methodologies and Loan Recovery

A study done by INAFI AFRICA Trust quotes Musona *et al* (2001) as noting that “One of the biggest challenges in the provision of financial services to micro and small

entrepreneurs is the inability by many programmers to design appropriate products reflecting an understanding of the reality of this market. The result is that clients are forced to accept products that in most instances do not answer their needs, but on the other hand is the only product available.” This will lead to business failure thus affecting repayment rates. Most MFIs in Uganda have standardized products and lending methodologies, which are just general and not specifically tailored to the clients. These, some times, do not suit the clients’ needs depending on the businesses and the capability of repayment of the borrowed amounts.

Unless the lender reschedules repayment, grants grace period commensurate with the business interests of the client to give the investment time to mature, good loans can become bad. Other business related challenges of loan management arise from mismatch in loan size and potential income from investment made by the loan, Oketch et al, (1994). Loan term, the period of time during which the entire loan must be repaid should be closely determined with the clients’ use of the loan. “The closer an organization matches loan terms to its client’s needs, the easier it is for the client to ‘carry’ the loan and the more likely that payments will be made on time and in full” Ledgerwood,(1999). Another element of institutional management policies by the credit organizations is the lending methodologies. To increase loan recovery rates, the management of the credit institution should design lending methodologies that suit the client’s business.

In a study done in Malawi of the Malawi Rural Finance Company (MFRC) - findings demonstrate that a lending policy of gradually increasing the loan sizes of good and

repeat borrowers (which increase the value of maintaining future access to credit) will have a positive impact on repayment rates.

Manohar S., (2000) writes that MFIs targeted to poor people can operate successfully and achieve high loan recovery rates if they develop lending technologies that do not rely on collateral but instead cultivate borrowers' expectations for higher and continuous access to credit, and establish an effective screening and monitoring system using their field staff. This implies that it is not really the collateral securities that will lead to improved loan recovery but rather designing lending methodologies that best suit the target market or clients. Under the joint liability contracts, members are responsible not only for the repayment for their personal loans but also for the loans of other group members in case of default .The joint liability contracts are largely used because they provide a screen mechanism for borrowers separating them into different risk types and utilize unique penalty mechanisms on members who wilfully default, there by improving repayments rates.

Barnes *et al* (2001), writes that most MFIs in Uganda lend without grace periods requiring payments of the first installment one week after disbursement. Loan sizes are thus limited by the capacity to meet the very first installment. This is heavily criticized by the participants, who demand a grace period in line with the start of their cash flow after the injection of investment (working capital). Non-provision of grace period may to some extent affect loan recovery because the borrowers are not given ample time to earn a return out of the borrowings. Faulu Uganda gives their clients two weeks before starting

to repay the loans advanced. The frequency of the loan payments depends on the needs of the client and the ability of the MFI to ensure repayment. A balance must be reached between the transaction costs associated with frequent payments and the risk of default through poor case management associated with infrequent repayments, Ledgerwood, (1999).

2.3.2 The Relationship between Customer Appraisal and Monitoring and Loan Recovery

Loan monitoring starts with the client appraisal before disbursing the loan and continues as long as the client is servicing the loan. The client business cycle is an important factor to consider in client appraisal. This implies that the customer and their businesses must be appraised before advancing a loan. The appraisal will look at the capacity to pay within the agreed terms. One of the ways of minimizing loan default is through careful analysis of the repayment capacity of the potential client, Okurut, *et al* (2004). The purpose of the loan is not as important as the borrower's capacity to repay.

From the client business cycles the MFI can determine the loan repayment schedule. Loan repayments can be made on an installment basis (weekly, biweekly, monthly) or in a lump sum at the end of the loan term depending on the cash patterns of the borrower.

Monitoring in the context of credit business means collecting financial information important for the client, keeping up with the client's news over the phone or any means, monitoring visits or surprise visits, Ledger wood, (1999).

Frequency of visits to the business by the credit officer –“monitoring” serves the following benefits: helping to ensure that the client is maintaining the business and intends to repay the loan, and allow the credit officer to understand the client’s business and the appropriateness of the loan (amount, term, frequency of payment and so forth). Monitoring visits contribute to developing mutual respect between the client and the credit officer as they learn to appreciate and understand each other’s commitment to their work.

Through monitoring visits, the client will know that the lender MFI is taking an interest in their business. The client should understand that repayment is important in the financial institution. Non repayment of the loans advanced erodes the capital base of the financial institution. This could lead to limited provision of the very services the MFIs exists for due to shrinking resources. The relationship should be supportive. It is in the interest of both the client and the credit provider that the client should develop successfully.

Monitoring visits also help the institution to catch up with problems early enough so as to work out the situation in case of anticipated no repayment and before the collateral or guarantor disappears. The case of Faulu also indicates client migration as a big problem contributing to failure to recover loans advanced

It has been reported by various researchers that central to the success of micro finance, experience has been frequent and constant follow-up with the borrowers and flexibility in

responses. It could be concluded that high recovery rates on the micro credit portfolios reported by MFIs is a direct result of the high costs incurred by way of supervision and monitoring. This would imply a trade-off between supervision cost minimization and default minimization. MFIs through the loan officers need time to establish cordial relationships, have clear idea about the area and the group for proper monitoring of the borrower (Kamal, 1997). This sometimes is not done as it is time consuming and loan officers are hard pressed to recruit clients.

2.3.3 The relationship between Loan Officers Efficiency and Skills and Loan Recovery

This refers to the efficiency and skills of the Loan Officers of the credit organization in discharging their duties effectively following the rules and regulations of the organization. It includes the staff capabilities to monitor the group members, the staff skills to implement, conduct and manage the micro credit programmers of MFIs effectively (Kamal, 1997).

A study by ACCION International found that staff is an important link between financial institutions and the clients, loan officers are the institution's most valuable asset. Loan officers are often in charge of all the stages in the lending process, from promotion to clients' selection, loan assessment, monitoring and recovery.

Good practice in microfinance suggests that a credit officer should handle up to 200 clients in a group and 50 individuals to ensure the cost effectiveness of the MFIs. However, the disadvantage is that the credit officer will not have the time to supervise

each client's enterprise and hence will not develop the close relationship with the borrowers that would enable the credit officer to detect significant changes in the circumstances of the enterprise and indicators of non-recovery of the loan advanced. In addition, the borrower may not get meaningful advice to manage such change. This therefore implies that inadequacy of loan monitoring by credit officers has a great contribution towards loan recovery Masiko, (2003).

Introducing incentive systems for MFI staff based on loan performance can also lead to better monitoring and enforcement of loan contracts. (IFPRI Policy Brief No.12-Aliou Diagne, July 2000). Better training of MFI staff in loan appraisal methods can assist them in recognizing good borrowers. (*Manohar Sharma IFPRI Policy Brief no.14 July, 2000*).

2.4 Summary of Literature reviewed

The provisioning of micro finance services has indeed changed the lives especially among the poor women who were being left out of the conventional banking systems. This was largely because they lack the usual collateral to secure the loans. With the increasing popularity of micro financing, the number of clients accessing micro loans has also increased. However MFIs are experiencing problems recovering the loans. The literature reviewed suggests that that indeed there is a problem with loan recovery. Some studies have indicated that interest rates and the grace period make a big contribution towards the problem of loan recovery. Interest rates have come under hot attack by Ugandan politicians. The literature reviewed suggests that products design and lending

methodologies by MFIs could be responsible for the low loan recovery rates as products are not suited to the individual client needs thus affecting capacity to pay. Customer appraisal and monitoring is necessary for keeping in touch with the client and could enhance loan recovery. Loan officers being at the head of micro lending play a big role in loan recovery since it is they that make the decision to lend.

The literature reviewed shows that loan recovery is indeed a problem to Uganda MFIs as it lowers their profits, erodes their capital base and affects their service delivery coverage. This was done to establish whether there is a relationship between institutional management policies of the MFIs and loan recovery. The findings of the study indicate that there is indeed a positive relationship between Institutional Management Policies and Loan Recovery.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter outlines the process and procedures involved in conducting the study. It defines the research design, study area and population, sampling techniques and sample size, data sources, data collection instruments, data management and analysis, Mugenda *et al* (1999).

3.1 Research Design.

A case study research design was used involving both qualitative and quantitative research approaches since the findings of the study were both numerical and categorical representing the respondents' opinions and views about the study variables. A case study enabled the researcher to obtain in depth findings that can be generalized to Ugandan MFIs, Mugenda & Mugenda (1999).

3.2 Study Population

The selected Faulu Uganda branches of Kiira and Kawempe had a total population of seven thousand five hundred sixty (7560) made up of forty two (42) employees and seven thousand five hundred eighteen clients (7518). The category of the population is shown in the table below;

Table 1: Study Population

Branches	Faulu Employees	Clients	Total
Kiira	24	3841	3865
Kawempe	18	3677	3695
Total	42	7518	7560

Source: Faulu Human Resource/Operations Departments

3.3 Sample Size and Selection

3.3.1 Sample Size

The researcher selected only one hundred (100) members that participated in the study. These included; twenty five (25) Faulu employees and seventy five (75) customers/clients of Faulu. This was in line with Roscoe (1975) that a sample size between 30 to 500 respondents in any given study would be appropriate. The findings obtained were generalized to the entire population. The sample selected was manageable and representative of the population. The responses were obtained from 23 (92%) of targeted the employees and 75 (100%) of targeted the clients.

3.3.2 Sampling techniques and Procedure

The researcher targeted 75 clients, following Roscoe's recommendation of a sample size of between 30 and 500. Consideration was also given to the cost and time implications of collecting data. The 75 clients were then proportionately divided between the two branches basing on the client population of each branch. The calculations are shown below.

$$\text{Kiira Road Branch} \quad \frac{\text{Branch Population}}{\text{Total Population under study}} \times \text{target population} \quad \frac{3,677}{7,518} \times 75 = 37$$

$$\text{Kawempe Branch } \frac{\text{Branch Population}}{\text{Total Population under study}} \times \text{target population} = \frac{3,841}{7,518} \times 75 = 38$$

The researcher targeted 25 employees out of the total of 42 in both branches of Kiira Road and Kawempe. The targeted sample was made up of branch manager, loan supervisor and loan officers who were purposively selected since they were regarded to be key informants being knowledgeable on the subject. This was 62% of the total employee population under study. The branch manager and loan officers from each of the branches were selected totaling four participants. Then the remaining 21 was proportionately divided among the two branches basing on the population.

$$\text{Kiira Road Branch } \frac{\text{No of employees- Branch Manager \& Loan officer}}{\text{Total Study Population}} \times \text{Target Sample}$$

$$\frac{22}{38} \times 21 = 12$$

$$\text{Kawempe } \frac{\text{No of employees- Branch Manager \& Loan officer}}{\text{Total Study Population}} \times \text{Target Sample}$$

$$\frac{16}{38} \times 21 = 9$$

Simple random and purposive sampling techniques were used to select the respondents to participate in the study. Simple random sampling was used to select client and it meant that every member in the population had an equal chance of being included in the sample size and this reduced on the researcher’s bias. The purposive sampling method was used to select the branch managers and loan supervisors that were regarded as knowledgeable on the subject.

The sample size and sampling techniques used are summarized in the table below;

Table 2: Sample Size and Sample Selection Procedures

<i>Category of respondents</i>	<i>Faulu Branches</i>		<i>Total</i>	<i>Selection procedure</i>
	<i>Kiira</i>	<i>Kawempe</i>		
<i>Staff of Faulu</i>				
<i>Branch Managers</i>	<i>1</i>	<i>1</i>		<i>Purposive sampling</i>
<i>Loan Supervisors</i>	<i>1</i>	<i>1</i>		<i>Purposive sampling</i>
<i>Loan Officers</i>	<i>11</i>	<i>8</i>		<i>Simple random sampling</i>
<i>Customers/clients of Faulu</i>	<i>37</i>	<i>38</i>	<i>75</i>	<i>Simple random sampling</i>
<i>Total</i>	<i>50</i>	<i>48</i>	<i>98</i>	

Source: Researcher based on Faulu Uganda

3.4 Data Collection Methods

To exhaustively obtain sufficient and adequate data about the study variables, data was sourced from both primary and secondary sources.

Primary source was where the researcher obtained fresh data herself using data collection instruments and methods such as the questionnaires and focus group discussion guide.

Secondary data where the researcher used the already existing literature about the variable under study. It involved review of textbooks, publications, environmental reports, internet; published research reports among others, thus documentary review constituted one of the methods of data collection.

Primary data was collected using semi-structured questionnaires designed by the researcher. This was comprehensive enough to cover the extent of the problem and all aspects of the study variables. The questions contained in the questionnaire were both open, and close ended to enable the respondents express their views and opinions.

The researcher conducted a Focus Group Discussion with about 12 clients to obtain adequate data about the study variables. This method enabled the researcher to obtain views from the respondents about the variables under study.

3.5.1 Data Collection Instruments

Two semi-structured questionnaires were used to collect data; one was for the clients and one for the employees. A focus group discussion guide schedule instrument was used to collect additional data. These are attached under the appendices.

3.5.2 .1 Validity

To enhance validity, the data collection instruments were discussed with the supervisors and fellow students. The questionnaire was tested on a small representative sample, of both clients and employees. The results showed that some questions were not clear and were rephrased. Others were merged and some completely removed because of the repetition in the responses.

3.5.2.2 Reliability

Reliability was tested using Cronbach’s alpha test on the four sections of the data collection instrument. The results are shown in the table below;

Table 3: Cronbach’s alpha test- Research Instruments

<i>Item</i>	<i>Number of items</i>	<i>Alpha result</i>
<i>Loan Recovery</i>	<i>5</i>	<i>0.625</i>
<i>Product design and lending methodology</i>	<i>26</i>	<i>0.802</i>
<i>Customer Appraisal and Monitoring</i>	<i>16</i>	<i>0.674</i>
<i>Loan Officers’ Skills and Efficiency</i>	<i>37</i>	<i>0.709</i>

Source : Primary data

3.6 Procedure for Data Collection

Data from the staff was obtained through self-administered questionnaires, which were delivered to the respondents and then collected later. The researcher administered the questionnaire to the clients. Interview and focus group discussion appointments were sought to collect data. The interviews were both formal and informal. The researcher presented the introductory letter from Uganda Management Institute to Faulu Uganda to permit her collect data from the respondents.

3.7 Data Management and Analysis

Data collected was checked for completeness, carefully edited, sorted and coded to eliminate inconsistencies and errors that could have been made by the respondents.

The questionnaire responses were under four categories of strongly agree, agree, disagree and strongly disagree. The responses were input using SPSS under these four categories. However at data analysis two categories were used, agree combining strongly agree and agree. Disagree combining strongly disagree and disagree. This was done because the responses were clustered around the agree and disagree.

Data was processed using SPSS computer package and other statistical techniques. Simple frequency tables, graphs/charts, cross tabulations, means and standard deviations were generated using SPSS. Regression and correlation relationships were generated. These techniques enabled the researcher to ascertain the relationship between the independent and dependent variables. The researcher used Ms Word and Ms Excel computer programs to write her report.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the findings of the study on the institutional management policies and loan recovery, a case study of Faulu Uganda. In the study, data was collected on both clients and employees in Kawempe branch in Kawempe division and Kiira Road branch in Nakawa division; both branches are in Kampala district. Some clients in Kawempe branch carry out their business activities in Wakiso district and others as far as Luwero District. A significant positive relationship was established through correlations analysis between the variables under study. Institutional management polices are positively correlated with loan recovery by MFIs. The findings are a result of a 98% response rate.

4.1.0 Demographic Characteristics of the Respondents

Individual characteristics like gender, age and education, have been found to influence the behaviours of individuals. This study looked into the demographic characteristics of Faulu clients and employees of the two branches of Kawempe and Kiira Road.

4.1.1 Gender of the Respondents

The findings on the gender of clients data is shown in figure 2 below;

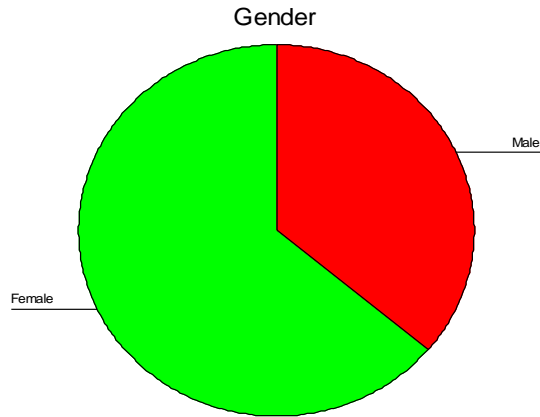


Figure 2: Gender of the respondents
Source: *Primary data*

Overall, from the pie chart above the respondents who participated in the study, the women were 48, (64%) of the total sample and the male were 27, (36%). Faulu clientele is largely female which is typical of MFIs.

4.1.2 Age of the Client respondents

The age of individuals is often associated with the way they make decision on the allocation of resources among other things. The older one gets, the more they are likely to make informed decisions as they may have lived through similar experiences in the past.

Table 4: Age of the respondents

<i>Age bracket</i>	<i>Frequency</i>	<i>Percentage (%)</i>
<i>18-25</i>	<i>2</i>	<i>2.7</i>
<i>26-32</i>	<i>36</i>	<i>48.0</i>
<i>33-40</i>	<i>20</i>	<i>26.6</i>
<i>Above 40</i>	<i>17</i>	<i>22.7</i>
<i>Total</i>	<i>75</i>	<i>100.0</i>

Source: *Primary data*

From table 4 above, only 2 (2.7 %) of the clients were between 18-25 years, 36 (48%) were between 26-32 years, 20 (26.6%) were between 33-40 years and only 17 (22.7%) were above 40years. In other words 74.7% or about three quarters of Faulu clients who participated in the study are within the vibrant range of 26 years to 40 years. The majority of Faulu clients are young between the ages 26-40 years and only about 22% are above 40 years. This implies that the clients are generally young may be starting off into business activities. The MFI can look forward to a long business relationship with the clients.

4.1.3 Education of the Respondents

The education of respondents was considered as education is often seen as an instrument that empowers people in so many ways including raising their personal confidence, incomes, status in society among others. Additionally, it could be argued that the more one is educated the less they will be intimidated by the rigorous paper work that often accompany access to loans, including MFI loans. The data findings are shown in the figure 3.

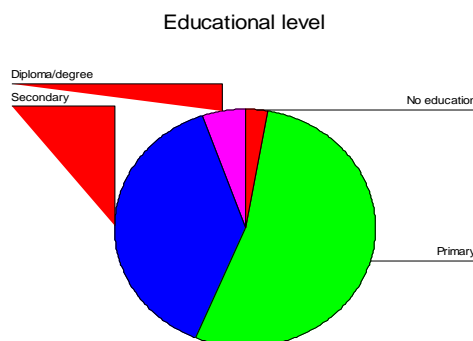


Figure 3: Education of the respondents

Source: *Primary Data*

Although all the people who took part in the study were not equally educated, client data revealed that 28(38%) of the respondents were above secondary level, 40(53%) were primary level 5(6%) were Diploma/Degree level and only 2(3%) had no education. Details are shown in figure two above. Faulu clients have attained some education which could be exploited in explaining the institutional management policies.

4.1.4 Occupation of Faulu clients

Occupation is another demographic characteristic that was considered in the study as it is often associated with power to secure financial opportunities. The more lucrative one's occupation is, the more they are likely to afford having a wide range of financial sources.

The responses are presented in table 5 below;

Table 5: Occupation of Faulu Clients

<i>Clients Occupation</i>	<i>Frequency</i>	<i>Percentage (%)</i>
<i>Formal employed like Teaching</i>	<i>2</i>	<i>2.7</i>
<i>Self employed</i>	<i>73</i>	<i>97.3</i>
<i>Total</i>	<i>75</i>	<i>100.0</i>

Source: Primary data

From the study results presented in the table above, 2.7% of the respondents were formally employed in professions like teaching at the time of the interview. Self

employment is the main occupation for 97.3% of the Faulu clients who participated in the study. Majority of Faulu clients are self employed 73 (97.3%). This could be a good thing for the MFI since people are known to put in extra effort while dealing with their own business.

4.1.5 Number of years respondents have been clients of Faulu Uganda

The results on the number of years the respondents have been clients of Faulu Uganda are presented in figure 4 below;

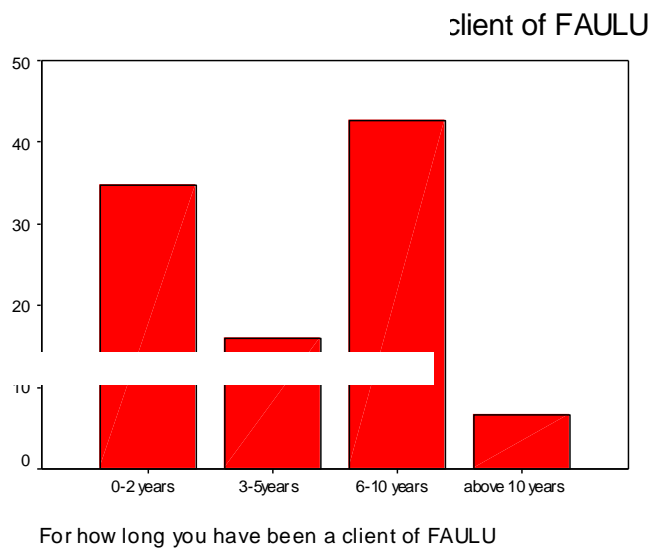


Figure 4: Numbers of years respondents have been client of Faulu Uganda

Source: *Primary data*

At the time of the study (26) 34.7% of the respondents had been clients for a period of between 0-2 years whereas (12) 16% had been with Faulu for a period of between 3-5 years. And (32) 42.7% of the participants had been with Faulu for a period of between 6-10 years and (5) 6.7% had been with Faulu for more than 10 years. The results show a big

decline in client numbers that have been with Faulu between 3–5 years. This could mean self sufficiency in their financial needs and fewer clients needing micro loans from Faulu.

Table 6: Client Respondents’ Loan Cycle

<i>Loan cycle</i>	<i>Frequency</i>	<i>Percentage (%)</i>
<i>First or second</i>	<i>9</i>	<i>12.0</i>
<i>Third or fourth</i>	<i>32</i>	<i>42.6</i>
<i>Fifth or sixth</i>	<i>14</i>	<i>18.7</i>
<i>Over six times</i>	<i>20</i>	<i>26.7</i>
<i>Total</i>	<i>75</i>	<i>100.0</i>

Source: Primary data

The Loan cycle was also analysed as shown in table 6 above. The findings show that 32(42.7%) clients who participated in the study were on their third or fourth loan cycle. And (20)26.7% of the clients who participated in the study still accessing Faulu loans even after the sixth time. With an average loan cycle of six months, it means that these clients have been with Faulu for a period of more than three years. This again gives the MFI confidence in a continued business relationship.

4.1.6 Groups

All the clients who participated in the study belonged to some group. The responses on how long the clients had belonged to their respective groups are presented in table 7 below;

Table 7: Duration of belonging to a group

<i>Duration (Years)</i>	<i>Frequency</i>	<i>Percentage (%)</i>
<i>0 – 2</i>	<i>26</i>	<i>34.7</i>
<i>3 – 5</i>	<i>11</i>	<i>14.7</i>
<i>6 – 10</i>	<i>34</i>	<i>45.3</i>
<i>Above 10</i>	<i>4</i>	<i>5.3</i>
<i>Total</i>	<i>75</i>	<i>100.0</i>

Source: Primary data

Faulu Uganda uses the Grameen Bank group lending model. Respondents' data shows that 45.3% (34) have belonged to a group for a period of 6 to 10 years. This drastically declines to 5.3% (4) only having belonged to a group for more than 10 years. The decline in the number of clients that have been in a group could be that after 10 years the clients qualify for individual loans. And also it might be that clients exit, a variable that is not part of this study as a lot of studies have been done on client exit.

4.1.7 Demographic Data on Employees

The table below presents Faulu employees' level of education.

Table 8: Faulu employees' education level

<i>Education level</i>	<i>Frequency</i>	<i>Percentage (%)</i>
<i>Diploma/Degree</i>	<i>21</i>	<i>91.3</i>

<i>Post graduate</i>	<i>2</i>	<i>8.7</i>
<i>Total</i>	<i>23</i>	<i>100.0</i>

Source: Primary data

At the time of the study (21)91.3% of the employees participating in the study had obtained a diploma or degree and only (2)8.7% had attained a post graduate qualification. The Faulu employees are highly educated and therefore capable of handling micro finance business.

4.1.8 Employees' Period in Faulu Uganda

The researcher collected data on how long participating employees had been with Faulu. The findings are set out in figure 5 below.

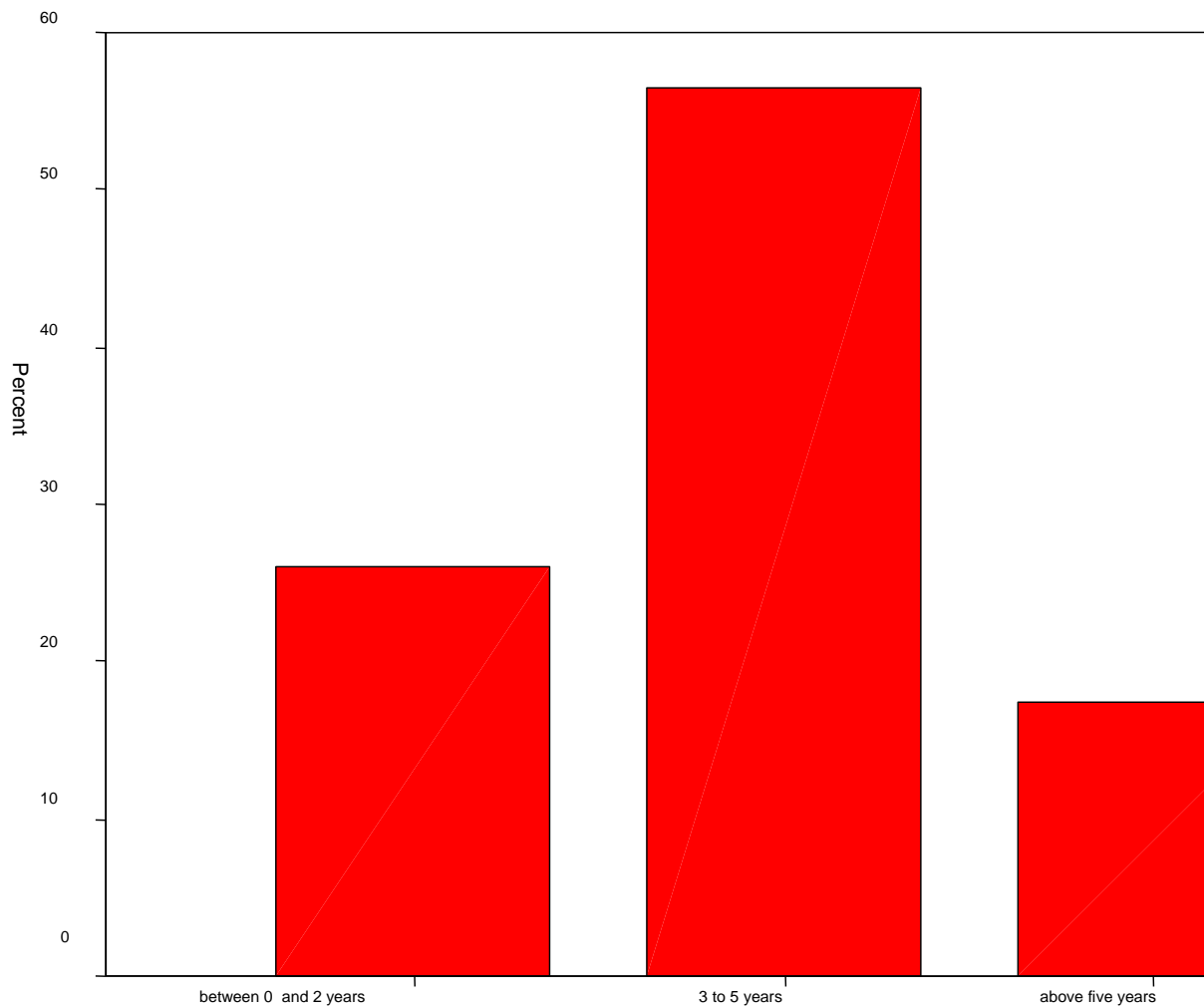


Figure 5: Employees experience
Source: Primary data

The results show that (42) 56.6% of the employees who participated in the study had been employees of Faulu for a period of 3 to 5 years and (13) 17.4% were above 5 years.

Only 20 (26%) had been working with Faulu for 2 years and less. The data provided by the employees of Faulu who participated in the study can be relied on.

4.1.9 Office held in Faulu

Table 9: Title of Employees

<i>Title</i>	<i>Frequency</i>	<i>Percentage (%)</i>
<i>Branch manager</i>	<i>2</i>	<i>8.7</i>
<i>Loan officers</i>	<i>18</i>	<i>78.3</i>
<i>Loan supervisor</i>	<i>3</i>	<i>13.0</i>
<i>Total</i>	<i>23</i>	<i>100.0</i>

Source: Primary data

The table above reveals that the employees who participated in the study, 78.3% of them were loan officers, 13% were loan supervisors and 8.7% branch managers. Since loan officers are at the head of the micro lending business, their participation in the study at 78.3% enhances the validity of the results.

4.2.0 Institutional Management Policies

The study considered institutional management policies as the independent variable. It covered product design and lending methodology, customer appraisal and monitoring and loan officers' skills and efficiency.

4.2.1 Product Design and Lending Methodology

The study looked at the loan products Faulu offers to the clients and what is required of clients to access these products. The study findings show that Faulu clients are aware of the loan products offered by Faulu Uganda. The findings are presented in table10 below;

Table 10: Client Awareness about Faulu Loan Products

<i>Loan product</i>	<i>Responses</i>			
	<i>Agree</i>		<i>Disagree</i>	
	<i>Frequency</i>	<i>Percentage</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Solidarity Group lending loan</i>	<i>75</i>	<i>100</i>	<i>-</i>	<i>-</i>
<i>Individual loan</i>	<i>59</i>	<i>78.7</i>	<i>16</i>	<i>21.3</i>
<i>Salary loan</i>	<i>11</i>	<i>14.7</i>	<i>64</i>	<i>85.3</i>
<i>School fees loan</i>	<i>71</i>	<i>94.7</i>	<i>4</i>	<i>5.3</i>

Source: Primary data

The most popularly known product is the solidarity group loan that was confirmed by 100% response. Only 14.7% of the respondents having knowledge of the salary loan confirm the result that 97% of the respondents are self employed. And 78.7% were aware of the individual loan product and 94.7% of the school fees loan. Faulu clients are well informed about the products available within Faulu.

The researcher was interested in finding out whether the clients have accessed the loan products offered by Faulu Uganda. The responses are presented in table 11 below;

Table 11: Loans Accessed by the Clients

<i>Loan product</i>	<i>Responses</i>			
	<i>Agree</i>		<i>Disagree</i>	
	<i>Frequency</i>	<i>Percentage</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Solidarity Group loan</i>	<i>70</i>	<i>93.3</i>	<i>5</i>	<i>6.7</i>
<i>Individual loan</i>	<i>3</i>	<i>4</i>	<i>72</i>	<i>96</i>
<i>Salary loan</i>	<i>-</i>		<i>75</i>	<i>100</i>
<i>School fees loan</i>	<i>56</i>	<i>74.7</i>	<i>19</i>	<i>25.3</i>

Source: Primary data

From the table above, majority of the respondents 93.3% had accessed solidarity group loans, 74.7% school fees loans, only 4% had accessed individual loans. None of the clients who participated in the study had accessed salary loans, which enhances the result that 97% of the clients participating in the study are self employed. The responses on what security clients offered for the loans from Faulu are presented in table 12 below;

Table 12: Security Offered by Clients

<i>Security</i>	<i>Frequency</i>	<i>Percentage (%)</i>
<i>Household items</i>	<i>56</i>	<i>75.6</i>
<i>Car Log Books</i>	<i>2</i>	<i>2.6</i>

<i>Land titles</i>	<i>4</i>	<i>5.1</i>
<i>Business assets</i>	<i>13</i>	<i>16.7</i>
<i>Total of responses</i>	<i>75</i>	<i>100.0</i>

Source: Primary data

Security offered by clients is very important in micro loans since micro loans are not backed up by valuable securities. At the time of the study 75.6% of the client respondents offered household items such as sofa sets, refrigerators, television sets and furniture and only 2.6% had offered car log books as security for the loans obtained, 16.7% offered business items like stock items and photocopiers for secretarial bureaus, motorbikes, and refrigerators. And only 5.1% had offered land titles. Household items are the usual security offered by Faulu clients. This is common for micro borrowing as these assets have just nominal value. And since the majority of clients are women probably these are best assets they own.

The researcher collected data on how the Faulu clients use the loans obtained from Faulu.

The study findings are shown below in table 13.

Table 13: Loan Usage by Clients

<i>Loan usage</i>	<i>Responses</i>			
	<i>Agree</i>		<i>Disagree</i>	
	<i>Frequency</i>	<i>Percentage</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Investing in business</i>	<i>70</i>	<i>93.3</i>	<i>5</i>	<i>6.7</i>
<i>Paying medical bills</i>	<i>-</i>		<i>75</i>	<i>100</i>
<i>Paying school fees</i>	<i>33</i>	<i>44.0</i>	<i>42</i>	<i>56.0</i>
<i>Buying house hold items</i>	<i>1</i>	<i>1.3</i>	<i>74</i>	<i>98.7</i>
<i>Others (parties)</i>	<i>2</i>	<i>2.7</i>	<i>73</i>	<i>97.3</i>

Source: Primary data

Clients use the loans obtained from Faulu to invest in business activities as reported by 93.3% of clients, 44% have had loans to pay school fees and 4% have used their loans to buy household items and parties. Given that 97% of Faulu clients claim to be self employed, it can be observed that the loans obtained from Faulu are basically for micro enterprises. However, the 44% who use their loans for school fees could mean loan diversion unless they specifically got school fees loans. Loan diversion could lead to loan repayment failure. The grace period given before starting repayment of the loan is illustrated in figure 6 below.

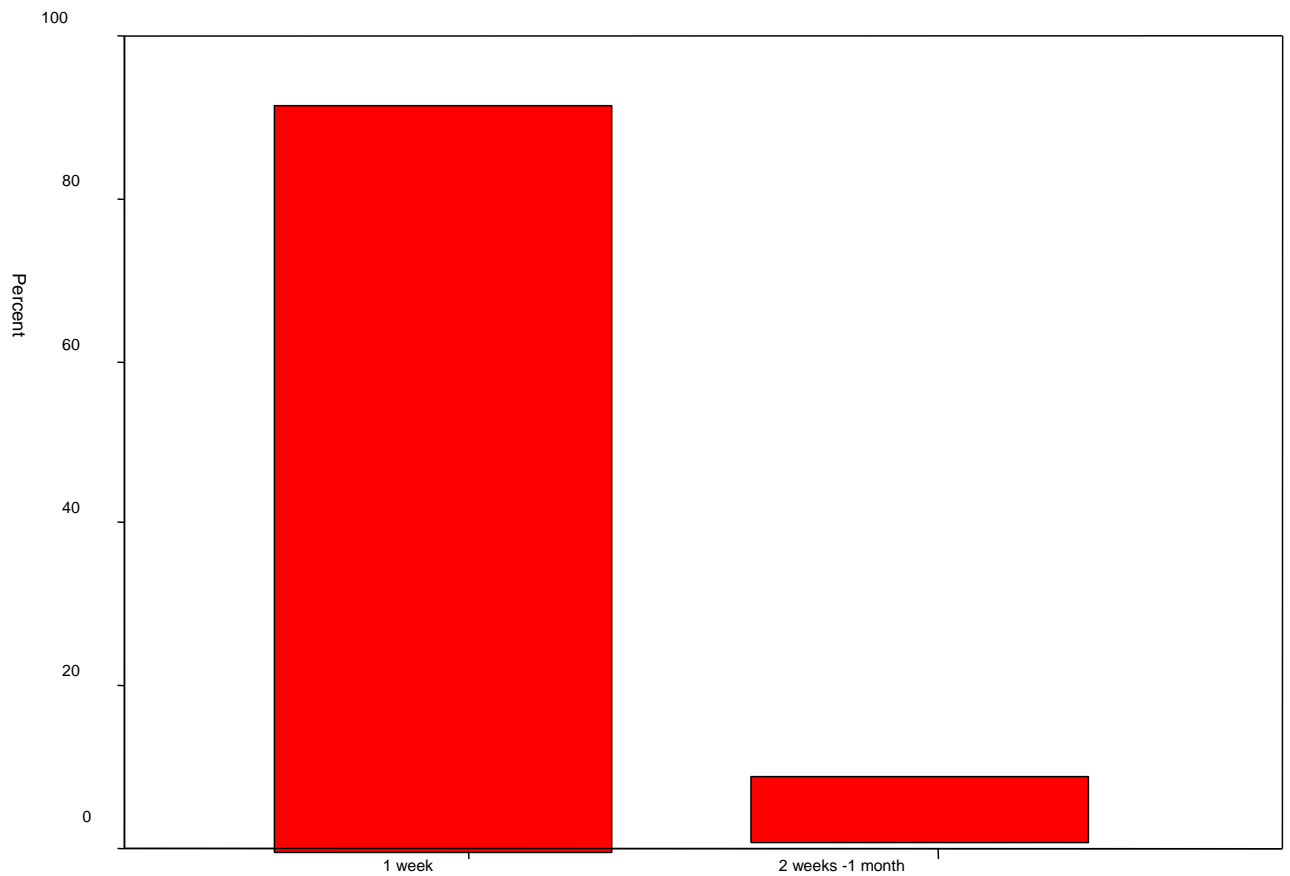


Figure 6: Grace period given to Clients

Source: Primary data

The study indicates that 97.3% of the participating clients were repaying the loans by equal installments. From the findings of this study, (69) 92% of the clients were given one week before starting to repay the loan. Only (6) 8% were given more than two weeks before starting to pay back the loan. The grace period of one week given to clients

implies that clients have ongoing activities so that they can be expected to start paying back after one week.

The respondents were asked if the loan obtained from Faulu was enough and sufficient for their business. The responses obtained are presented in the table 14 below.

The majority of the participating clients, 60% (45) say that the loans they have are not enough for their business activities. This could lead to multiple borrowing and eventual failure to repay. The average loan size of Faulu clients in 2006 was Shs400, 000 (Faulu Financial Reports, 2006)

Table 14: Loan Sufficiency

<i>Responses</i>	<i>Frequency</i>	<i>Percentage (%)</i>
<i>Disagree</i>	<i>45</i>	<i>60</i>
<i>agree</i>	<i>30</i>	<i>40</i>
<i>Total</i>	<i>75</i>	<i>100</i>

Source: Primary data

4.2.2 Research Question Number One- the relationship between Product design, Lending Methodology and Loan recovery

These variables were measured as per response from the clients in relation to the clients' perception of the way the institutional management policies influence his or her repayment of loans to Faulu. The clients who participated in the study agree that Faulu Uganda implements and practices management policies governing lending methodologies. These policies include allowing clients some time before starting loan

repayments, requiring security to obtain loans, clients having savings with Faulu to apply for loans, paying in affordable installments and having an ongoing business in order to secure Faulu loan services.

Table 15: Faulu Lending Methodologies

<i>Lending Policy</i>	<i>Responses</i>			
	<i>Agree</i>		<i>Disagree</i>	
	<i>Frequency</i>	<i>Percentage</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Allowing client time before start of loan repayment</i>	<i>74</i>	<i>98.7</i>	<i>1</i>	<i>1.3</i>
<i>Client does not need collateral before receiving loans</i>	<i>0</i>	<i>0</i>	<i>74</i>	<i>100</i>
<i>Client having settled previous loans before securing a new loan</i>	<i>72</i>	<i>97.3</i>	<i>2</i>	<i>2.7</i>
<i>Loans being repaid in affordable installments</i>	<i>73</i>	<i>98.6</i>	<i>1</i>	<i>1.4</i>
<i>Client having an on going business before receiving</i>	<i>68</i>	<i>91.9</i>	<i>6</i>	<i>8.1</i>
<i>Client must have savings with Faulu</i>	<i>73</i>	<i>98.6</i>	<i>1</i>	<i>1.4</i>

Source: Primary data

From the frequency table 15 above, over 70 out of the 75 of Faulu clients participating in the study agreed that the stated policies apply to lending. Only 6 out of the 75 disagreed on the policy of having an ongoing business before receiving a loan. Faulu clients confirm that Faulu has lending policies that are followed in giving out loans.

A further analysis was done using cross tabulations and the results are shown in the table 16 below,

Table 16: Cross tabulations of Faulu institutional management policies and loan recovery

Policy		Default	Repayment/Recovery
Allowing client time before start of loan repayment	Agree	23.4%	76.6%
	Disagree	00.0%	00.0%
Client having collateral before receiving loans	Agree	23.4%	76.6%
	Disagree	00.0%	00.0%
Client having settled previous loans before securing a new loan	Agree	23.8%	76.2%
	Disagree	00.0%	00.0%
Loans being repaid in affordable installments	Agree	23.4%	76.6%
	Disagree	00.0%	00.0%
Client having an on going business before receiving loans	Agree	21.7%	78.3%
	Disagree	50.0%	50.0%
Helping only those in business	Agree	25%	75.0%
	Disagree	20.8%	79.2%

Source: *Primary Data*

From table 16 above all respondents ,whether they defaulted or repaid, agree that Faulu Uganda implements policies of allowing client some time before starting to repay the loan, client having collateral before receiving loans, settling previous loans before securing new loans and allowing clients repay in affordable installments. Fifty per cent of

those who repaid and 50% of those who defaulted disagree with the institutional management policy of clients having an on going business in order to obtain a loan is well implemented by Faulu. In addition 20.8% of those who defaulted and 79.2% of those who paid disagree that the policy of Faulu helping only those in business is implemented.

The researcher also looked into lending procedures and loan repayment performance.

These variables were measured as per responses from the client in relation to the clients' perception in a way the institutional management procedures influence his or her repayment of loans to Faulu.

Faulu clients interviewed agree that Faulu Uganda implements and practices loan management procedures such as client group members seconding each other for obtaining loan being trained before he/she is given the loan, handing over collateral to Faulu, helping clients in filling application forms, loan officers visiting clients business.

Table17: Faulu Lending Procedure

<i>Lending Procedure</i>	<i>Responses</i>			
	<i>Agree</i>		<i>Disagree</i>	
	<i>Frequency</i>	<i>Percentage</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Filing loan application forms</i>	<i>72</i>	<i>96</i>	<i>3</i>	<i>4</i>
<i>Group members having to second a loan applicant</i>	<i>75</i>	<i>100</i>	<i>0</i>	<i>-</i>
<i>Loan officers visiting clients before loans are offered</i>	<i>69</i>	<i>92</i>	<i>6</i>	<i>8</i>
<i>Clients business under going evaluation and amounts agreed upon</i>	<i>69</i>	<i>93.2</i>	<i>5</i>	<i>6.8</i>
<i>Client attends at least 4 training sessions</i>	<i>74</i>	<i>98.7</i>	<i>1</i>	<i>1.3</i>

Source: Primary data

From the findings of the study presented in table 17 above the clients 8% say that loan officers do not visit clients before loans are given. And 6.8% that client’s business is not evaluated. This implies poor client assessment which could later lead to poor loan recovery or even loan default.

Correlations results were run to establish whether any relationship existed between product design and lending methodologies and loan recovery the dependent variable. Loan recovery was broken into loans paid and loan default. Pearson’s correlation coefficient (r) was used to establish the relationship between product design and lending methodologies and loan recovery at Faulu Uganda. This was to achieve study objective number one. The results of the analysis are presented in the table below.

Table 18: Correlation: Product Design, Lending Methodologies and Loan Recovery

<i>Loan Recovery</i>	<i>Repaid</i>		<i>Defaulted</i>	
<i>Institutional Management Policy</i>	<i>Pearson Correlation</i>	<i>Sig.(2 tailed)</i>	<i>Pearson Correlation</i>	<i>Sig.(2 tailed)</i>
<i>Product design</i>	<i>0.372**</i>	<i>0.007</i>	<i>-0.200</i>	<i>0.580</i>
<i>Lending Policy</i>	<i>0.496**</i>	<i>0.000</i>	<i>0.228</i>	<i>0.526</i>
<i>Lending Procedure</i>	<i>0.567**</i>	<i>0.000</i>	<i>0.205</i>	<i>0.571</i>

** Correlation significant at the 0.01 level (2 –tailed)

Source: Primary Data

The correlation results presented in table 18 above show a very strong positive relationship between product design and lending methodologies and loan recovery from the responses of the paying clients. The strongest relationship is under lending procedures($r=0.567$, $p<0.01$), followed by lending policy($r=0.496$, $p<0.01$) and product

design($r=0.372$, $p<0.01$). However the results from the defaulting clients show a very weak relationship between product design and lending methodologies and loan recovery. This could imply that the defaulting clients do not appreciate the lending methodologies and may be do not comply with them.

Regression analysis was also used to find the prediction potential of the independent variables on the dependent variable of loan recovery. The regression results are presented in the table 19 below.

Table19: Regression Analysis Coefficients(r^2)

REPAID						
Independent Variable		Unstandardised Coefficient	Standardaised Coefficient Beta	t-Value	F- Value Sig.	Adjusted r^2 %
Product design		.172	.372	2.832	8.018(.000)	0.7
	constant	2.823		16.083		
Lending Policy		.499	.496	4.041	16.332(.000)	2.31
	constant	1.782		4.709		
Lending Procedure		.539	.567	4.870	23.717(.000)	30.8
	constant	1.557		4.317		
Customer Monitoring & Appraisal		.729	.457	3.638	13.209(.001)	19.3
	constant	1.308		3.692		
Loan Officer' Skills & Efficiency		.498	.366	2.751	7.570(.008)	19.3
	constant	1.892		3.682		

Source: Primary Data

The results indicate that 33.81% of the positive change in loan recovery is brought about by institutional management policy of product design and lending methodologies. The strongest ingredient being lending procedures which account for 30.8% of the positive change in loan recovery. This means that a strict adherence to the institutions lending procedures could improve loan recovery.

4.2.3 Research Question Number Two - Customers Appraisal and Monitoring and Loan Recovery

These variables were measured as per responses from the clients in relation to the clients' perception of the way the institutional management policies influence his or her repayment of loans to Faulu. Clients participating in the study agree that Faulu Uganda implements and practices customer appraisal measures such as client being appraised before being given a loan, and the appraisal is continuous, visiting clients is very often. Capacity to pay is also assessed together with the client repayment history. The collateral is evaluated and purpose of the loan reviewed.

Table 20: Customer Appraisal

<i>Customer appraisal</i>	<i>Responses</i>			
	<i>Agree</i>		<i>Disagree</i>	
	<i>Frequency</i>	<i>Percentage</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Clients are appraised before the loan is issued</i>	<i>75</i>	<i>100</i>	<i>-</i>	<i>-</i>
<i>There is continuous appraisal of Faulu clients</i>	<i>12</i>	<i>18.7</i>	<i>64</i>	<i>81.3</i>
<i>Assessment of clients capacity to pay loan is carried out</i>	<i>68</i>	<i>90.6</i>	<i>7</i>	<i>9.4</i>
<i>Previous loan repayment history of clients is reviewed</i>	<i>43</i>	<i>58.1</i>	<i>31</i>	<i>41.9</i>
<i>Value of collateral is evaluated</i>	<i>68</i>	<i>89.4</i>	<i>7</i>	<i>10.6</i>
<i>Purposes of loans are reviewed</i>	<i>28</i>	<i>30.2</i>	<i>45</i>	<i>69.8</i>
<i>Amount of the loan is agreed upon</i>	<i>72</i>	<i>96</i>	<i>3</i>	<i>4</i>

Source: Primary data

Table 20 above shows frequencies on the key elements of customer appraisal.

Worthy of noting is the response that customer appraisal is not continuous as reported by 81.3% of the respondents. The purpose of the loan is also not appraised as par 69.8% of the respondents. Previous loan repayment history had 58.1% agreeing that it is done and 41.9% saying it is not done. These findings could mean that loan officers do not have sufficient time to interact with the clients on a continuous basis. The lack of continuous monitoring could lead to loan default.

Faulu clients who participated in the study agree that Faulu Uganda implements and practices customer monitoring measures such as assessing progress of the business, making sure that clients intend to pay back the loan, collecting weekly loan payments, making sure clients form groups, checking on the collateral security, helping clients with keeping business records as shown in table 21 below;

Table 21: Customer Monitoring

<i>Customer Monitoring</i>	<i>Responses</i>			
	<i>Agree</i>		<i>Disagree</i>	
	<i>Frequency</i>	<i>Percentage</i>	<i>Frequency</i>	<i>Percentage</i>
<i>To discover potential problems like client migration</i>	70	93.3%	5	6.7%
<i>Monitoring is for making clients know Faulu is interested in their activities</i>	30	40%	45	60%
<i>By collecting weekly repayments</i>	38	50.7%	37	49.3%
<i>Helping clients with keeping business records</i>	8	10.7%	67	89.3%
<i>Listening/solving clients' problems</i>	32	42.7%	43	57.3%
<i>Assessing clients business progress</i>	66	88%	9	12%
<i>Helping clients in group formation</i>	52	69.3%	23	30.7%
<i>Catching those refusing to pay</i>	48	64%	27	36%
<i>Asking clients to get more loans</i>	45	60%	30	40%

<i>Checking on the assets given by the clients as security</i>	<i>57</i>	<i>76%</i>	<i>18</i>	<i>24%</i>
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Source: Primary data

The results summarised above show Faulu loan officers are not portraying Faulu as being interested in their activities (60% of respondents) and clients say the loan officers do not listen or solve their problems (57.3). The key element of helping clients with records keeping is also not handled as reported by 89.3% of the respondents. This could lead to clients feeling that they are not valued customers and that Faulu is not concerned about their problems. Actually at the focus group discussion clients said that Faulu is concerned only about the money lent to the clients. However monitoring to discover problems like client migration is done as per the 93.3% of the respondents. Also assessing client business progress and checking on the assets given by the clients as security is done during the monitoring process.

4.2.4 The Relationship between Customer Appraisal and Monitoring and Loan Recovery

Table 22: Correlation: Customer appraisal and monitoring and Loan Recovery

<i>Loan Recovery</i>	<i>Repaid</i>		<i>Defaulted</i>	
<i>Institutional Management Policy</i>	<i>Pearson Correlation</i>	<i>Sig.(2 tailed)</i>	<i>Pearson Correlation</i>	<i>Sig.(2 tailed)</i>
<i>Customer Appraisal</i>	<i>0.170</i>	<i>0.228</i>	<i>0.048</i>	<i>0.895</i>
<i>Customer Monitoring</i>	<i>0.419**</i>	<i>0.001</i>	<i>0.467</i>	<i>0.173</i>

**** Correlation significant at the 0.01 level (2 –tailed)**

Source: Primary Data

The person correlation results of the paying customers show a weak positive relationship between customer appraisal and loan recovery($r=0.170$, $p>0.01$). Customer monitoring

has a strong positive relationship with loan recovery ($r=0.419$, $p<0.01$). The correlation results of customer appraisal and monitoring combined together has a strong relationship with loan recovery($r=0.589$, $p<0.01$). This implies that customer appraisal and monitoring plays a significant role in loan recovery.

Regression analysis was also done to establish whether customer appraisal and monitoring does affect loan recovery. This was to answer study question number two. The results summarised in Table 19 above shows that 19.30% of the loan recovery results are brought about by customer appraisal and monitoring.

4.2.5 Research Question Number 3-The Relationship between Loan Officers' Skills and Efficiency and Loan Recovery

These variables were measured as per response from the clients in relation to the clients' perception on the way the institutional management policies influence his or her repayment of loans to Faulu. Faulu clients participating in the study agree that Faulu Uganda employee have the relevant skills and training. Such skills are used in helping clients form groups, explaining Faulu management policies and determining the loan size. The frequency table 23 below summaries the responses on the key roles of the loan officers

Table 23: Loan officers' skill and efficiency frequency table

<i>Loan officers skill and efficiency</i>	<i>Responses</i>			
	<i>Agree</i>		<i>Disagree</i>	
	<i>Frequency</i>	<i>Percentage</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Helping clients in forming lending group</i>	71	94.7%	4	5.3%
<i>Attending members weekly meetings</i>	73	97.3%	2	2.7%
<i>Assisting members in solving problem</i>	-	-	75	100%
<i>Explaining Faulu's institutional policies</i>	75	100%	-	-
<i>Processing loan applications speedily</i>	75	100%	-	-
<i>Helping members who have problems repaying their loans</i>	41	54.7%	34	45.3%
<i>Determining the right assets to give for a loan</i>	72	96.0%	3	4.0%
<i>Training members in how to do good business</i>	9	12.0%	66	88.0%
<i>Understanding members problems</i>	40	53.3%	35	46.7%
<i>Determining right size/amount of loan to be given to a customer</i>	73	97.3%	2	2.7%
<i>Business planning</i>	1	1.3%	74	98.7%

Source: Primary data

The findings in table 23 above reveal that loan officers lack skills in the key area of helping the clients in business planning as 88% of the clients say so. And 98.7% say loan

officers lack skills in training of clients in how to do good business. This may be an area that is important to the clients but which loan officers are not addressing.

Table 24: Loan officers' skill and efficiency Descriptive data

	<i>Mean</i>	<i>Std. Deviation</i>	<i>N</i>
<i>Helping clients in forming lending group</i>	<i>.947</i>	<i>.2262</i>	<i>75</i>
<i>Attending members' weekly meetings</i>	<i>.973</i>	<i>.1622</i>	<i>75</i>
<i>Assisting members in solving business problem</i>	<i>.000</i>	<i>.0000</i>	<i>75</i>
<i>Explaining Faulu's institutional policies</i>	<i>1.000</i>	<i>.0000</i>	<i>75</i>
<i>Processing loan applications speedily</i>	<i>1.000</i>	<i>.0000</i>	<i>75</i>
<i>Helping members who have problems repaying their loans</i>	<i>.547</i>	<i>.5022</i>	<i>75</i>
<i>Determining the right asset to give for a loan</i>	<i>.960</i>	<i>.1973</i>	<i>75</i>
<i>Training members in how to do good business</i>	<i>.120</i>	<i>.3271</i>	<i>75</i>
<i>Understanding members' problems</i>	<i>.533</i>	<i>.5022</i>	<i>75</i>
<i>Determining right size/amount of loan to be given to a customer</i>	<i>.973</i>	<i>.1622</i>	<i>75</i>
<i>Business planning</i>	<i>.013</i>	<i>.1155</i>	<i>75</i>

Source: Primary Data

The table shows that Faulu staffs possess the necessary skills to explain the institutional policies and processing loans speedily with a mean of 1.000 and standard deviation of 0.000 representing a high level of agreement among the respondents. Respondents' results indicate however that Faulu staffs have limited skills in helping clients in how to

do good business, with a mean score of 0.120 and standard deviation of 0.3271. The staffs were rated worst in business planning with a mean score of 0.013 and standard deviation of 0.1155.

The results of the study show that loan officers are very good at attending weekly meetings. This means that at least loan officers are in touch with the clients. All clients agreed that loan officers do explain Faulu institutional policies and process loan applications speedily. This is very important to the clients as many are investing in small businesses and getting cash to trade with promptly is helpful. Faulu also can confidently count on its loan officers to effectively explain the organization’s policies.

Pearson’s correlation was done on loan officers’ skill and efficiency and loan recovery. The results show a positive relationship($r=0.366$, $p<0.01$) for paying clients. While the results of the defaulting clients show a weak relationship ($r=0.406$, $p>0.01$).

Correlation analysis was done to establish the relationship between loan officers’ skills and efficiency and loan recovery. The findings are shown in table 25 below.

Table 25: Correlation: Loan Officers Skills and Loan Recovery

<i>Loan Recovery</i>	<i>Repaid</i>		<i>Defaulted</i>	
<i>Institutional Management Policy</i>	<i>Pearson Correlation</i>	<i>Sig.(2 tailed)</i>	<i>Pearson Correlation</i>	<i>Sig.(2 tailed)</i>
<i>Loan Officer Skills</i>	<i>0.366**</i>	<i>0.008</i>	<i>0.406</i>	<i>0.244</i>

** Correlation significant at the 0.01 level (2 –tailed)

Source: Primary Data

The correlation results summarised in table 25 indicate that loan officer's efficiency, and skills is significantly positively correlated with loan recovery($r=0.366$, $p<0.01$).

Regression analysis was done to answer study questions number three as per study objective number three. The results summarized in table 19 indicate that 19.30% of loan recovery is brought about by the Faulu loan officers' skills and efficiency.

4.3 Loan Recovery

This study examined the relationship between Institutional Management Policies and Loan recovery. The dependent variable, loan recovery, is broken down into recovery on time, recovery past time and loans defaulting. The frequency table below shows the responses of the clients on loan recovery.

Table 26: Loan Repayment by Clients Frequency table

<i>Loan product</i>	<i>Responses</i>			
	<i>YES</i>		<i>NO</i>	
	<i>Frequency</i>	<i>Percentage</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Did you get a loan in the year 2006?</i>	<i>64</i>	<i>85.33</i>	<i>11</i>	<i>14.67</i>
<i>Did you pay back the loan?</i>	<i>53</i>	<i>82.81</i>	<i>11</i>	<i>17.19</i>
<i>Did you pay back on agreed time?</i>	<i>49</i>	<i>92.45</i>	<i>4</i>	<i>7.55</i>

Source: Primary Data

From table 26 above of the 75 clients who participated in the study 64 had taken loans in 2006 representing 85.33%. And 11 did not take loans in 2006 which represented 14.67%.

Among those who took loans 53 or 82.81% paid back and 11 of the 64 did not pay back,- they defaulted. And 92.45% of those who paid actually paid within the agreed time and only 7.55% paid past the agreed time. From the data collected the repayment rate is high but this could be because the sample size in the final analysis has become smaller compared to the number of clients. The clients who defaulted and those who paid past time gave their reasons for failing to pay which are summarized in table 27 below,

Table 27: Reasons for Defaulting (multiple response)

<i>Reasons why clients defaulted</i>	<i>Responses</i>	
	<i>frequency</i>	<i>Percent</i>
<i>Fell sick</i>	<i>1</i>	<i>7.7</i>
<i>Problems at work premises</i>	<i>10</i>	<i>76.9</i>
<i>The stock was stolen</i>	<i>1</i>	<i>7.7</i>
<i>Was refused to work</i>	<i>1</i>	<i>7.7</i>
<i>Total</i>	<i>13</i>	<i>100</i>

Source: Primary Data

Table 28: Reasons for not paying in the agreed period (multiple response)

<i>Reasons for not paying in time</i>	<i>Responses</i>	
	<i>Frequency</i>	<i>Percent</i>
<i>Problems at work premises</i>	<i>4</i>	<i>57.1</i>
<i>Got low profits</i>	<i>1</i>	<i>14.3</i>
<i>Paid school fees</i>	<i>2</i>	<i>28.6</i>
<i>Total</i>	<i>7</i>	<i>100.0%</i>

Source: Primary Data

Both defaulting clients and those failing to pay in the agreed period give problems with work premises as the most common reason why they failed to pay. It is to be appreciated that problems with work premises leads to business failure eventually. The reasons for failure to pay and for paying past time are external to the MFI, this implies that clients have no problems with Faulu institutional management policies. The respondents were asked to identify the major challenges of loan repayment. The responses are presented in table 29 below;

Table 29: Major Challenges of loan repayment to Faulu Uganda according to the clients and employees

Challenge	Responses			
	Clients %	Rating	Employees %	Rating
Clients migration	100	1	86.7	2
Clients business failure	98.7	2	87	1
Loan diversion	97.3	3	78.3	3
Client appraisal	86.7	4	-	
High competition from MFIs	-		73.9	4
A big number of small loans	-		65.2	5
Inaccurate loan information	-		52.2	6

Source: Primary Data

Table 29 shows what both Faulu clients and employees consider client business failure to be the major challenges of loan repayment. Faulu clients rate client migration as challenge number one with a 100% response although the employees rate it second after client business failure with 86.7% response. Client business failure is rated number one challenge of loan repayment by employees at 87% and second by clients at 98.7%. Both clients and employees put loan diversion as challenge number three with 97.3% client

respondents and 78.3% employee respondents. While client appraisal was not rated by employees it was rated fourth by clients at 86.7% response. All four challenges are critical for the MFI and yet they are external to the MFI. These challenges give insights into the operating environment of the clients. The MFI needs to recognize this as it designs measures of dealing with loan default.

Table 30: Dealing with Loan default

<i>Dealing with loan default</i>	<i>Client Responses</i>				<i>Employee Responses</i>			
	<i>Agree</i>		<i>Disagree</i>		<i>Agree</i>		<i>Disagree</i>	
	<i>Frequency</i>	<i>%</i>	<i>Frequency</i>	<i>%</i>	<i>Frequency</i>	<i>%</i>	<i>Frequency</i>	<i>%</i>
<i>The loan officer/branch manager meets the client</i>	65	86.7	10	13.3	13	81.3	3	18.7
<i>Faulu will send written reminders to the client</i>	46	61.3	29	38.7	12	80	3	20
<i>Faulu can extend the repayment period</i>	21	28	54	72			16	100
<i>Faulu use the individual savings to repay the loan</i>	33	47.8	36	52.2	15	93.8	1	6.2
<i>Faulu will use the group savings to repay the loan</i>	75	100	-	-	14	87.5	2	12.5
<i>Faulu will hand over the client to a debt collector</i>	73	97.3	2	2.7	5	38.5	8	61.5
<i>Faulu will take the client to court</i>	13	17.3	62	82.7	7	43.8	9	56.3
<i>Faulu will sell the assets given by the client</i>	75	100	-	-	14	87.5	2	12.5
<i>Faulu will write off the loan</i>	2	2.7	73	97.3	6	43.8	9	56.3

Source: Primary data

The results in table 30 above show an agreement between the clients and the employees on how Faulu deals with loan default. The branch manager meets with the client and both individual and group saving are used to repay the defaulted loans. Faulu will not write off the loan. The results imply that both clients and employees know the procedures for dealing with loan default. For the clients it may increase repayment for fear of the consequences of loan default.

4.4 Conclusion

The conclusions of chapter four are summarized in the two tables 31 and 32 below.

Table 31: Pearson's Correlations

<i>Correlations</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
<i>Product design(1)</i>	<i>1</i>						
<i>Lending procedure(2)</i>	<i>.440**</i>	<i>1</i>					
<i>Lending methodology(3)</i>	<i>.213</i>	<i>.560**</i>					
<i>Customer Appraisal(4)</i>	<i>.118</i>	<i>.337*</i>	<i>.260</i>	<i>1</i>			
<i>Customer monitoring(5)</i>	<i>.135</i>	<i>.363**</i>	<i>.511**</i>	<i>.123</i>	<i>1</i>		
<i>Loan Officers' Skills, efficiency and Training(6)</i>	<i>.307*</i>	<i>.287*</i>	<i>.251</i>	<i>-.127</i>	<i>.323*</i>	<i>1</i>	
<i>Loan Recovery(7)</i>	<i>.372**</i>	<i>.567**</i>	<i>.496**</i>	<i>.170</i>	<i>.419**</i>	<i>.366**</i>	<i>1</i>

** Correlation is significant at the 0.01 level (2- tailed)

* Correlation is significant at the 0.05 level (2- tailed)

Source: Primary Data

From table 31, the strongest positive relationship is observed between lending procedure and loan recovery $r = .567$, $p < 0.01$, followed by lending methodologies $r = .496$, $p < 0.01$. Pearson correlation for product design is $r = .372$, $p < 0.001$ and is significant. These are the items together that make product design and lending methodology have the strongest relationship with loan recovery. There is no significant relationship between customer appraisal and loan recover $r = .170$.

Table 32: Summary of regression results

<i>Institutional Management Policy</i>	<i>Loan Recovery</i>
<i>Product design and lending methodology</i>	<i>43.6%</i>
<i>Customer appraisal and monitoring</i>	<i>16.4%</i>
<i>Loan officers' skills and efficiency</i>	<i>17.6%</i>
<i>Total</i>	<i>77.6%</i>

Source: Primary Data

The summary of the regression results between institutional management policies and loan recovery shows that 77.6% of the changes on loan recovery are brought about by institutional management policies. Product design and lending methodologies having the greatest effect on loan recovery, since the first stage in micro lending is determining what products will be available for the clients, it must be critically evaluated.

These results of the study as reported in this chapter are discussed in chapter five. And conclusions are drawn from the findings and discussions. Recommendations from the study findings and literature review are also given in chapter five.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the findings basing on the objectives of the study, discussion of the findings relating them to the existing literature, conclusions based on the findings and finally recommendations arising out of the study findings.

5.1 Summary of the Findings

The summary of the findings are presented according to the objectives of the study. This study reviewed the existing literature and expanded the findings on loan recovery in MFIs by analyzing the relationship between institutional management policies and loan recovery. The study sought to establish the relationship between institutional management policies and loan recovery by MFIs in Uganda, Faulu Uganda being a case study. Institutional management policies being the independent variable and loan recovery being the dependent variable.

Institutional management policies were analysed under three sub variables. These are product design and lending methodology, customer appraisal and monitoring and loan officers' skills and efficiency. The findings show that institutional management policies do affect loan repayment positively. Analysis leads to several conclusions regarding the relationship that institutional management policies affect the rate of loan repayment by clients.

Data on the independent variable of product design and lending methodologies, client appraisal and monitoring, loan officers' skills and efficiency and the dependent variable of loan recovery was collected using two sets of semi structured questionnaires, one for the Faulu clients and one for Faulu employees. Both probabilistic and non probabilistic approaches were used in the study. The simple random sampling technique was used to select a sample of seventy five (75) clients. Both random sampling and purposive sampling were used to select twenty five (25) employees to participate in the study who included two branch managers. Purposive sampling was used to limit the employee participants in the study to only Loan Officers, Loan Supervisors and Branch Managers as these were deemed to be key informers on the subject. And random sampling was used further to select the loan officers and loan supervisors. All 75 the clients responded and 23 of the employees responded. The data collected was analysed using SPSS, summarised and presented using frequency tables, graphs and charts. Correlation relationships were generated using SPSS. Also regressions were run for further analysis leading to the conclusions made at the end of this study report.

5.2 Discussion of the Findings of the Study

5.2.1 Institutional Management Policies

Studies by Fafchamps *et al*, (2002) indicate that favourable institutional management policies in lending often play an insurance role against defaulting. The probability to have higher repayment rates increases when the perceived policies that mitigate loan defaulting are instituted before loans are accessed by borrowers.

A lending technology “covers the entire range of activities carried out by a loan-granting institution which have to do with selecting borrowers, determining the types of loans to be granted, the loan amounts and terms to maturity, and the way in which loans will be secured, as well as the monitoring and recovery of loans” (*Schmidt and Zeitinger,1996*). Faulu has in place lending methodologies and procedures aimed at enhancing loan recovery.

5.2.2 The Relationship Between Product Design and Lending Methodologies and Loan Recovery

The results of the study showed that Faulu has four types of loan products for their clients. These are solidarity group loans, individual loans, salary loans and school fees loan. The clients who participated in the study, 93.3% had acquired solidarity group loans, 74.7% the school fees loans and 4% the individual loans. This is in line with Faulu institutional policy that clients must belong to a group so that the members are responsible for each others loan repayment.

The products are not designed according to the client needs. This is in line with a study done by INAFI Africa Trust, which indicated the inability by many MFI programmes to design appropriate products for their clients. Faulu like most MFIs in Uganda is following the Grameen Bank of Bangladesh lending model of clients belonging to groups. On loan size 60% of the participating clients said that the loan size was not sufficient for their needs. The average loan size of Faulu in 2006 was Shs466,000. The study found out that 69 out of the 75 clients were given one week before starting to repay

the loan. From the focus group discussion with clients in Kawempe branch, differing views were advanced on the grace period, some members saying they had no problem with the grace period. Actually some said that one week forces them to work harder to meet repayments. Yet some said that a longer period would be preferable their argument being that getting cash out of the business reduces the cash available for their business activities. Sometimes they had to take school fees loans to repay solidarity group loans.

The Pearson Correlation Test on the relationship between product design and lending methodology and loan recovery revealed that there was a significant positive correlation between the two variables ($r=0.372, p<0.01$). This implies that product design and lending methodology have a relationship with loan recovery in that favourable lending methodology encourages loan repayment.

This results concur with Oketch *et al* 1994 who argued that business related challenges of loan management arise from mismatch in loan size and potential income from investment made by the loan. This could well result in giving loans for activities that do not have the potential to repay.

The majority of the clients who participated in the study were self employed constituting 73%. The loans taken by the clients are invested in their businesses as reported by 93.3% of the clients. Micro-enterprises that clients are involved in include small scale production like garment making, handicraft artisanship, prepared food production, furniture making and auto tire repair, service provision like taxi driving, hairdressing and the provision of telecommunication services, trading like shop/stall keeping, fruit and

vegetable vending and small scale farming or livestock production. Such enterprises play a key economic role in Uganda. In many countries throughout the world and in some developing countries, it is thought that as much as 80% of employment and up to 50% of GDP is provided by micro-enterprises. One of the many constraints faced by micro-entrepreneurs in the developing world has been their inability to access capital and other financial services.

The results of the study show that 97.3% of the clients who participated in the study had been given one week grace period and were repaying the loan in equal installments. Since the repayment process begins at such an early stage the investments have not yet given a return. This implies that the borrowers need an additional income source to be able to secure the weekly or monthly repayments that are required. This was confirmed at a Focus Group Discussion with a group in Kawempe branch where members take School fees loans to meet the weekly repayments due on the solidarity group loans. From the lenders' perspective, this provides repayment assurance to some extent. According to Morduch *et al* (2005) from the borrowers' perspective, by its very nature, early repayments require a steady cash flow and since the cash flow of some activities is seasonal like in agriculture this may exclude potential borrowers from the market.

All the clients who participated in the study belonged to some group. This may be the reason for the high repayment level where 53 of the 64 clients who took loans in 2006 paid back the loans. Joint liability groups and personal guarantors act as social collateral exerting strong peer pressure for repayment and transfers part of the supervision to the

group. Groups often play an important role in screening and supervising clients. This is line with what by Besley *et al* (1995) say that social sanctions in group-based lending leads to increased repayment rates. In several programs in Bangladesh, default can result in public embarrassment, exclusion from social events and even community ostracism Khandker, (1996). In a focus group discussion with clients of Kawempe branch members said that on two occasions they had bailed out their group members who could not meet their repayments on time. They actually want to be the ones to assess the ability of their group members' capacity to pay and recommend the loan amount.

These results tend to support earlier findings by Hermes, *et al* (2004) which supported the idea that group leaders, peer monitoring and social ties play a role in loan repayments. In the group lending policy there is much reliance on the borrower's interest in maintaining his good reputation, both in the community and with the financial institution. In Uganda MFIs exert moral pressure by publishing the names, sometimes with the pictures, of defaulting borrower's in the local newspapers. Loan size was another factor that was considered under product design and lending methodology.

Of the clients who participated in the study, 60% said that the loan they got from Faulu was not sufficient for their needs. The study also found out that although only 20% of Faulu clients had got loans from another MFI, 53.3% had done so because they wanted to get bigger loans. Ledgerwood (1999) said that successful programmes begin with very small loans, and gradually increase the loan sizes contingent on repayment and savings performance.

5.2.3 The Relationship Between Customer Appraisal and Monitoring and Loan Recovery

Analysis was done to establish whether customer appraisal and monitoring affects loan recovery as per research question two of the study.

The main purpose of customer appraisal is to assess the technical, economic and financial feasibility of the proposed investment and the repayment capacity of the borrower. Since MFIs do not depend on collateral provided by the clients for their lending decisions then customer appraisal is very important that the bad clients are screened out at an early stage. The results of the study summarised in table 20 show that client appraisal is done before the loan is advanced 100% agreed so. However appraisal is not continuous as indicated by 81.3% of the respondents. The customer's capacity to pay and the value of the security are appraised. Clients said that the purpose of the loan is not appraised, 69.8% reported so.

The correlation results of customer appraisal showed a weak positive relationship ($r=0.170$, $p<0.228$). This means that client appraisal will not bring about a significant increase in loan recovery or reduce loan default. This contradicts other studies which urged that a good appraisal technique is the key to extracting viable proposals from a number of loan applications. It allows Microfinance institutions to switch to cash-flow lending, instead of basing their lending decisions primarily on the quality and amount of collateral.

Ledgerwood (1999) explains that before a loan can be advanced, the customer and their businesses must be appraised to ascertain the capacity to pay. This is in line with Okurut,*et al.* (2004), who explains that one of the ways of minimizing the loan default is through careful analysis of the repayment capacity of the potential clients. Micro loans require monitoring and supervision. Frequent contact with borrowers enables lenders to anticipate possible default and to differentiate the underlying cause, moral hazard or external factors beyond the responsibility of the borrower.

The correlation results of the study indicate that customer monitoring is positively correlated with loan recovery with paying clients ($r=0.419$, $p<0.002$) at 0.001 level (2-tailed), while the defaulting show ($r=0.467$, $p<0.0173$). This means that customer monitoring has a great effect on loan recovery. The more the MFI keeps in touch with the customer during the loan term the higher will be the rate of loan repayment.

The larger the size and the longer the term of the loan, the more important are frequent contacts with and monitoring of the client to control the risk of loan arrears. Monitoring should ensure that the disbursed loan is used for the purpose stated in the loan contract. This is particularly important if repayment is based on projected cash flow generated by the investment. Client monitoring enables loan officers to determine if any eventual failure of the investment is attributable to external factors and outside the control of the client for example due to climatic factors or natural disasters, or to mismanagement and diversion of loan funds. Contact with the client should be frequent. At the time of the

study 93.3% of the clients had accessed solidarity group loans. This concurs with earlier findings by Hermes, *et al* (2004) which supported the idea that group leaders, peer pressure monitoring and social ties play a big role in loan repayment.

Needless to say, frequent monitoring is costly and time-consuming, especially in sparsely populated rural areas. Frequent loan monitoring is a prerequisite for portfolio management, taking into account the performance of specific types of loans according to loan purpose, terms or classes of clients. Ledgerwood (1999). This would imply a trade off between supervision cost minimization and default minimization, Bindu *et al* (2003). The regression analysis of customer appraisal and monitoring against loan recovery revealed that 19.30% of the positive changes in loan recovery are brought about by customer appraisal and monitoring. The lending institutions need to invest in monitoring systems of their customers. Regular training and empowering of the loan officers with skills that enable them appraise customers efficiently will enhance loan recovery. A loan goes bad the day it is given out. This implies that poor customer appraisal will most of the time lead to default, Brownbridge (2002).

5.2.4 The Relationship Between Loan Officers Skills and Efficiency and Loan Recovery

The loan officer is responsible for the loan cycle, from client identification to loan recovery. This puts a lot of responsibility on the loan officer and thus has to be empowered with the relevant skills to effectively carry out this responsibility.

The results of the study show that 91.3% Faulu employees who participated in the study had a diploma or degree at the time of the study and the rest 8.7% had a post graduate qualification. This means that Faulu staffs are well educated.

The results revealed that 94.7% of the clients were helped in forming groups by the loan officer and 97.3% of the clients agreed that loan officer attend the weekly meetings. These are very key in loan recovery as groups play a big role through peer pressure. Weekly meetings are also a means of monitoring and help the MFI through the loan officers detect problems early, when members start absenting themselves.

The results concur with Oketch *et al*(1999) that loan officers are critical in monitoring as clients can easily fall in arrears and later default without the knowledge of the credit officer. They can start absenting themselves from group meetings and even migrating from the area altogether.

The results reveal that loan officers did not help customers in their business planning as reported by 98.7% of Faulu clients who participated in the study say that. Also 88% say that loan officers did not train them in how to do good business. The correlation between loan officers' skills and efficiency and loan recovery is positive and significant ($r=0.366$, $p<0.01$) for those who paid. However the relationship is not significant for those who defaulted. This means that loan officers play a big role in loan recovery. The more loan officers help the client in their business activities the more there will be increased rate of loan repayment.

Regression analysis of the loan officers' skills and efficiency against loan recovery revealed that 19.30% of the changes in loan recovery are brought about by loan officers' skills and efficiency. This means that loan officers play a big role in loan recovery since they manage the customer relationship with the MFI. The study results raise concern to the effect that loan officers did not help customers with business planning and did not train customers in how to do good business.

Both employees and clients of Faulu say that client business failure is a major cause of loan default and it calls for the MFI to help their clients do good and successful businesses. Micro financing requires specific skills to appraise the stability of the borrower's cash flow over time, the risks and profitability of investments and the quality of collateral. One of the very important factors in running a successful microfinance operation is the quality of field staff. It is the field staff that truly form the heart of the microfinance institution, Masiko (2003).

The field staffs are in charge of the key tasks involved in managing relationships with clients. It is they who are the true "bankers to the poor", and it is on their work that the economic development and hence repayment performance of the clients truly depends, IFPRI, (2000).

Tapan says that good field staffs are grassroots people who understand the scenario and can relate to microfinance clients. They must interact daily with clients - training and advising them in their financial decisions. Moreover, this relationship must be driven by a

coherent vision from the top that directs their activities for the financial betterment of the clients, Parikh (2004).

5.3 Conclusions

Micro finance institutions have sought to address the need for appropriate financial services for the poor by providing access to credit and other financial services. However MFIs are faced with the problem of loan default that lowers their profits and erodes their capital base. This leads to limited client coverage as resources are lost through poor loan recovery. The reactions and responses of the borrowers to the procedures, policies, and requirements of the MFI will ultimately determine a successful lending transaction.

The general objective of the study was to examine the relationship between institutional management policies and loan recovery by MFIs in Uganda, Faulu being a case study.

The results of the study show a positive relationship between institutional management policies and loan recovery. Secondary data reviewed indicated that appropriate institutional management policies would improve loan recovery. The study revealed through regression analysis that 77.6% of the positive loan recovery results are brought about by the MFIs institutional management policies.

5.3.1 Product Design and Lending Methodologies

The study objective number one sought to find out the relationship between product design and lending methodology and loan recovery. Product design and lending

methodologies cover the loan size, the grace period and the repayment terms which all affect the client's activities.

The results of the study show a significant positive relationship between product design and lending methodology and loan recovery($r=.567, p<01$). Product design and lending methodology are very key in loan recovery as the results revealed that they account for 33.81% of the positive change in loan recovery. This means that products matched with the clients needs will enhance repayments. A complete description of a lending technology should also take into account the behavior of the borrowers Schreiner *et al.*, (1998). The successful micro finance providers demonstrate a high degree of flexibility in adjusting repayment schedules to the cash flow of individual borrowers and investments, taking into account seasonality of income and expenditures.

Brownbridge, (2003) emphasized that loan term or the credit period is one of the most important variables in lending. The loan term affects the repayment schedule of the client and the revenue of the financial institutions, financing costs for the client and the ultimate suitability of the use of the loan. MFIs therefore have to regularly monitor their clients' needs in order to design products that suit them in a bid to enhance loan recovery.

5.3.2 Customer Appraisal and Monitoring and Loan Recovery

Customer appraisal and monitoring and loan recovery was analysed to answer study question number two. There is a significant positive relationship between customer appraisal and monitoring and loan recovery, ($r=.589, p<0.01$). Proper customer appraisal

plays a big role in deterring loan default from and early stage. Customer monitoring is very important for the MFI to keep track of the client business activities and use of the loan. The customer will know that the MFI is concerned about him or her and will want to keep this relationship. This ultimately increases loan recovery.

5.3.3 Loan Officers' Skills and Efficiency

Loan officers' skills and efficiency have a positive effect on loan recovery in Faulu Uganda. Faulu Uganda staff are well educated. The results of the study revealed that 19.3% of the loan recovery results are brought about by the skills and efficiency of the loan officers. They keep in touch with the customers, explaining the MFI institutional policies to the customers and making sure that the policies are upheld. The Faulu clients are well informed of the institutions management policies, which is a credit to the loan officer. Client business failure was a major cause of failure to pay back loans advanced. Loan officers although attending the weekly meetings, they did not help clients in how to do good business. Yet it is expected that if the clients' businesses are doing well it will enhance their capacity to pay thus minimizing loan default.

5.4 Recommendations

The study results show that 77.6% of loan recovery is brought about by institutional management policies under its three sub variable, the researcher recommends that Faulu should strengthen its institutional management policies. The recommendations by the researcher are based on the results of the study according to the study objectives.

Investors desiring to do business in the area of microfinance should endeavour to explore the needs of their clients and design the products that will enhance recovery rates.

Policy makers should create an enabling environment for businesses to succeed as business failure is a major cause of poor loan recovery.

5.4.1 Product Design and Lending Methodology

Faulu should put effort in designing relevant products and lending methodologies for the customers to enhance recovery as this contributes 33.81% towards loan recovery. Financing technologies and product design should be adapted to the characteristics of clients and the capacity of the lender.

Though a strict policy is needed in the case of willful default in order to maintain credit discipline, the high incidence of systemic risk in small scale business requires some flexibility towards default caused by temporary external events, at least in the case of repeat borrowers. Clients say that Faulu has no sympathy for their problems like sickness or even death.

Faulu clients confessed to taking school fees loans to top up repayments of group solidarity loans when businesses were not doing well and they could not meet weekly repayments. Faulu should increase the size of loans available to the clients especially those that have been with Faulu for along time and have good repayment history. Some clients went to other MFIs to obtain bigger loans.

5.4.2 Customer Appraisal and Monitoring

Customer appraisal and monitoring should be a priority since keeping in touch with the client minimizes loan default. The appraisal and monitoring of customers should be continuous before advancing the loan and during the period the loan remains outstanding. The MFI through its loan officers must be in touch with the clients to let them know that the MFI is interested in their business activities. Monitoring helps the MFI detect repayment problems early enough so that corrective action can be taken.

Faulu Uganda should design an appropriate customer appraisal and monitoring technique that will ensure timely visits of the customers by the loan officers, while containing the monitoring cost.

5.4.3 Loan Officers' Skills and Efficiency and Loan Recovery

Loan officer's skills and efficiency is very important in minimizing loan default. They keep in touch with the customers, explaining the MFI institutional policies to the customers and making sure that the policies are upheld. Therefore Faulu should invest in considerable training like in house refresher courses. Better training of MFI staff in loan appraisal methods can assist them in recognizing good borrowers.

Recruitment of loan officers and loan supervisors should be planned to include staff with relevant business skills. They will be able to carry out efficient customer appraisal, assist customers in business planning and train them in how to do good business, which will in turn minimize customer business failure and encourage repayment.

5.5 Limitations and Assumptions of the study

The researcher anticipated encountering the following limitations in the course of the study.

Matters pertaining to loan recovery by MFIs were regarded as confidential. However, the researcher explained the ethics of research and assured the respondents that the data provided was only for academic purposes, and would be treated with utmost confidentiality.

Some of the target respondents did not easily interpret the research instruments since they were designed in English. This called for interpretation into the local language in order to obtain the desired response about the study variables. And the questionnaire for the clients had to be administered by the research team which was expensive and time consuming. The participants in the study did not know about the amounts of loans paid past time and those defaulted although the results about institutional management policies were not affected by this limitation

5.6 Areas for further research

The study was limited to establishing the relationship between institutional management policies and loan recovery in Micro Finance Institutions a case study of Faulu Uganda.

The results of the study show that 77.6% of loan recovery is due to institutional management policies. The factors contributing the 22.4% towards loan recovery could be an area for further study. This study was case study covering a specific period, further

study could be done on the same variables but of a longitudinal nature to discover what happens with the same clients over a longtime.

The study found out that client business failure is one of the major challenges of loan repayment facing MFIs. A suggestion for study further is therefore proposed in the area of business training for MFI clients as a strategy towards minimizing client business failure. MFIs have an interest in imparting business skills to clients as a catalyst to savings and loan repayment. A study could investigate if client training in business skills improves loan recovery.

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**UGANDA MANAGEMENT INSTITUTE
RESEARCH QUESTIONNAIRE FOR FAULU CLIENTS**

Dear Sir/Madam,

I am a student of Uganda Management Institute carrying out an academic research on **Institutional Management Policies and Loan Recovery** taking Faulu Uganda as the case study. You are kindly requested to provide answers to ALL questions (Section A – D) below by either ticking [√] the appropriate options or give a brief explanation. The data given will be used for only academic purposes and treated with utmost confidentiality.

SECTION A: PERSONAL INFORMATION

1. Gender: (i) Male (ii) Female
2. Age: (i) 18-25 (ii) 26-32 (iii) 33-40
(iv) Above 40
3. Marital status:
(i) Single (ii) Married
(iii) Other specify _____
4. Level of Education:
(i) Secondary (ii) Diploma/Degree
(iii) Postgraduate (iv) Others (Specify) _____
5. For how long you have been a customer of Faulu Uganda?
(i) 0-2 years (ii) 3-5 years (iii) Others (specify) _____
7. Occupation:
(i) Formal Employed (ii) Subsistence Farmer
(iii) Self Employed (iv) Commercial Farmer (v) Student
8. For how long have you carried on this work/student?
(i) 0-2 years (ii) 3-5 years
(iii) Others (specify) _____
9. Do you belong to a group lending?
(i) Yes (ii) No (iii) Not sure
10. For how long have you belonged to the group?
(i) 0-2 years (ii) 3-5 years (iii) Others (specify) _____

SECTION B: TYPES OF LOANS AND RULES OF LENDING

Please tick [√] the box you express your opinion

1. Faulu Uganda has Institutional Management Policies.

1=Strongly agree	2=Agree	3=Disagree	4=Strongly-disagree
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2. Faulu Uganda has the following institutional management policies.

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Policies	1	2	3	4
i.	Faulu policies allow sometime before repaying the loan starts				
ii.	Faulu does not require giving assets (security) to obtain a loan.				
iii.	Client must have fully paid Previous loan before getting a new loan				
iv.	Client must have savings with Faulu in order to apply for a loan				
v.	The loan is paid back in affordable installments				
vi.	Client must have an on-going business activity				
vii.	The loan from Faulu is to help those already in business not those just starting				

3. Faulu Uganda has very effective institutional management policies

1=Strongly agree	2=Agree	3=Disagree	4=Strongly-disagree
------------------	---------	------------	---------------------

4. Faulu Uganda has got the following loan management procedures.

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Loan management procedures	1	2	3	4
i.	The client is helped to fill in an application form				
ii.	If it is a group loan the group members sign on the application form.				
iii.	The client attends four training sessions before being accepted.				
iv.	The loan officer will visit the client business.				
v.	The loan officer will evaluate the client business to agree on the loan size.				
vi.	The loan application is then approved by head office				
vii.	The asset for the loan is handed over to Faulu				
viii.	The loan is given in cash/ Cheque				

5. Faulu Uganda offers the following loan products to clients?

		1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree			
	Loan	1	2	3	4
i.	Group lending loan (solidarity)				
ii.	Individual loan				
iii.	Salary loan				
iv.	Car loan				
v.	School fees loan				
vi.	Business growth loan				
vii.	Others(Specify)				

6. The loans are specifically designed to a particular group of clients.

1=Strongly agree	2=Agree	3=Disagree	4=Strongly-disagree

7. I have benefited from the following loans given by Faulu Uganda?

		1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree			
	Loan	1	2	3	4
i.	Solidarity loan				
ii.	Individual loan				
iii.	Salary loan				
iv.	Car loan				
v.	School fees loan				
vi.	Business growth loan				
vii.	Others(Specify)				

8. The current loan I have from Faulu is my,

		1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree			
	Loan	1	2	3	4
i.	First loan or second loan				
ii.	Third or fourth loan				
iii.	Fifth or sixth loan				
iv.	Other(Specify)				

9. The loan I have from Faulu

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Loan size	1	2	3	4
i.	The loan I have from Faulu is enough for my business				
ii.	The loan I have from Faulu is not enough for my business needs				
iii.	The loan I have from Faulu is bigger than my business needs				

10. I gave the following asset(s) to Faulu as security for the loan I have;

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Asset to Faulu	1	2	3	4
i.	Household furniture				
ii.	Car registration card				
iii.	Land title				
iv.	I have guarantors				
v.	Others(Specify)				

11. I was given the following grace period before starting to repay the loan

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Period	1	2	3	4
i.	2 week - 1 month				
ii.	1 month - 2 months				
iii.	2 months - 4 months				
iv.	Others (specify)				

12. I am repaying the loan.

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Period	1	2	3	4
i.	One Installment				
ii.	Equal Installments				
iii.	Unequal installments				

13. It took me some days to obtain a loan from Faulu Uganda?

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Period	1	2	3	4
i	1 day -4 days				
ii	4 day - 7 day				
iii	1 week – 2 weeks				
iv	over 2 weeks				
v	Other (Specify)				

14. Comment on your experience of obtaining a loan from Faulu by ticking the right box.

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Policies	1	2	3	4
i.	It was easy to get this loan				
ii.	The time allowed before starting payment of the loan is good for my needs				
iii.	I gave guarantors in place of assets to get the loan				
iv.	I had fully paid previous loan				
v	I have savings with Faulu				
vi	Repayment is by installments				
vii	The repayments terms are good for my needs				
viii	I was already in business when I got this loan				
ix	I find no problem with the processing period				
x	The interest rate is manageable for me				

15. I used the loans obtained from Faulu Uganda for the following:

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Purpose	1	2	3	4
i.	Invest in business				
ii.	Pay medical bills				
iii.	Pay school Fees				
iv.	I buy assets e.g. household furniture				
v.	Other (Specify) e.g. parties, <i>Nigina</i>				

16. I would like to get another loan after paying this one.

1=Strongly agree		2=Agree		3=Disagree		4=Strongly-disagree	
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17. I have obtained loans from another Financial Institution.

1=Strongly agree		2=Agree		3=Disagree		4=Strongly-disagree	
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18. I went to another Micro finance institution for a loan because of the following reasons
 1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Reason	1	2	3	4
i	I wanted a bigger size loan				
ii	The period given to me before starting to repay the loan was good for my needs				
iii	No assets or guarantors were required to obtain the loan				
iv	I had not fully paid the Faulu loan				
v	I had no savings with Faulu				
vi	Repayment terms were good for my needs				
vii	The interest rate was good for me				
viii	Processing period was very short				
ix	The loan officers convinced me				
Others (specify)					

SECTION C: CUSTOMER APPRAISAL AND MONITORING

1. Faulu normally appraises and assesses clients.

1= Strongly agree 2=Agree, 3=Disagree, 4= Strongly-disagree

	Appraisal	1	2	3	4
i.	Before the loan.				
ii.	After the loan has been advanced				
iii.	Continuously				
iv.	Not at all				

2. The loan officer assessed my business before I was given the loan

1=Strongly agree		2=Agree		3=Disagree		4=Strongly-disagree	
------------------	--	---------	--	------------	--	---------------------	--

3. I received training from the loan officers before I got a loan from Faulu

1=Strongly agree		2=Agree		3=Disagree		4=Strongly-disagree	
------------------	--	---------	--	------------	--	---------------------	--

4. The loan officers visit me/my business/my group after I got the loan

1= Strongly agree 2=Agree, 3=Disagree, 4= Strongly-disagree

	Visited	1	2	3	4
i.	Very often				
ii.	Rarely				
iii.	Not at all				

5. The Loan officers monitor customers and the performance of their business to decide

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Assessment	1	2	3	4
i.	The client capacity to pay				
ii.	The value of collateral security				
iii.	Previous loan payment history of the client				
iv.	Review the purpose of the loan				
v.	Agree upon the size of the loan with the client				
Others (specify)					

6. The following are the purposes of client monitoring by Loan officers. Please tick [√] in the right box. 1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Purpose of client monitoring	1	2	3	4
i	To assess the progress of the client's business				
ii	To make sure the clients intends to repay the loan				
iii	To discover potential problems of the client like migration e.g. change of homes, address, phone				
iv	To let the client know that Faulu is interested his/her activities.				
v	To collect the weekly loan repayments from clients				
vi	To get those refusing to pay				
vii	To ask clients to get more loans				
viii	To make clients form groups				
ix	To check on assets given by the clients as security				
x.	To attend clients weekly meetings				
xi	To help clients in keeping business records				
xii	To listen/solve clients problems				

SECTION D: LOAN OFFICER'S EFFICIENCY, SKILLS, AND TRAINING

1. Faulu Uganda loan officers possess the following skills

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Skills	1	2	3	4
i.	Helping clients in forming lending group				
ii.	Attending member's weekly meetings				
iii.	Assisting members in solving business problem				
iv.	Explaining Faulu's institutional policies				
v.	Processing Loan applications speedily				
vi.	Helping members who have problems repaying their loans				
vii.	Determining the right asset to give for a loan				
viii	Training members in how to do good business				
ix	Understanding Members problems				
x	Determining the right size/amount of loan to be given to a customer				
xi	Business planning				

2. The following are major challenges of loan recovery encountered in Faulu Uganda.

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Challenge	1	2	3	4
i.	Client appraisal				
ii.	Group formation				
iii.	Proper record keeping on clients				
iv.	Weekly meetings				
v.	Client migration e.g. change of location, phone no.				
vi.	Loan diversion (used for un-intended purpose e.g. wedding party)				
vii.	Client business failure				
viii	Inaccurate loan information (e.g. false information for the loan usage)				
ix	A large number of small loans				
x	High competition from other MFIs				
Others (specify):					

3. The following policies are effective in loan recovery;

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Policies	1	2	3	4
i	The steps taken to evaluate clients				
ii	The period given before starting to repay the loan				
iii	Client training				
iv	Training clients how to manage a loan				
v	Loans officers visits to clients				
vi	Penalty enforcement.				
vii	Loan officer training.				

4. The following are the main causes of low loan recovery and default by Faulu Uganda clients.

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Cause	1	2	3	4
i.	Faulu does not give incentives to encourage repayment				
ii.	Sickness/Death of borrower				
iii.	Problems with the clients business				
iv	The time given before starting to repay the loan is too short				
v	The interest rate charged is too high				
vi.	Faulu gives loans that do not meet the clients needs				
vii.	Time to get a loan from Faulu is too long				
viii.	Loan officers are too busy to give detailed piece of advise to clients.				
Any other					

5. Faulu Uganda has the following loan recovery procedures in cases of defaults.

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Loan recovery procedure	1	2	3	4
i.	The loan officer/branch manager meets the client				
ii.	Faulu will send written reminders to the client				
iii.	Faulu can extend the repayment period				
iv.	Faulu will use the individual/group savings to repay the loan	Individual			
		Group			
v.	Faulu will use the group savings to repay the loan				
vi.	Faulu will handover the client to a debt collector.				
vii.	Faulu will take the client to court.				
viii.	Faulu will sell the assets given by the client.				
ix.	Faulu will write off the loan.				

6. Please give suggestions on how Faulu can improve loan recovery.

1) _____

2) _____

3) _____

SECTION E: LOAN RECOVERY

1. Did you get a Fualu loan in 2006?

Yes	No

2. If **YES** did you pay back the loan?

(If **No** give reasons)

Yes	No

(1) _____

(2) _____

(3) _____

(4) _____

(5) _____

3. Did you pay within the agreed time?

(If **NO** give reasons)

Yes	No

(1) _____

(2) _____

(3) _____

(4) _____

(5) _____

End

Thank you for Your Cooperation

**UGANDA MANAGEMENT INSTITUTE
RESEARCH QUESTIONNAIRE**

To be filled by the Employees of Faulu Uganda

Dear Sir/Madam,

I am a student of Uganda Management Institute carrying out an academic research on **Institutional Management Policies and Loan Recovery by MFIs in Uganda** taking Faulu as the case study. You are kindly requested to provide answers to ALL questions (Section A - E) below by either ticking [] the appropriate option or give a brief explanation. The data given will be used for only academic purposes and treated with utmost confidentiality.

SECTION A: PERSONAL INFORMATION

1. Gender: (i) Male (ii) Female
2. Age: (i) 18-25 (ii) 26-32
(iii) 33-40 (iv) Above 40
3. Marital status:
(i) Single (ii) Married
(iii) Widowed
4. Level of Education:
(i) Secondary (ii) Diploma/Degree
(iii) Postgraduate (iv) Others (Specify) _____
5. For how long you have been a staff of Faulu Uganda?
(i) 0-2 years (ii) 3-5 years
(iii) Others (specify) _____
7. Title in Faulu
(i) Branch Manager / (ii) Branch Accountant
(iii) Loan Officer

SECTION B: LOAN MANAGEMENT

1. Faulu Uganda has Institutional Management Policies.

1=Strongly agree		2=Agree		3=Disagree		4=Strongly-disagree	
------------------	--	---------	--	------------	--	---------------------	--

2. Faulu Uganda has the following institutional management policies.

1=Strongly agree 2=Agree 3=Disagree 4=Strongly-Disagree

	Policies	1	2	3	4
i.	Grace period on loans.				
ii.	Does not require Collateral security.				
iii.	Client must have fully settled previous loan.				
iv.	Client must have savings account with Faulu.				
v.	Repayment is by installments.				
vi.	Client must have an on-going business activity.				
vii.	Other (specify):				

3. Faulu Uganda has very effective institutional management policies

1=Strongly agree		2=Agree		3=Disagree		4=Strongly-disagree	
------------------	--	---------	--	------------	--	---------------------	--

4. Faulu Uganda has got the following loan management procedures.

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

	Loan management procedures:	1	2	3	4
i.	Client fills in application form for the loan.				
ii.	Group members second applicant				
iii.	Client attends four training sessions				
iv.	Client business visited.				
v.	Client business evaluated and Loan amounts agreed upon.				
vi.	Loan approved by head office.				
vii.	Security deposited with Faulu.				
viii.	Loan advanced in cash/Cheque.				

5 Faulu Uganda offers the following loan products to clients;

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

	Loan	1	2	3	4
i.	Group lending loan (solidarity)				
ii.	Individual loan				
iii.	Salary loan				
iv.	Car loan				
v.	School fees loan				
vi.	Business growth loan				
vii.	Others(Specify)				

6. The loans are specifically designed to a particular group of clients.

1=Strongly agree		2=Agree		3=Disagree		4=Strongly-disagree	
------------------	--	---------	--	------------	--	---------------------	--

7. Most Faulu Clients have benefited from the following loans given by Faulu Uganda.

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Loan	1	2	3	4
i	Solidarity loan				
ii	Individual loan				
iii	Salary loan				
iv	Car loan				
v	School fees loan				
vi	Business growth loan				
vii	Others(Specify)				

8. Most Faulu clients in 2006 were on their:

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Loan	1	2	3	4
i	First loan or second loan				
ii	Third or fourth loan				
iii	Fifth or sixth loan				
iv	Other(Specify)				

9. The loans given to clients are usually:

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Loan size	1	2	3	4
i	enough for their business needs				
ii	not enough for their business needs				
iii	bigger than their business needs				

10. The following assets are given to Faulu as security for the loan:

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

	Security to Faulu	1	2	3	4
i	Household furniture				
ii	Car registration card				
iii	Land title				
iv	Guarantors				
v	Others(Specify)				

11. Clients are given the following grace period before starting to repay the loan;

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Period	1	2	3	4
i.	2 week - 1 month				
ii.	1 month - 2 months				
iii.	2 months - 4 months				
iv.	Others (specify)				

12. Clients are repaying the loans in;

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Period	1	2	3	4
i.	One Installment				
ii.	Equal Installments				
iii.	Unequal installments				

13. It takes clients some days to obtain a loan from Faulu Uganda?

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Period	1	2	3	4
i.	1 day -4 days				
ii.	4 day - 7 day				
iii.	1 week – 2 weeks				
iv.	over 2 weeks				
v.	Other (Specify)				

14. Comment on the experience of your clients obtaining a loan from Faulu by ticking the right box.

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-disagree

	Policies	1	2	3	4
i.	It was easy to get this loan				
ii.	The grace period is good for their needs				
iii.	They gave guarantors in place of assets to get the loan				
iv.	They had fully paid previous loan				
v	They have savings with Faulu				
vi	Repayment is by installments				
vii	The repayments terms are good for their needs				
viii	They were already in business when getting this loan.				
ix	They found no problem with the processing period				
x	The interest rate is manageable to them.				

15. The loans obtained from Faulu Uganda are used by clients for the following:

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

	Purpose:	1	2	3	4
i	Investing in business				
ii	Paying medical bills				
iii	Paying school Fees				
iv	buying assets e.g. house hold furniture				
v	Other (Specify) e.g. parties, <i>nigina</i>				

16. Faulu Clients will want to get another loan from Faulu;

1=Strongly agree		2=Agree		3=Disagree		4=Strongly-disagree	
------------------	--	---------	--	------------	--	---------------------	--

17. Clients obtain loans from other Financial Institutions.

1=Strongly agree		2=Agree		3=Disagree		4=Strongly-disagree	
------------------	--	---------	--	------------	--	---------------------	--

18. Clients obtain loans from other Micro finance institutions because of the following reasons:
 1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

	Reason	1	2	3	4
i	They wanted a bigger size loan				
ii	The period given to them before starting to repay the loan was good for their needs				
iii	No assets or guarantors were required to obtain the loan				
iv.	They had not fully paid the Faulu loan				
v.	They had no savings with Faulu				
vi.	Repayment terms were good for their needs				
vii.	The interest rate was good for them.				
viii	Processing period was very short				
ix	The loan officers convinced them.				
x.	Others (specify)				

SECTION C: CUSTOMER APPRAISAL AND MONITORING

1. Faulu normally appraises and assesses clients;

1= Strongly agree 2=Agree, 3=Disagree, 4= Strongly-Disagree

	Appraisal	1	2	3	4
i.	Before the loan is taken				
ii.	After the loan has been advanced				
iii.	Continuously				
iv.	Not at all				

2. The loan officer assesses the client business before the loan is given;

1=Strongly agree		2=Agree		3=Disagree		4=Strongly-disagree	
------------------	--	---------	--	------------	--	---------------------	--

3. Faulu clients receive training from the loan officers before the loan is given;

1=Strongly agree		2=Agree		3=Disagree		4=Strongly-disagree	
------------------	--	---------	--	------------	--	---------------------	--

4. The loan officers visit the client business/ group after the loan is given;

1= Strongly agree 2=Agree, 3=Disagree, 4= Strongly-Disagree

	Visited	1	2	3	4
i.	Very often				
ii.	Rarely				
iii.	Not at all				

5. The Loan officers monitor customers and the performance of their business to decide;

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

	Assessment	1	2	3	4
i.	The client capacity to pay				
ii.	The value of collateral security				
iii.	Previous loan payment history of the client				
iv.	Review the purpose of the loan				
v.	Agree upon the size of the loan with the client				
vi.	Others (specify)				

6. The following are the purposes of client monitoring by Loan officers. Please tick [√] in the right box.

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

	Purpose of client monitoring	1	2	3	4
i	To assess the progress of the client's business				
ii	To make sure the clients intends to repay the loan				
iii	To discover potential problems of the client like migration				
iv	To let the client know that Faulu is interested his/her activities.				
v	To collect the weekly loan repayments from clients				
vi	To catch those refusing to pay				
vii	To ask clients to get more loans				
viii.	To make clients form groups				
Ix	To check on assets given by the clients as security				
x.	To attend clients weekly meetings				
Xi	To help clients in keeping business records				
Xii	To listen/solve clients problems				

7. Faulu Uganda has a client risk rating policy;

1=Strongly agree		2=Agree		3=Disagree		4=Strongly-disagree	
------------------	--	---------	--	------------	--	---------------------	--

8. Faulu Uganda customers are very risky;

1=Strongly agree		2=Agree		3=Disagree		4=Strongly-disagree	
------------------	--	---------	--	------------	--	---------------------	--

9. The risk rating is done by:

1= Strongly agree 2=Agree, 3=Disagree, 4= Strongly-Disagree

	Risk rating by	1	2	3	4
i.	Loan Officers				
ii.	Branch Managers				
iii.	General Manager				
iv.	Others(specify)				

SECTION D: LOAN OFFICER'S EFFICIENCY, SKILLS, AND TRAINING

1. Faulu Uganda loan officers possess the following skills

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

	Skills	1	2	3	4
i.	Helping clients in forming lending group				
ii.	Attending member's weekly meetings				
iii.	Assisting members in solving business problem				
iv.	Explaining Faulu's institutional policies				
v.	Processing Loan applications speedily				
vi.	Helping members who have problems repaying their loans				
vii.	Determining the right asset to give for a loan				
viii.	Training members in how to do good business				
ix.	Understanding Members problems				
x.	Determining the right size/amount of loan to be given to a customer				
xi.	Business planning				
xii.	Others (Specify)				

2. The following are major challenges of loan recovery encountered in Faulu Uganda;

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

	Challenge	1	2	3	4
i.	Client appraisal				
ii.	Group formation				
iii.	Maintaining correct information on clients				
iv.	Weekly meetings				
v.	Client migration (change in location, address, phone number)				
vi.	Loan diversion (used for un-intended purpose e.g. wedding party)				
vii.	Client business failure				
viii.	Inaccurate loan information (e.g. false information for the loan usage)				
ix.	A large number of small loans				
x.	High competition from other MFIs				
xi.	Others (specify)				

3. The following policies are effective in loan recovery;

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

	Policies	1	2	3	4
i.	Client appraisal				
ii.	The period given before starting to repay the loan				
iii.	Client training				
iv.	Weekly meetings				
v.	Loans officers visits to clients				
vi.	Penalty enforcement				
vii.	Loan officer training				

4. The following are the main causes of low loan recovery and default by Faulu Uganda clients.

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

	Cause	1	2	3	4
i.	Faulu does not give incentives to encourage repayment				
ii.	Sickness/Death of borrower				
iii.	Problems with the clients business				
iv.	The time given before starting to repay the loan is too short				
v.	The interest rate charged is too high				
vi.	Faulu gives loans that do not meet the clients needs				
vii.	Time to get a loan from Faulu is too long				
viii	Loan officers are too busy to give advise to clients				
ix	Others (specify)				

5. Faulu Uganda has the following loan recovery procedures in cases of defaults.

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

	Loan recovery procedure	1	2	3	4
i.	The loan officer/branch manager meets the client				
ii.	Faulu will send written reminders to the client				
iii.	Faulu can extend the repayment period				
iv.	Faulu will use the individual savings to repay the loan				
v.	Faulu will use the group savings to repay the loan				
vi.	Faulu will handover the client to a debt collector.				
vii.	Faulu will take the client to court.				
viii.	Faulu will sell the assets given by the client.				
ix.	Faulu will write off the loan.				

6. Faulu Uganda has trained Loan officers

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

		1	2	3	4
i.	Faulu Uganda loan officers have got the relevant skills to handle loan management				
ii.	Faulu Uganda loan officers go for training to gain loan management skills outside Faulu				
iii.	Faulu Uganda has loan management training programmes for its loan officers				

7. Please give suggestions on how Faulu can improve loan recovery.

i) _____

ii) _____

iii) _____

iv) _____

SECTION E: LOAN RECOVERY

1. The average caseload of each Faulu loan officer is _____.

2. According to Microfinance good practice, the load of each loan officer is:

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

		1	2	3	4
i.	100 clients in a group and 30 individuals;				
ii.	150 clients in a group and 40 individuals;				
iii.	200 clients in a group and 50 individuals.				

3. In 2006, the loans that were paid on time had the following characteristics:

1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

		1	2	3	4
i.	Were 1 st loans				
ii.	Were repeat loans				
iii.	Were between Shs	10,000 – 400,000			
		400,001 - 800,000			
		800,001 - 1,200,000			
		1,200,001 - 2,400,000			
		2,400,001 - 3,600,000			
	Above 3,600,000				
iv.	Had a grace period of:	0-1 Month			
		2-3 Months			
		Over 3 months			
v.	Were disbursed:	1 st quarter (Easter time)			
		2 nd and 3 rd quarter (school time)			
		4 th quarter (x-mas time)			
vi.	The client fell sick/died				
vii.	The client disappeared without trace				
viii.	The client's business collapsed and/or went bankrupt				

4. In 2006, loans that were recovered past the agreed time had the following characteristics;
1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

			1	2	3	4
i.	Were 1 st loans					
ii.	Were repeat loans					
iii.	Were between Shs	10,000 – 400,000				
		400,001 - 800,000				
		800,001 - 1,200,000				
		1,200,001 - 2,400,000				
		2,400,001 - 3,600,000				
		Above 3,600,000				
iv.	Had a grace period of:	0-1	Month			
		2-3	Months			
		Over 3	months			
v.	Were disbursed:	1 st quarter (Easter time)				
		2 nd and 3 rd quarter (school time)				
		4 th quarter (x-mas time)				
vi.	The client fell sick/died					
vii.	The client disappeared without trace					
viii.	The client's business collapsed and/or went bankrupt					

5. In 2006, the loans that were written-off had the following characteristics:
1=Strongly agree, 2=Agree, 3=Disagree, 4=Strongly-Disagree

			1	2	3	4
i.	Were 1 st loans					
ii.	Were repeat loans					
iii.	Were between Shs	10,000 – 400,000				
		400,001 - 800,000				
		800,001 - 1,200,000				
		1,200,001 - 2,400,000				
		2,400,001 - 3,600,000				
		Above 3,600,000				
iv.	Had a grace period of:	0-1	Month			
		2-3	Months			
		Over 3	months			
v.	Were disbursed:	1 st quarter (Easter time)				
		2 nd and 3 rd quarter (school time)				
		4 th quarter (x-mas time)				
vi.	The client fell sick/died					
vii.	The client disappeared without trace					
viii.	The client's business collapsed and/or went bankrupt					

Thank you for Your Cooperation

Appendix 3

FOCUS GROUP DISCUSSION GUIDE

1. Introduction of the Researcher and Research Assistant by loan officer in charge of the group
2. Explain purpose of discussion...basically to get members' views on FAULU management policies , for purposes of academic research aimed at improving customer service
3. Major discussion areas

- i) Product Design and Lending Methodologies

Find out what products the group members have obtained, seek facts and opinions about amount, interest rates, grace period, collateral, repayment terms, causes of default

Get comments of the good and bad of the various aspects above

Seek to wind up with suggestions of preferred approaches

- ii) Customer Appraisal and Monitoring

Find out what process one goes through to obtain a loan and through discussion seek to confirm if actually the process is followed

Find out members' understanding of customer appraisal

Seek to wind up with suggestions of what appraisal and monitoring Ways will improve loan recovery

- iii) Loan Officers efficiency, skills and training

Get views from members about the role of the loan officers and their expectations of the loan officer

Try to bring out views on the good and bad of loan officers

Seek to wind up with suggestions of how loan officers can improve loan recovery.