CREDIT POLICY AND LOAN PORTFOLIO
PERFORMANCE IN MICROFINANCE INSTITUTIONS

CASE STUDY OF UGANDA FINANCE TRUST
CENTRAL BRANCH, KAMPALA

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A RESEARCH REPORT SUBMITTED TO MAKERERE UNIVERSITY IN
PARTIAL FULFILLMENT FOR THE AWARD OF A DEGREE IN BACHELOR
OF COMMERCE

JUNE 2011
DECLARATION

The material in this report has never been submitted to any university or institution of higher learning for academic qualifications. This report is a report of my own independent research effort and investigations. Where it is indebted to the work of others, the acknowledgement has been made.

Signature:........................................ Date:..............................

Mulema Samuel Philip

06/K/4147/EXT
APPROVAL

This work has been supervised and is now ready to be submitted to the Makerere University with the approval of the supervisor.

Signature:…………………… Date:……………………………………

MR.Ebiru David
(Supervisor)
DEDICATION

To my parents, Mr. Hudon Agalo and Mrs. Crucifixia Agalo and my brothers Edwin, Simon and sisters Lucy and Silvia who have always been committed to helping me succeed in all my endeavours. May the good LORD bless them beyond measure.
ACKNOWLEDGEMENT

I would like to acknowledge the following people without whom this study could not have been successful.

First and foremost, I would like to thank the Lord Almighty for this far that he has brought me and without his mercy I could have not done this.

I would like to appreciate and thank my parents and family members for their efforts, prayers, care and encouragement and the financial support that helped me through. I am grateful and proud of them.

I appreciate the work done by my supervisor, Mr. Ebiru David for your guidance, understanding and encouragement that you accorded to me during the preparation of this research report.

My thanks go to my friends, Allan, Harun, Gloria, Sam, Andrew, Jane, Peter, Mike, Remmy and all of my classmates for their encouragement and profound support to me.

Lastly, I wish to express my appreciation to all those who played different roles in helping me to complete this work.

May the Almighty Father bless all of you.
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ABSTRACT
This study was carried out with the purpose of establishing the relationship between credit policies and loan portfolio performance of Micro finance institutions.

The study objectives included, examining credit management policies of Uganda Finance Trust, to evaluate the portfolio performance of Uganda Finance Trust and to establish the relationship between Credit policies and loan portfolio performance.

The researcher used a combination of descriptive and analytical, cross-sectional survey. The descriptive and analytical designs were appropriate because data was easily analyzed using frequency counts, averages or percentages derived from questionnaires and interviews. The cross-sectional survey was appropriate because it captured the state on the variable at a particular point in time in the different area of an organization. It was also used for associational or descriptive purposes or case studies like this one. The research was carried out in Uganda Finance Trust, Central branch and as such the study population included the management, credit officers and clients of the branch.

The findings as well indicated that Uganda Finance Trust Limited used customer particulars for tracking purposes as some of it credit controls when issuing its loans to customers. In addition the findings indicate that the organization has a variety of loan products such as, business loans, individual loans, school fees loans and salary loans. The findings indicated a positive significant relationship \( (r = 0.951) \) implying that credit policies affects the loan performance level of Uganda Finance Trust Limited by a magnitude of 95%.

The study indicated that credit policies if not clearly designed could negatively impact on the performance of micro finance institutions.

The following recommendations were suggested; the organization should improve on credit policies that are in place and train its employees on how to deal with the credit policies set by the organization, the organization should always review the credit controls to make sure that they are effective in increasing the loan performance and the organization should motivate employees to ensure adherence and implementation of credit policies and term.
CHAPTER ONE

BACKGROUND TO THE STUDY

1.0 Introduction
This chapter presented the background to the study, problem statement, purpose of the study, objective of the study, research question, and scope of the study and significance of the study.

1.1 Background to the study
A credit policy is the blueprint used by a business in making its decision to extend credit to a customer. Thus, the main goal of a credit policy is to avoid extending credit to customers who are unable to pay their accounts. Credit policy for some larger businesses can be quite formal; involving specific documented guidelines, credit checks and customer credit applications, the policy for small businesses tends to be quite informal and lacks the items found in the formal credit policy of larger businesses. Many small business owners rely on their business instincts as their credit policy (Blair, 2002). Credit policy has direct effects on the cash flow of any business. Hence, a credit policy that is too strict will turn away potential customers, reduce sales and finally lead to a decrease in the amount of cash inflows to the business. On the other hand, an accredit policy that is too liberal will attract slow paying (even non-paying) customers, increase in the business average collection period for accounts receivables, and eventually lead to cash inflow problems in Uganda Finance Trust. A good credit policy should help management to attract and retain customers, without having negative impact on cash flow.

Loan portfolio refers to the total amount of money given out in different loan products, to the different types of borrowers. This may be comprised of salary loans, group guaranteed loans, individual loans, and corporate loans. (Puxty et al., 1991). It looks at the number of clients with loans and the total amount in loans (Wester, 1993). Survival of most financial institutions depends entirely on any successful lending program that revolves on funds and loan repayments made to them by the clients (Gregory, 1986). This therefore requires a restrictive credit control system to be put in place so as to restrain from unnecessary lending thus, improving on profitability of microfinance institutions.
Credit management is the executive responsibility of determining customer’s credit ratings as part of the credit control function (Terry, 1995).

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

Uganda Finance Trust is one of the active institutions in loan extension to the entire community. On the contrary loan portfolio in Uganda Finance Trust has greatly affected the entire performance of the organization through increased arrears rates, high costs in loan recovery, constant bad debts written off, and high costs of administering loans that result from small scale and weekly loan repayment.

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

1.2 Statement of the problem

Uganda Finance Trust was established to improve the living standards of the local population moreover, initially it was a non-profit making organization, however it has been diverted to a micro deposit taking institution (MDI), which is a profit maximizing institution, despite as to the objective of its existence, it is not maximizing profits as the intention was this is evidenced by Uganda Finance Trust annual statistical reports (2006-2009) that shows decline in percentage of loan recovery.
Table 1: Loan Disbursements and recovery in Uganda Finance Trust

<table>
<thead>
<tr>
<th>Year</th>
<th>Loan Disbursed</th>
<th>Loan Recovered</th>
<th>Loan not Recovered</th>
<th>% of loan recovered</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1.98 billions</td>
<td>1.72 billions</td>
<td>260 millions</td>
<td>86.8%</td>
</tr>
<tr>
<td>2007</td>
<td>2.20 billions</td>
<td>1.65 billions</td>
<td>550 millions</td>
<td>75%</td>
</tr>
<tr>
<td>2008</td>
<td>2.33 billions</td>
<td>1.60 billions</td>
<td>730 millions</td>
<td>68.7%</td>
</tr>
<tr>
<td>2009</td>
<td>2.50 billions</td>
<td>1.58 billions</td>
<td>920 millions</td>
<td>63.2%</td>
</tr>
</tbody>
</table>

Source: Annual reports 2006-2009

Uganda finance trust for years has been affected by losses in loan give outs. Thus, low loan portfolio performances in Uganda finance trust could be attributed to the credit policy employed.

1.3 Purpose of the study

The purpose of the study was to establish the relationship between credit policy and loan portfolio performance of Uganda finance trust.

1.4 Objectives of the study

1) To examine credit policies of Uganda Finance Trust.
2) To evaluate the portfolio performance of Uganda Finance Trust.
3) To establish the relationship between credit policies and portfolio performance

1.5 Research questions

1) What are the credit management polices of Uganda Finance Trust?

2) What are the indicators of good portfolio performance in Uganda finance trust?

3) What is the relationship between credit management policies and loan portfolio performance?
1.6 Scope of the study

1.6.1 Subject scope
The study focused on credit policies of Uganda finance Trust, how well the portfolio was performing and finding out the relationship between credit policy and portfolio performance.

1.6.2 Geographical Scope
The study covered the central branch offices of Uganda finance trust on sure house, Bombo road, Kampala.

1.6.3 Time scope
The study covered the period between 2006 -2009.

1.7 Significance of the study

1) The study findings will help identify weaknesses in credit management policies of Uganda finance Trust. This will help management to find means of strengthening their operations and other necessary remedial actions.

2) The study will help to enhance the researcher’s knowledge and understanding of the study variables

3) The study will add to the body of existing literature and provide a basis for future studies and reference for future researchers.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction
This chapter reviews the work of other scholars relating to credit policy, portfolio performance and operations of microfinance institutions, it also concerned with the definition of key terms, literature on credit policy, literature on portfolio performance and the relationship between credit policy and loan performance.

2.1 Credit policy
Credit policies are set of objectives, standards and parameters to guide bank officers who grant loans and manage the loan portfolio. Thus, they are procedures, guidelines and rules designed to minimize costs associated with credit while maximizing the benefit from it (Ahimbishwe, 2002). The main objective of credit policy is to have an optimal investment in debtors that minimizes costs while maximizing benefits hence ensuring profitability and sustainability of microfinance institutions as commercial institutions.

The credit policy of an organization may be stringent or lenient depending on the manager’s regulation of variables that come with credit policy, there are three main variables (elements of credit policy) namely; Credit terms, credit standards and credit procedures (Hulmes, 1992). Managers use these variables to evaluate clients' creditworthiness, repayment period and interest on loan, collection methods and procedures to take in case of loan default.

A stringent credit policy gives credit to customers on a highly selective basis. Only customers who have proven creditworthiness and strong financial base are given loans, the main target of a stringent credit policy is to minimize the cost of collection, bad debts and unnecessary legal costs (Pandey, 2001).
A lenient credit policy on the other hand gives credit to customers on very liberal, lax terms and standards. The main purpose of a lenient credit policy is to increase gains through extending more credits to customers (Kakuru 1998 and Pandey 2001). Therefore a firm must try to balance between these two extremes in order to maximize portfolio performance.

According to Johansson and Terry (1995), credit policy means procedures aimed at checking and controlling the granting of credit facilities, to follow up procedures used to obtain collection of debts outstanding.

2.1.1 Need for credit policy
The essence of credit policy is to maximize the value of a firm. (Puxty and Dodds, 1991). An optimum credit policy is achieved through proper adjustment of credit standards, credit terms and collection efforts. These are the controllable decision variables that should be considered in the extension of credit to optimize investment in accounts receivable.

Credit policy is a guide to successful credit administration and benefits must be weighed against the cost to ensure the benefits are worth the effort of administering the credit. Benefits like increase in market share, retention of existing customers, acquisition of new ones, must be weighed against costs like selling and production costs, administration costs incurred during assessment, supervision and collection of credit and bad debts losses (Pandey, 2001).

Credit policy is aimed at having an optimal investment, this is the level of investment where there is a tradeoff between the benefits and costs associated with it, that point where the objective of liquidity, security and profitability are harmonized. Bad debt, underperforming loans and untimely payments can be minimized through proper administration of the credit policy, this can be done by obtaining collateral, third party guarantors, proper assessment of credit worthiness, optimum interest rate and credit period and setting time limits before which the credit is to be repaid and fines for late payment (Rao, 1994).
Hulme David (1992) advanced that credit policy provides a framework for the entire credit management process. Policies are a cornerstone of sound credit management, for them to set the criterion and parameters that guide in granting of loans and management of the loan portfolio. This ensures operational consistency and adherence to uniform and sound practices.

2.1.2 Credit variables
Credit terms; A Credit terms is a contractual stipulation under which a firm grants credit to customers (Wamasembe, 2002); furthermore these terms give the credit period and the credit limit. The firm should make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts. Credit terms normally stipulate the credit period, interest rate, method of calculating interest and frequency of loan installments.

Kakuru (1998) explains the significance of discounts in credit terms. Discounts are offered to induce clients to pay up within the stipulated period or before the end of the credit period. This discount is normally expressed as a percentage of the loan. Discounts are meant to accelerate timely collection to cut back on the amount of doubtful debts and associated costs.

Credit standards; according to Mehta (1972), in advancing loans, credit standard must be emphasized such that the credit supplier gains an acceptable level of confidence to attain the maximum amount of credit at the lowest as possible cost. Credit standards can be tight or loose (Van Horne, 1994). Tight credit standards make a firm lose a big number of customers and when credit are loose the firm gets an increased number of clients but at a risk of loss through bad debts. A loose credit policy may not necessarily mean an increase in profitability because the increased number of customers may lead to increased costs in terms of loan administration and bad debts recovery. In agreement with other scholars Van Horne, (1994), advocated for an optimum credit policy, which would help to cut through weaknesses of both tight and loose credit standards so, the firm can make profits.
According to Pandey (1998), credit period is the length of time for which credit is extended, generally stated in terms of net date. Length of the periods usually determined by industry customs, repayment habits of clients, and the level of repetitive borrowing. Shorter periods are preferred because if clients are defaulting frequently bad debts losses can be checked before it is too late to take corrective action. The debt collection costs also reduce with shorter credit periods.

Collection procedures; collection policy establishes a set of procedures used to collect accounts receivables which was getting overdue (Van Horne, 1989). Methods used could include letters, telephone calls, visits by the firms officials for face to face reminders to pay and legal enforcements.

Dickerson et al., (1995) asserts that collection policy is a guide that ensures prompt payment and regular collections. The rationale is that not all clients meet their obligations, some just take it for granted, others simply forget while others just don’t have a culture of paying until persuaded to do so. Therefore, emphasizing strict collection procedures keeps debtors alert, reduces portfolio at risk and consequently reduces losses due to bad debts, hence greater profitability.

Krestlow et al., (1992) emphasizes the need for using various methods in the collection efforts on past due accounts. In agreement with other scholars like Dickerson and Pandey, Krestlow noted that in determination of the method to apply, the cost and funds available for the purpose must be considered. The benefit of additional collection efforts are likely to decrease with increasing expenditure levels.

Ssemukono, (1996), states that collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses. This therefore calls for vigorous collection efforts. The yardstick to measurement of the effectiveness of the collection policy is its slackness in arousing slow paying customers.
Campsey and Brigham (1995) propounds that the evaluation of an individual should involve; gathering of relevant information on the applicant, analyzing the information to determine credit worthiness and making the decision to extend credit and to what tune. They suggested the use of the ‘5Cs’ criteria as a guide in analyzing credit worthiness. The 5Cs stand for; Capacity, Character, Collateral, Condition and Capital. Hence they defined each of the criteria in that; Capacity refers to the customer’s ability to fulfill his/her financial obligations. Collateral is the property, fixed assets, chattels, pledged as security by clients. Capital portends the financial strength, more so in respect of net worth and working capital, evaluation of capital may be by way of analyzing the balance sheet using the financial ratios. Condition relates to the general economic climate and its influence on the client’s ability to pay.

2.1.3 Optimum credit policy
In order to ensure high loan recovery rates and profitability, financial institutions should opt for an optimum credit policy. An optimum credit policy is that, which maximizes the firm’s value; the value of the firm is maximized when the incremental rate of return (marginal rate of return) of an investment set is equal to the incremental costs of funds (marginal cost of capital) used to finance the investment. (Van Horne, 1989)

2.2 Loan portfolio performance
Loan portfolio performance refers to rate of profitability or rate of return of an investment in various loan products. Thus broadly, it looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments, security pledged against the borrowed funds, rate of arrears recovery and the number of loan products on the chain.
Loan portfolio refers to the total amount of money given out as loans in different loan products, to the different types of borrowers. These loan products may comprise of; Salary loans, Group guaranteed loans, Individual loans and corporate loans (Puxty et al., 1991). It looks at the number of clients with loans and the total amount in loans. (Wester Paul, 1993)
Loan portfolio is the Microfinance institutions most important asset hence, portfolio quality reflects the risk of loan delinquency and determines future revenues and an institutions ability to increase outreach and serve existing customers. Portfolio quality is measured as portfolio at risk over 30 days.

How best a loan portfolio is performing is looked at in terms of profitability and/or rate of return on the different loan products, this is a function of the number of the loans and the cost of administering these loans (Indjeikein, 1997).

2.2.1 Strategies for improving portfolio performance
Mutesasira et al., (1997) in agreement with Pandey (1993) and Van Horne (1998) asserts that when there is evidence or plausible reason to assume that the client target groups are unable to make profitable investments with their loans and repay, they should not receive credit. They also agree that target groups who have deliberately refused to repay loans in the past should be excluded from future lending.

However, careful borrower selection is not sufficient enough to remove risks during the loan period, (GTZ reports, Jan. 1997). Close loan monitoring or in some instances strict loan and/or collateral repossession by the lending institution is called for. Any weakness in these areas encourages delinquency or delay in repayment which can result in loan loss. Therefore, ongoing up to date monitoring of all borrowers and consistent procedures for repossession are necessary.

In line with the GTZ reports (1997), a policy, which favors a system of staff incentives, is particularly important; the personal loan portfolio quality for each loan officer should be utilized as a basis performance tied remuneration in addition Dickerson et al (1995).

According to Ahimbisibwe, (2002), despite the utilization of all types of preventive measures, the risk of loan loss remains. Repayment risks can be reduced by various measures and incentives but external risks to lending are always impossible to calculate.
especially in rural areas so adequate loan loss provisions must minimize the remaining risk.

It is also important to diversify the loan portfolio over different branches, locations, scales of enterprises, loan amounts and loan periods. The loan portfolio should be diversified for both reasons of risk and efficiency; a high business volume reduces average unit cost, hence higher credit returns.

2.2.2 Microfinance loan portfolio models
Microfinance institutions throughout the world are using various credit lending models. It is upon these that they base to design their own customized portfolio products.

The individual loans model: According to Anyawu, this should be a straightforward credit lending model where micro loans are given directly to the borrower. It does not involve the formation of groups or generating peer pressure to ensure repayment. The individual model is in most cases a part of a larger ‘credit plus’ program, where other social economic services such as skill development, education and other outreach services are provided.

Association’s model; according to Otoro, a financial institution should be relevant to the community and social; associations of the community. In the association model the target community forms an ‘association’ through which various microfinance and other activities are initiated. Such activities may include savings and credit. Associations or groups may be youth or women; they can be formed around political, religious or cultural issues; they can create support structures, micro enterprises and other work based issues.

He further argues that in some countries an association can be a legal body that has certain advantages such as collection of fees, taxes, insurance and other regulatory activities. Distinction should be made between associations, community groups, people’ organizations etc., which are mass community based and NGOs, which are essentially external organization.
Credit unions model; a credit union to be successful, it should be a unique member driven, self-help financial institution, organized by and composed of a particular group or organizations, who agree to save their money together and loans to each other at a reasonable interest rates, members are people of some common bond; working for the same employer, belonging to the same church, labor union, social fraternity, etc., or living in the same community. A credit union’s membership is open to all who belong to the group, regardless of race, religion, color or creed.

Co-operative model; a co-operative should be an autonomous associations of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Some co-operatives include member financing and savings activities in their mandate (Kalifani, 1996).

Village banking model; While most microfinance models are profit oriented and centered at institutional level, village banks are community based credit and savings associations. They typically composed of 25 to 50 low-income earning individuals who are seeking to improve their lives through self-employment activities. Initial loan capital for the village bank may come from an external source, but the members themselves run the bank. They choose their members, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and savings. Their loans are backed not by physical property but by moral collateral; with the promise that the group stands behind each individual loan.

Rotating savings and credit associations; Owens asserts that rotating savings and credit associations (ROSCA) should be a group of individuals who come together and make regular cyclical contributions to a common fund, which is then given as lump sum to one member in each cycle. For example, a group of 12 persons may contribute UGX 100,000 per month for 12 months. The UGX 1,200,000 collected each month is then given to another member. Thus, a member will lend money to other members through his/her
regular monthly contributions. Deciding who receives the lump sum may be done by consensus, by lottery or bidding.

2.2.3 Loan recovery
Loan recovery refers to the pay back of the physical loan amount together with interest (Wamasembe, 2002). In spite of the measures taken by microfinance institutions such as project appraisal, client monitoring, collection effort and a score of other aspects, recovery rates leave a lot to be desired.

Indjejikian (1997) found out that in many developing countries the loan recovery rates were quite low, ranging from between 25% and 50%. He identified three main reasons for this; the common view among borrowers that credit from government sources does not have to be paid, the high co linearity between loan repayment and production risks and the inability to enforce loan policies and contracts.

Suruma, (1996) says that, “the problem of moral integrity remains a fundamental problem inside and outside financial institutions. Inside, frauds and outright theft are a continuing problem; outside, non-payment of loans by diversion of repayment funds to new activities remains a serious obstacle to loan recovery.”

2.3 Relationship between credit policy and portfolio performance
There are several policies used by microfinance institutions to ensure good portfolio performance, these policies are aimed at ensuring asset quality; earning quality, low delinquency rate and self-sufficiency. Some of the general policies and their impact on portfolio performance can be seen as follows;

Microfinance institutions extend small, short-term primary credit for working capital on simplified terms. This makes it hard for credit officers to meet their target loan portfolio requirements because cash flows of short-term borrowers are low. However, it ensures that borrowers take amounts they are able to finance.
Credit policies are the chief influences on the level of a firm’s accounts receivable in keeping with the tradeoff between profitability and risk.

Institutions require collateral before extending loans to their customers. In microfinance institutions this may be social collateral in form of guarantee by group members, fixed collateral in form of fixed property such as land of chattels like household property. The limitation with this is that land has problems with the law and customary values, determination of true ownership of chattels may be difficult and yet in group lending if one fails to pay others would not want to clear the debt.

Microfinance institutions use a combination conventional policies mentioned above and unconventional risk management policies to reduce risk involved in unsecured lending. these include; short –term lending usually for a period of 3 to 12months, mandatory savings deposit to the amount borrowed, rewards for on-time repayments in form of future access to higher loan amounts, regular group meetings where payments are normally made in front of a group, penalties for late payment such as fees, denial of higher loan amounts, or suspension periods and training of clients in financial and business management techniques.

2.4 Conclusion

A credit policy should reflect the borrower’s financial needs or otherwise the institution will be vulnerable to risks arising from failures to non-loan recovery. Non loan recovery affects microfinance institutions sustainability and it depends on the credit policy in place and if a remedy is not sought, the loan amount goes beyond the capacity to repay.
CHAPTER THREE

METHODOLOGY

3.0 Introduction
This chapter presents the methods the researcher employed and the instruments to use in data collection and analysis. It describes the research design and the methodology used which include sources of data, study population, sample size, sampling method and data collection methods and instruments, presentation and analysis and interpretation of findings and the limitations the researcher encountered during the study.

3.1 Research design
The researcher used a combination of descriptive, analytical and cross sectional design. The descriptive and analytical were appropriate because data was easily analyzed using frequency counts, percentages or averages derived from questionnaire and interviews. The cross sectional survey was used because it captured the state of the variable at a particular point in time in different areas of an organization.

3.2 The study population.
The researcher collected data from top management, credit officers and clients at the branch.

Table 2: Showing the study population

<table>
<thead>
<tr>
<th>Stratum</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>2</td>
</tr>
<tr>
<td>Credit officers</td>
<td>14</td>
</tr>
<tr>
<td>Banking officers</td>
<td>5</td>
</tr>
<tr>
<td>Customers</td>
<td>79</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary data
3.3 Sampling technique

3.3.1 Sampling method
Stratified sampling was used to create different strata in the study population. Simple random sampling was also used to select a sample of residents from each stratum.

3.3.2 Sample composition and size.
A sample of 40 respondents was selected to represent the views of the entire population. These were selected in different propositions as presented below.

Table 3: Showing selected respondents of the sample

<table>
<thead>
<tr>
<th>Stratum</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>9</td>
<td>30</td>
</tr>
<tr>
<td>Credit officers</td>
<td>17</td>
<td>40</td>
</tr>
<tr>
<td>Customers</td>
<td>14</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary data.

3.4 Data collection methods
The main source of data were primary and secondary data

3.4.1 Sources of Data:

3.4.2 Primary data
This was obtained through discussion with officials at the Uganda finance trust by observation, questionnaires and interview guide.

3.4.3 Secondary Data
Data was obtained from annual reports, journals, newspaper, publications, library research and other research work on the subject.
3.5 **Research instruments**

The following instruments were used.

3.5.1 **Questionnaire**

The questionnaire was the main instrument used in the study. The questionnaire consisted of structured / close-ended questions. They were administered to management and loan officers.

This method was appropriate because it saves time and money and respondents were given chance to answer questions at their convenient time, it also eliminated interview bias.

A copy of the questionnaire used in the study can be found in the appendix.

3.5.2 **Interview guide.**

Here the researcher used both formal and informal methods to collaborate information from the questionnaire. Interview guides were prepared and used during the face-to-face interviews. This method is flexible, accurate and quicker in yielding results.

3.6 **Data presentation, Analysis and presentation.**

After the data collection exercise, the data collected was edited to eliminate errors, ensure accuracy and relevancy. It was then coded to allow the use of frequencies and percentages as units of measurement. It was classified and presented using tables, charts, graphs, MS Excel and MS word computer packages were used. Analysis was done using the statistical package for social sciences (SPSS).

3.7 **Limitations of the methodology.**

- The researcher encountered problems in soliciting data given the fact that this is a financial institution where secrecy is encouraged given the stiff competition.

- High cost of data collection in the form of transport, telephone calls, typing and stationery coupled with financial constraints.

- Delays in response, some respondents take a lot of time filling the questionnaire.
The busy schedule of the Uganda Finance Trust employees makes the researcher to reschedule appointments now and again which may delay the collection of data.
CHAPTER FOUR
PRESENTATION, ANALYSIS, INTERPRETATION AND DISCUSSION OF FINDINGS.

4.0 Introduction
This chapter presents the findings about the effects of credit policies and loan portfolio performance of Uganda Finance Trust. It further provides the analysis and interpretations from 30 respondents drawn from the top management, loan officers and clients based on the instruments and sources of data collection.

4.1 Demographic Characteristics

4.1.1 Sex of respondents:
The respondents were asked to indicate their sex in order to make the study gender sensitive. Their response is indicated in table 4 below.

Table 4: Sex of respondents

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>19</td>
<td>47.5</td>
<td>47.5</td>
</tr>
<tr>
<td>Female</td>
<td>21</td>
<td>52.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: primary data

4.1.2 Age bracket of respondents
In order to assess the responsibility of the respondents, the respondents were requested to give their age and the responses were as below.
Table 5: Age of the respondents

<table>
<thead>
<tr>
<th>Age (years)</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 24 years</td>
<td>4</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Between 25-30 years</td>
<td>18</td>
<td>45</td>
<td>55</td>
</tr>
<tr>
<td>Between 31-35 years</td>
<td>10</td>
<td>25</td>
<td>80</td>
</tr>
<tr>
<td>Between 36-40 years</td>
<td>6</td>
<td>15</td>
<td>95</td>
</tr>
<tr>
<td>Above 40 years</td>
<td>2</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data.

Findings in the table above indicates that 45% of the respondents were between the age of 25-30 years, 25% were between 31-35 years, 15% were between 36-40 years and 5% were above 40 years. This implies that most of the respondents were youths hence they can easily understand the credit policies but still lack enough experience to manage the loan portfolios.

**Figure 1: A pie chart showing age of respondents.**

Source: Table 5
4.1.3 Education information.
In order to be sure of the quality of the information given, the respondents were requested to give their level of education and the response is portrayed below.

**Table 6: Level of Education of respondents**

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postgraduate</td>
<td>3</td>
<td>7,5</td>
<td>7,5</td>
</tr>
<tr>
<td>Degree</td>
<td>11</td>
<td>27,5</td>
<td>35,0</td>
</tr>
<tr>
<td>Diploma</td>
<td>16</td>
<td>40,0</td>
<td>75,0</td>
</tr>
<tr>
<td>Certificate</td>
<td>6</td>
<td>15,0</td>
<td>90,0</td>
</tr>
<tr>
<td>others</td>
<td>4</td>
<td>10,0</td>
<td>100,0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100,0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data

Findings in the table indicates that a small number of respondents were highly educated this is shown by the 7.5% of respondents who had masters degrees, however, 27% of the respondents were degree holders, 15% were certificate holders, 10% had other qualifications, while the majority were diploma holders. By virtue of their education structures the researcher might assume that they know what the organization performance is and the hindrance to effective performance.
Figure 2: A bar graph showing the respondents by level of education.

Source: Table 5.

4.1.4 Period worked for the organization

As a precondition to assess the reliability of the data collected, the respondents were requested to indicate the period they have worked with the organization. Their response was as given below.

Table 7: Serving duration of respondents

<table>
<thead>
<tr>
<th>Valid</th>
<th>Less than 1 Year</th>
<th>1-6 Years</th>
<th>More than 7 Years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>3</td>
<td>25</td>
<td>12</td>
<td>40</td>
</tr>
<tr>
<td>Percent</td>
<td>7,5</td>
<td>62,5</td>
<td>30,0</td>
<td>100,0</td>
</tr>
</tbody>
</table>

Source: Primary data.
From the analysis in the table above, 62.5% have served the organization between 1-6 years, 30% have served for more than 7 years and only 7.5% have served for less than 1 year. Thus this analysis indicates that probably they fail to embrace organizational policies as a result of low payments and lack of motivation since majority of the respondents have only worked in the organization for a period of between 1-6 years.

**Figure 3: A bar graph showing how long respondents have served Uganda Finance Trust.**

4.2 Finding About The Credit Policies In Uganda Finance Trust.
The first objective of the study was to examine the various credit policies in Uganda Finance Trust.
In the way of answering the first objective, the respondents were asked to confirm whether there are credit policies in Uganda Finance Trust. The response got was as given below.
Table 8: Organization sets and follows the credit policies

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>20</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>25.0</td>
<td>75.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>7.5</td>
<td>82.5</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>5.0</td>
<td>87.5</td>
</tr>
<tr>
<td>uncertain</td>
<td>5</td>
<td>12.5</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: primary data

Findings in table 7 portrays that 50% of the respondents strongly agreed that there are credit policies in Uganda Finance Trust, 25% agreed while 12.5% were uncertain however a minority of 7.5% disagreed while 5% strongly disagreed. The researcher can therefore conclude that there are credit policies in Uganda Finance Trust due to the large percentage that agreed.

**Figure 4: A graph showing the response whether organization sets and follows the credit policies.**

Source: Table 8
Table 9: Implementation of Credit policies

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>9</td>
<td>22.5</td>
<td>22.5</td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>25.0</td>
<td>47.5</td>
</tr>
<tr>
<td>Disagree</td>
<td>15</td>
<td>37.5</td>
<td>85.0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>5.0</td>
<td>90.0</td>
</tr>
<tr>
<td>Uncertain</td>
<td>4</td>
<td>10.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: primary data

From the findings majority of the respondents 37.5% disagreed that credit policies are fully implemented hence this may imply that the policies implemented do not meet the demands of the customers thus failing to answer their constant problems of failing to pay back their loans on time.

Figure 5: A pie chart showing response on implementation of credit policies.

Source: Table 9

In order to find out the effectiveness of the credit policies respondents were asked whether credit policies in Uganda Finance Trust were effective. The response observed was as follows.
**Table 10: Effectiveness of credit policies**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>10</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Agree</td>
<td>5</td>
<td>12.5</td>
<td>37.5</td>
</tr>
<tr>
<td>Disagree</td>
<td>13</td>
<td>32.5</td>
<td>70.0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>8</td>
<td>20.0</td>
<td>90.0</td>
</tr>
<tr>
<td>Uncertain</td>
<td>4</td>
<td>10.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: primary data

From the analysis 12.5% agreed, 25% strongly agreed where as 32.5% disagreed and 20% strongly disagreed however 10% were uncertain. The researcher can therefore conclude that people who are meant to ensure a proper follow up of policies as to determine their effectiveness probably are not experienced in the job and lack sufficient skills.

**Figure 6: A bar graph showing response on effectiveness of the credit policies**

![Response](image)

Source: Table 10
4.3 Findings on Portfolio performance in Uganda Finance Trust

Table 10: Collateral security on loans

In order to find out what influences the performance of loans, respondents were asked on the views on requirements on collateral security, these was portrayed as below.

Table 11: Collateral Security on loans

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>25</td>
<td>62.5</td>
</tr>
<tr>
<td>Agree</td>
<td>6</td>
<td>15.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>10.0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>7.5</td>
</tr>
<tr>
<td>Uncertain</td>
<td>2</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>40</td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: primary data

The analysis indicates that majority of the respondents 62.5% strongly agreed that there are collateral security on all loans granted to customers. However the researcher can deduce that loan officers do not carry on necessary appraisals on customer’s assets to verify whether they are appropriate.

Figure 7: A bar graph showing response on collateral security.
To examine on who were supposed to authorize loan give outs the response was as follows.

**Table 12: Authorization of loans**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>16</td>
<td>40.0</td>
</tr>
<tr>
<td>Agree</td>
<td>13</td>
<td>32.5</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>5.0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>8</td>
<td>20.0</td>
</tr>
<tr>
<td>Uncertain</td>
<td>1</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: primary data.

The findings shows that majority of the respondents agreed that big loans before being granted are authorized by either the loans manager or branch manager, therefore it may be concluded that probably those who are in charge of loan collection are not working up to expectation thus widening the rate of bad debts.

**Figure 8: A pie chart showing response on level of authorization of loans.**

Source: Table 12
To assess as to why organizational profits was declining, respondents were to give a response on how they perceived the organizations level of profits.

**Table 13: Organizational profits declining**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>9</td>
<td>22.5</td>
<td>22.5</td>
</tr>
<tr>
<td>Agree</td>
<td>22</td>
<td>55.0</td>
<td>77.5</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>5.0</td>
<td>82.5</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>5</td>
<td>12.5</td>
<td>95.0</td>
</tr>
<tr>
<td>Uncertain</td>
<td>2</td>
<td>5.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: primary data

Findings indicate that 22.5% strongly agreed and 55% agreed that the organization profits are declining. The researcher can therefore conclude that the decline in profits may be attributed to inappropriate credit management policies.

**Figure 9: A bar graph showing respondents response on decline of organization’s profits.**

Source: Table 13.
4.4 Findings on the Relationship between credit management policies and portfolio performance in Uganda Finance Trust.

The table shown shows the respondent’s responses on credit policy and loan portfolio performance in Uganda Finance Trust. The data in the table was used in analyzing the relationship between the variables mathematically using a formula that was developed by Carl Pearson in his formula

\[ r = \frac{n \sum xy - \sum x \sum y}{\sqrt{[n \sum x^2 - (\sum x)^2][n \sum y^2 - (\sum y)^2]}} \]

Analyzing the relationship between credit management policy and loan performance using correlation coefficient helped to identify to what extent credit policy affects loan performance and with what magnitude. In addition the researcher was able to determine other factors that could be responsible for low loan performance other than credit policy. These could include; low motivation levels, low wages and salaries, poor working environment and organizational policies.

Table 14: Respondent’s attitudes on credit policies and loan portfolio performance in Uganda Finance Trust.

<table>
<thead>
<tr>
<th>Variable/Response</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Uncertain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit policies (X)</td>
<td>20</td>
<td>10</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Loan performance (Y)</td>
<td>25</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Primary data
Summary of the value to substitute in the formula.

<table>
<thead>
<tr>
<th>Response</th>
<th>X</th>
<th>Y</th>
<th>XY</th>
<th>X²</th>
<th>Y²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>20</td>
<td>25</td>
<td>500</td>
<td>400</td>
<td>625</td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>6</td>
<td>60</td>
<td>100</td>
<td>30</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>4</td>
<td>12</td>
<td>9</td>
<td>16</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>3</td>
<td>6</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Uncertain</td>
<td>5</td>
<td>2</td>
<td>10</td>
<td>25</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>40</strong></td>
<td><strong>588</strong></td>
<td><strong>538</strong></td>
<td><strong>684</strong></td>
</tr>
</tbody>
</table>

\[ r = \frac{n \sum xy - \sum x \sum y}{\sqrt{[(n \sum x^2 - (\sum x)^2)(n \sum y^2 - (\sum y)^2)]}} \]

\[ r = \frac{2940 - (40 \times 40)}{\sqrt{[(5 \times 588) - (40)^2][(5 \times 684) - (40)^2]]}} \]

\[ r = \frac{1340}{\sqrt{1090 \times 1820}} \]

\[ r = \frac{1340}{1408.47} \]

\[ r = 0.951 \]

Therefore \( r = 0.951 \)

From the computation above ,the findings indicate that credit policies affect the loan performance levels by 95.1%. This is a positive significant relationship ( \( r=0.951 \)) implying that credit management affects the loan performance levels .However ,the findings indicate that there are other factors affecting the financial status of the organization represented by 4.9%.
CHAPTER FIVE

DISCUSSION, SUMMARY, CONCLUSION AND RECOMMENDATIONS OF FINDINGS

5.0 Introduction
This chapter gives a summary of findings, conclusion and recommendations based on the study carried out on credit policy and loan portfolio performance of Uganda Finance Trust based on the study objectives.

5.1 Discussion of findings
The findings are in line with Yoron (1994) who argues that credit is so costly to financial institutions as they influence the profits of the organization. She further stresses that losses have been the largest cost borne by financial intermediaries and the principal cause of insolvency, and increased reliance on state bailouts thus affecting the organizational profitability.

The study revealed that a larger proportion of the respondents were still youth aged between 21-35 years. Most of them had degrees and diplomas; hence they can easily understand credit policies if well trained.

The findings are in agreement with Van Horne et al, (1997) who contends that credit policies are the chief influences on the level of a firm’s accounts receivable. As with other current assets the manager can vary the level of receivable in keeping with the tradeoff between profitability and risk.

5.2 Summary of major findings

5.2.1 Summary on credit policies of Uganda Finance Trust.
The findings showed that the organization has credit policies in place like use of collateral security against loans. In addition the findings showed that the organization sets
and follows the credit policies. However it was noted that the organization does not fully train the employees on credit policies and terms thus making it hard for them to comply with the policies and terms.

5.2.2 Summary on the portfolio performance in Uganda Finance Trust.
The findings indicated that big loans before being granted are authorized by either the loans manager or branch manager. It was also revealed in table 12 that the organization profits are declining which could be attributed to inappropriate credit management.

5.2.3 To establish the relationship between credit policies and loan portfolio performance.

The findings indicated a positive significant relationship \( r = 0.95 \) implying that credit policies affect the loan performance levels of Uganda Finance Trust by a magnitude of 95%.

5.3 Conclusion of major findings
From the analysis, interpretation, presentation and summary of the findings as shown in chapter four and five respectively, the researcher came up with the following conclusions.
The loan performance levels in Uganda finance Trust is still low as it is affecting the profitability status of the organization. It was also concluded that the credit policies are not fully implemented in Uganda Finance Trust on top of failing to train the employees on credit terms and controls in place. To establish the relationship between credit management policies and loan portfolio per romance: it can be concluded that although there is a positive relationship, there are other factors affecting the loan performance levels of the organization. These may include; poor working environment, low motivation levels and low wages.
5.4 Recommendations to the major findings
Following the analysis of the study, the researcher came up with the following recommendations.

5.4.1 Recommendation on credit policies of Uganda Finance Trust.
The organization should improve on credit policies that are in place and train employees on how the credit policies in different situations on loan give outs. Therefore they should consider the 5Cs while rating their clientele for loans, these include collateral, capacity, capital, character and conditions.

5.4.2 Recommendation on the loan portfolio performance in Uganda Finance Trust.
The organization should review the credit controls in place to make sure that they are effective in increasing loan performance hence they should try to reduce the level of bad debts by use of insurance and factoring of the loans.

5.4.3 Recommendation on the relationship between credit management policies and loan portfolio performance.
Simplifying the procedures to obtain loans and clearly designing credit policies as well as improved communication channels could help to bridge the gap of uncertainties.

5.5 Areas for further research
- The impact of information technology on performance of micro finance institutions.
- The impact of customer service on customer retention in micro finance institutions.
- Credit management and financial performance in micro finance institutions.
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APPENDICES

APPENDIX I

QUESTIONNAIRE

Dear Sir/Madam

I am a student of Makerere University carrying out a research aiming at determining the effect of credit management on the loan performance of Micro finance institution. I kindly request you to spare some minutes of your time and respond to the questions below either by ticking or filling where applicable. The purpose of these is for a requirement of the award of commerce degree of Makerere University; your answers will be treated with utmost confidentiality.

Thank you for your cooperation.

Section A: Demographic information

(Please put a tick in the appropriate box).

1. Gender
   Male □ Female □

2. In which age group do you belong?
   Less than 24 years □ between 25 – 30 years □
   Between 31 -35 years □ between 36 – 40 years □
   Above 40 years □

3. Level of Education
   Postgraduate □ Degree □
   Diploma □ Certificate □ other (specify) …………
4. How long have you worked for the organization?
   Less than 1 year [ ] 1-5 years [ ]
   More than 5 years [ ]

5. The level of position in the organization.
   Supervisor [ ] Credit officer [ ]
   Team leader [ ] Manager [ ]

Section B

A) To identify the credit policies used in Uganda finance Trust.

For each of the following statement, please tick where applicable the extent to which you agree using the Likert scale.

SA = Strongly Agree;  A = Agree;  NS = Not Sure;
D = Disagree;  SD, = Strongly Disagree

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 In your opinion, the organization sets and follows the credit policies and terms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. The organization implements these terms and policies in case of failure to pay back the loan.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. There is always training to all employees on the terms and policies set by the organization.</td>
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<td>9. In my organization credit policies are effective in answering the customer queries.</td>
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<td>11. Collateral securities are required before the loan is granted.</td>
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<td>12. Big loans in my organization are either</td>
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</tbody>
</table>
authorized by either the manager or supervisor before giving it out.

Section C.
To evaluate the loan performance in Uganda Finance Trust.

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>13. It is very easy for customers to get loans in your organization</td>
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<tr>
<td>14. The organization incurs a lot of costs in recovering loans given to customers.</td>
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<td>15. In cases of failure to pay the loan the organization takes measures to recover it.</td>
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<td>16. The organization offers a variety of loan products to its customers.</td>
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<td>17. Loan products have increased the organizational profitability levels.</td>
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<td>18. In your organization loans are convenient to customers.</td>
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<tr>
<td>19. The degree of risks associated with loans in your organization is high.</td>
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<td>20. The organization benefits from the loan products</td>
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<tr>
<td>21. Big loans in the organization are authorized by the manager or supervisor before giving it out.</td>
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</tbody>
</table>

Section D
To establish the relationship between credit management and loan performance levels in Uganda Finances Trust

<table>
<thead>
<tr>
<th>Statements</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>22. In my own opinion there is a decline in the profitability levels in the organization due to loan performance levels</td>
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</tbody>
</table>
23. The organization sound financial performance is attributed to loan performance levels.

24. Credit terms and policies ensure no default in loan repayment.

25. In my own opinion decline in profitability levels is as a result of inappropriate loan recovery policies.

26. What other factors affect the portfolio performance levels in your organization other than credit management policies?

27. What challenges do you face when carrying out credit policy?

28. What are the common costs incurred in administering credit?

29. What are the factors /indicators of good portfolio performance?

30. Do you think that credit management policies have a significant influence on loan recovery? (Tick in appropriate box)

   i. No, not at all
   ii. Yes, to a small extent
   iii. Yes to a large extent
   iv. Yes absolutely

Thank you for your cooperation and precious time.
February 14, 2011

Date: ..................................................

Dear Sir/Madam,

Re: ..................................................

This is to introduce to you, MUGAMBA DANIEL CHUMWA……., who is a Third Year student of Makerere University, College of Business and Management Sciences-School of Business, pursuing a Bachelor of Commerce Degree.

As part of the Programme, he is undertaking research on “..................CREDIT POLICY
..................AND LOAN PORTFOLIO PERFORMANCE IN MICROFINANCE
..................INSTITUTIONS.

We will be glad if you would accord him all the necessary assistance he may require pertaining to his research.

In case you need additional information, please do not hesitate to contact the undersigned.

Yours faithfully,

Dr. Umar Kakumba (PhD)
DEAN