Credit Policy and Performance of Loan Portfolio at Pride Micro Finance Uganda Ltd

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Abstract:-**The bad effects of performance of loan portfolio are undesirable and the researcher investigated on how the credit policy if properly managed could offer a means of changing this situation. . Poor loan performance exposes high level of credit risks and affects loan interest repayment, principal payment and profitability, which if not checked can result into depletion of the capital base and closure of institutions hence loss of share holders equity. This study will therefore seek to examine the effect of credit policy on performance of loan portfolio at PMF Uganda Ltd in order to generate recommendations that will help micro fiancé institutions attain improved performance of loan portfolio. The researcher used a combination of descriptive, quantitative, cross sectional and survey design. The target population was 100 from where the sample of 80 was sampled using Morgan tables and the study employed both simple random sampling and purposive to collect primary data with use of the questionnaire. Findings indicated that credit terms contribute to better performance of loan portfolio at PMF Uganda as shown by r=0.825 and adjusted R square of 66.9%. Also it revealed that credit standards have a significant influence on performance of loan portfolio at PMF Uganda and finally findings revealed that credit collection procedures affect performance of loan portfolio at PMF Uganda as shown by r=0.776 and Adjusted R square of 58.9%, r=0.65 and Adjusted R square of 40.3% respectively. All this indicate that these findings answer the general objective of assessing the effect of credit policies on performance of loan portfolio of PMF Uganda. The study recommends that PMF should extend the loan repayment period to at least 12 months instead of mandatory 10 months, there should be friendly credit standards and lastly Credit officers should personally make physical visits to customers' premises.**

LIST OF ABBREVIATIONS

CSF: Centre for study of financial institutions

PMF: Pride micro finance

MFI: Micro finance institution

F_c: F ratio calculated

F_r: F ratio read

I. GENERAL INTRODUCTION

1.0 Introduction

The study aimed at establishing the effect of credit policies on performance of loan portfolio in micro finance institutions in Uganda; A case of Pride Micro Finance. In the study, credit policy was an Independent Variable and performance of loan portfolio as a Dependent Variable. This chapter presented the background of the study, statement of the problem, general objective, specific objective, research questions, the hypothesis, the scope, the significance and justification of the study.

1.1Background of the study

Performance of loan portfolio continues to attract attention to scholars and policy makers due to the long reputable need for credible Micro Finance Institutions (MFIs). Some empirical evidence has shown that in most emerging economies, MFIs have brought millions of people into cohesive financial institutions which are succeeding very well in providing financial services to its members for improving their standards of living (Collier, Katchova, & Skees, 2011 Collier, B., Katchova, & Skee, (2011). loan performance is related to issues of over-indebtedness emerging among micro finance customers. Micro finance institutions aim at maximizing the return to a portfolio while keeping the risk within the acceptable bound (Van der Maas, 2006). This maximization requires the balancing of highly repayment rates, low arrear rates, low default ratesas well as low portfolio at risk. Unfortunately for Ugandan case MFIs suffer from poor credit policies and weak risk management practices according to association of micro finance institutions in Uganda report 2014. Loan portfolio are the major assets of MFIs and various studies have been undertaken as regards to this, for example performance of loan portfolio by (Gonzalez- Vega 2003); and an international conference on best practices in rural finance, Washington DC, 2-3 June, 2006. Other studies include the effects of direct payments on liquidity and repayment capacity of farmers by Qinlan & Izumida, 2013; Determinants of repayment performance of group lending in China an evidence from rural credit co-operatives and program in Guizhou province web of science R.

Micro finance institutions in Uganda have tried to exploit the benefits of the diversification. However there has been no method of measuring the actual amount of diversification in a debt portfolio thus its not surprising that there have been many unexpected default events in MFI's portfolios in the last 10years Bank of Finland annual report and corporate governance report 2013). The poor are usually excluded from credit facilities because of many reasons which include insufficient collateral to support their loans, high transaction costs, unstable income, lower literacy. Obamuyi, (2009).

In Uganda there is continued deterioration of performance of loan portfolio among MFIs which has prompted the government to take several measures to improve on their performance yielding non despondence to positive results by (Eriku 2010). According to Association of Microfinance Institutions in Uganda 2014, MFIs in Uganda are customer focus finance institutions offering relevant, accessible and affordable banking products and services in refreshing manner with a total of 514,214 borrowers and total loan of 612.52 million US Dollars. However MFI's loan grew from Ushs 114.6billion to Ushs. 243.1billion between June 2013 and June 2014. The sectors non performing loans (NPLs) grew by Ushs; 48.2billion to reach Ushs; 116billions at the end of June 2014 thereby accounting for 22.8% of the total NPLs in MFIs annual performance report year 2012 & 2013.

Pride Micro finance reviewed performance report between the period that is 2012 & 2013 indicate a similar and interesting situation which needs to be studied. The table below shows plan projections.

Table 1: Reviewed PMF performance trends between 2012 &2013

	2012 Projections	2012 Actual	2013 Projections	2013 Actual
Profits and loss (Uganda shillings in Billions)	17.93	11.09	12.76	11.66
Loan issued (Uganda shillings in Billions)	97.56	80.69	98.45	95.68
Customer deposits (Uganda shillings in Billions)	40.32	35.49	56.12	52.69

Source: PMF Annual performance report years 2012& 2013.

The above concerns both at the national level and PMF in particular; The trend from the above table shows that PMF did not meet its target in form of loan issued and customer deposits suggest an important need for more empirical studies on the relationship between credit policy and performance of loan portfolio. It is therefore upon this background that the researcher examined the relationship between credit policy and performance of loan portfolio of PMF in selected branches in Kampala region.

The trend from the above table shows that PMF did not meet its target in form of loan issued and customer deposits. This is undesirable situation an indication of unsatisfactory performance hence a need to investigate whether this was associated with credit policy in place. For clarity view the policy and strategic purpose the table reflect undesirable situation necessitating an investigation to establish how credit policy relate to portfolio performance.

1.2 Statement of the problem

Performance of loan portfolio remains the major objective of all Micro Finance Institutions all over the world. In pride micro finance it is no option, however the components of the researchers study –return on investment, return on assets and profitability of loan portfolio had poor performance in rural finance credit cooperative in China Gonzalex – Vega (2006). The bad effects of performance of loan portfolio are undesirable and the researcher investigated on how the credit policy if properly managed could offer a means of changing this situation. The purpose therefore is intended to examine the credit policy effects on performance of loan portfolio. The existence of an effective credit policy is meant to ensure performance of loan portfolio of any micro finance institution through increased number of borrowers while ensuring declining default rates. Like any other micro institution PMF has put in place credit terms, credit standards and credit collection efforts to the effect of avoiding damage and its reputation and other consequences (World Bank 2007). The amount of profit or loss projected was not realized and it fell in actual terms by 38% in year 2012. Though in the year 2013 the corresponding figure fell by 8.6% showing an improvement in profit or loss position. The amount of loan issued projected was not realized and felled by 8.6% in actual terms in the year 2012. Though in the year 2013 the corresponding figure 2.8% showed an improvement. Customer deposit were not realized in the year 2012 with a shortage of 11.97% and the corresponding figure reduced to 6.1% showing an improvement; these figures were calculated from the table of PMF annual performance report of 2012 and 2013. PMF devises ways for example; physical visit to clients, who have failed to meet their contractual obligations, rewarded the best client who pay promptly and offer quick loan processing and increased loan sizes to those who comply with the contractual obligations. However all this done has not improved portfolio performance which is measured by the level of profits made. Poor loan performance exposes high level of credit risks and affects loan interest repayment, principal payment and profitability, which if not checked can result into depletion of the capital base and closure of institutions hence loss of share holders equity. This study will therefore seek to examine the effect of credit policy on performance of loan portfolio at PMF Uganda Ltd in order to generate recommendations that will help micro fiancé institutions attain improved performance of loan portfolio.

1.3. General objective of the study

The general objective is to assess the effect of credit policy on performance of loan portfolio at Pride Micro Finance Uganda Ltd.

1.3.1Specific objective of the study

i. To examine the effect of credit terms on performance of loan portfolio at PMF Uganda Ltd.

ii. To investigate the effect of credit standards on performance of loan portfolio on PMF Uganda Ltd.
iii. To determine the effect of credit collection procedures on performance of loan portfolio on PMF Uganda Ltd.

1.4 Hypothesis

i. There is no significant relationship between credit terms and performance of loan portfolio.
ii. There is no significant relationship between credit standards and performance of loan portfolio.
iii. There is no significant relationship between credit collection procedures and performance of loan portfolio.

1.5 Scope of the study

1.5.1 Content scope

This focused on effects of credit terms, credit standards and credit collection procedures and how they affect performance of loan portfolio in selected branches of Pride Micro Finance Uganda Limited.

1.5.2Geographical scope

The study was carried out from Pride Micro Finance (U) Ltd and covered Kampala region, the region has 14 branches (indicated on Google map) Pride Microfinance Kampala region and by Krejice and Morgan table 1970 the researcher took up 12 branches in the three divisions; Central Division I; City branch, Katwe and Nateete; Central Division II; Nakulabye branch, Wandegeya, Kawempe, Nansana and Bukoto; Central Division III; Entebbe Road branch, Kabalagala, Nakawa and Mukono.

1.5.3 Time scope

The period of the study time was between 2012 and 2013, because it registered poor performance referred in PMF annual performance report of 2012 and 2013.

1.5 Significance of the study

i. The study would provide credit policy makers with the data flow for the organization. This study would provide relevant data and information to the Pride Micro finance and Commercial banks to act as reference if and when necessary.
ii. The study would stimulate more researchers on performance of loan portfolio. This would allow policy makers and the government to generate policies in regard to the governing of the micro finance institutions.
iii. The study is hoped to serve as a bench mark between the past and the future studies on the subject. The study would provide literature to researchers and consultants as a study document at the library of Team University and other institutions.

1.6 Conceptual frame work

The conceptual frame work showing the effect of credit policies on performance of loan portfolio

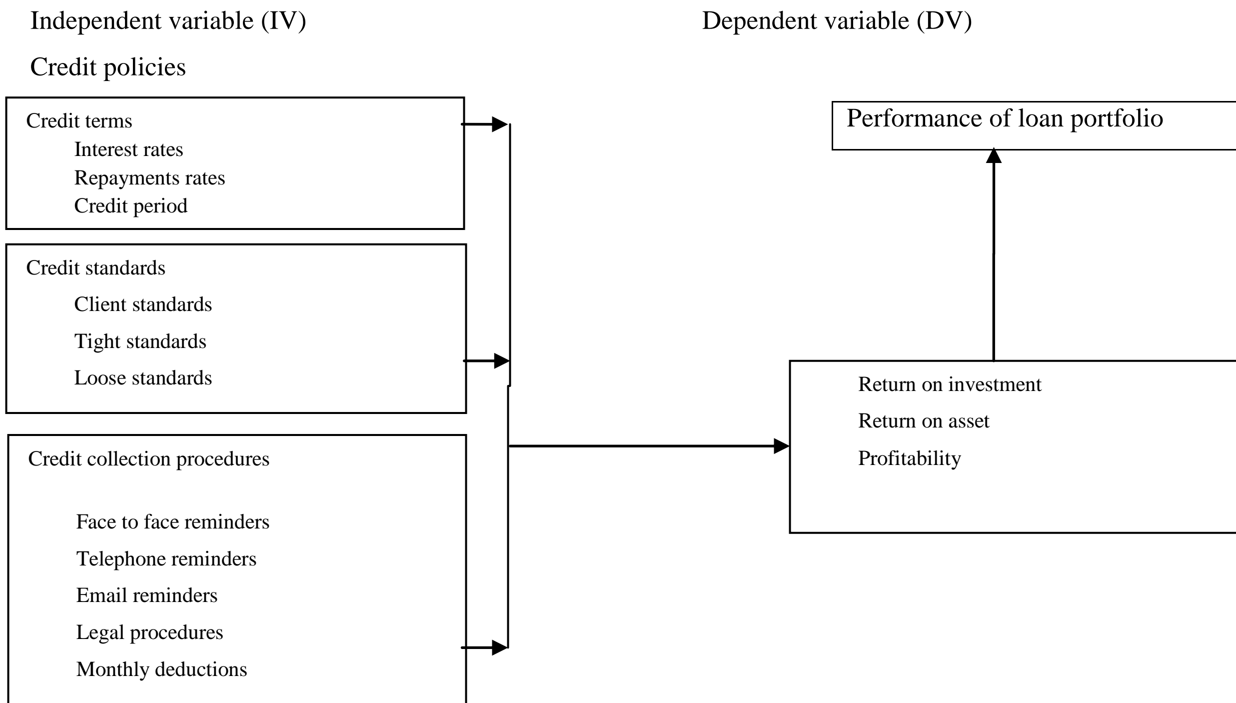

Figure 1: Showing the conceptual framework on Credit policy and performance of loan portfolio

Source: Adopted from Njeru (2001) and modified by researcher in (2018)

The conceptual frame work shows the relationship between credit policies and performance of loan portfolio in PMF Uganda Ltd. The conceptual frame assumes that credit policies which include credit terms, credit standards and credit collection procedures influence performance of loan portfolio Van Horne et al, (2007) indicated that credit policy plays a major role in directing performance of loan portfolio by the level of a company's accounts receivables. He further argues that sound lending procedures in retail financial institutions involve selecting and identifying high risk applicants, modifying loan conditions like security requirements and monitoring repayments of post loans approved. However this objective conflict in credit unions where a balance between institutions objective improving loan accessibility is compromised with members who want to get high life goals compared to the institution objective of viability through reducing loan default rates.

1.7 Operational Definition of key terms

The key terms that operationally defined included the following;

Credit policies: Refer to set of guidelines and criteria developed by a microfinance institution and used by its employees to determine whether an applicant for a loan should be granted or refused a loan.

Credit terms: Refer to contractual stipulations under which Pride Microfinance Institution grants credit to clients.

Credit standards: Refer to bench mark criteria used by Pride Microfinance Institutions in selecting customers for credit.

Credit collection procedures: Refer to efforts used by Pride Microfinance Institutions to collect and recover loans given to customers.

Performance of loan portfolio: Refer to the rate of profitability or return on investments in the total loan products, thus it broadly 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 if any and number of loan products on the chain

II. LITERATURE REVIEW

2.0 Introduction

This focused on what other scholars and researchers have written in line with credit policies and performance of loan portfolio and their effort to meet the information gap. The review focuses on the published journals, text books, publications and documents, magazines, organizations financial report and previous research reports only limited to the key variables under investigations.

2.1. Theoretical review

This section assesses the theories that were applicable to this study and these include; Portfolio theory and delinquency management theory.

2.1.1 Portfolio theory

Portfolio theory as developed by Fisher Black and Myron Scholes in 1973 investors to real investment and the option to use as much collateral as possible to make default side as much un attractive option as much possible. It provides the banking institutions in general a strategy on how to diversify their loan portfolio and general investment. Before 1973, banks and micro finance institutions had no alternative strategy on how to diversify to the maximum so as to minimize the risk and maximize the gain of their equity of the business. The theory of portfolio faces a low risk bond and makes high risk investments surer of profitability. In real world, the theory explains the fact that when investments have reached equilibrium, the risk minimization has been achieved.

Micro finance institutions in Uganda have tried to exploit the benefits of the diversification. However there has been no method to actually measuring the amount of diversification in a debt portfolio thus it's not surprise that there have been many unexpected default events in MFI's portfolios in the last 10years (Bank Finland PLCs annual report and corporate governance report 2013). The poor are usually excluded from credit facilities because of many reasons which include insufficient collateral to support their loans, high transaction costs, unstable income, and lower literacy (Obamuyi, 2009).

2.1.2 Delinquency management theory

The theory of delinquency management developed by Ledgerwood (1997) states that performance of loan portfolio improves in the presence of delinquency management structure. The theory will strengthens the portfolio theory and stipulates/ demands that delinquency management needs comprehensive review of the lending techniques, operational procedures and the company's image as an MFI. The theory puts it clear that delinquency is often a result of poorly designed loan products and delivery mechanisms. Ledgerwood in 1999 stated that profitability of MFIs is affected by interest, especially if interest revenue is not received on delinquency loans. And further warns that the significant effect on a loan would be if the principal amount is not repaid and if so then loan provision must always be made. For example once a loan is lost then other new additional loans should be made to generate enough revenue to compensate for the lost loan capital. Equally saying a lost loan must be recovered, otherwise the situation is that the balance sheet position on equity records loss, it's reduced resulting into few funds not enough for loan financing. Therefore the study focused on the PMFs credit policy of credit terms, credit standards and credit collection efforts are used such that the recovery rate of disbursed loans does not affect profitability hence the theory was used to study how PMF credit policy affected its performance of loan portfolio.

Delinquency or simply crime is normally as a result of poorly designed loan products and delivery mechanisms. It is argued according to this theory that profitability of MFIs is affected if interest revenue is not realized on delinquent loans.

Accordingly the worst effect on profitability would occur if the loan principal is not repaid and if so loan loss provisions must be made. A loan provision means if a loan is lost then new additional loan be made to generate enough revenue to compensate for the lost loan capital. In other wards in an event of a lost loan, the entire principal and interest must be expensed through a loan provision made. Otherwise the balance sheet provision of Equity is negatively affected. The recorded loss reduces Equity resulting in reduced funds available for financing further loans.

Verily the theory can be used to explain the effect of credit policy on performance of loan portfolio. In the context of this study, credit terms, credit standards, and credit collection procedures is comprehensively reviewed by any MFI in order to minimize delinquency and improve PMF loan performance in particular. The effective credit policy in form of perfect design of loan products and delivery mechanisms improve performance of loan portfolio.

2.2 Credit policy

Credit policy is the major player on the level of a firms accounts receivables considering the existing tradeoff between profitability and risk. Van Horne et al, (2007) indicated that credit policy plays a major role in directing performance of loan portfolio by the level of a company's accounts receivables. He further argues that sound lending procedures in retail financial institutions involve selecting and identifying high risk applicants, modifying loan conditions like security requirements and monitoring repayments of post loans approved. However this objective conflict in credit unions where a balance between institutions objective improving loan accessibility is compromised with members who want to get high life goals compared to the institution objective of viability through reducing loan default rates.

2.2.1 Performance of loan portfolio

Mishkin (2012) noted that effective management of loan portfolio and credit functions are important to financial institutions safety and soundness. Performance of loan portfolio refers to the rate of profitability or rate of return of an investment in various loan products. On a wider view it encompasses the number of clients applying for loans, how much they are borrowing; timely payments of installment, security pledged against the borrowed funds, rate of recovery of arrears and number of loan products in chain for example an automatic loan, over draft.

Management of portfolio is possible once financial institutions not only understand the risk related to each credit but how risk on individual loans and portfolios are interrelated. To accomplish such knowledge the risk management board must ascertain the following; Portfolio composition and its inherent risk, product mix, industry and geographical concentration, average risk rating, credit culture and risk profile. Therefore once these are known, then the appropriate policies, processes and practices implemented to control individual risks of loans and loan portfolio segments which are sound and lending personnel must adhere to and ensure their applicability (Mishkin, 2012).

MFIs performance is a function of an effective credit management system because their income is generated from interest earned on loans extended to their clients. A sound management system creates stability on continued profitability of MFIs while credit delinquency is the cause of poor financial performance as a condition. A carefully blue printed credited policy serves in the following areas; objective of credit extension, extension of the authority and responsibilities of credit granting, specification of training policy for credit personnel, monitoring activities for credit staff and clear performance targets and all these aim at creation and retention of a customer- the company- customer culture. The internal factor of the organization emphasizes on creativity, knowledge, and manipulation of existing information to enhance decision making rather than external borrowers character which may be a misrepresentation leading MFIs facing a multiple of challenges of high expenses, lower average revenues and low efficiency in terms of cost per borrower (COSO, 1992).

2.2.2 Credit policy and performance of loan portfolio

Micro Finance Institutions apply a variety of policies to ensure good portfolio performance, whose aim is to achieve asset quality, earning quality, low delinquency rate and self sufficiency in regard to any given loan product. The general policy and its effects on performance of loan portfolio is viewed as follows; Institutions prefer to extend small loans, which are short term. This has side effects on loan officers because they cannot meet their targeted loan portfolio requirements as cash flows on short term loans is lower though they ensure that borrowers access the amounts they can easily finance.

2.2.3 Credit terms and performance of loan portfolio

Credit terms are a set of policy actions designed to minimize costs associated with credit while maximizing the benefits from it, Anderson (2002). The objective is to achieve optimal recovery of receivables as a firm follows a lenient or stringent credit policy. MFIs endeavor to have surplus financial balances. Credit issuing procedures must be followed to achieve the institutions management credit terms. Ledger Wood (2000) add that credit terms are just but part of a general exercise to determine the extent of risk of each borrower. Therefore they should be designed to ensure that actions and facilities for repayments be seen as incentives or enforcement to compel repayments and must be ensured.

On the other hand Pandey (2000) asserts that good credit terms provide the institution with reasonable and adequate return on loans and capital employed through efficient operations that generate resources to finance industry growth. Accordingly credit terms can be looked at to include length of time to approve loans- that is the time between application of

a loan by an applicant to the time of a loan disbursement or receipt. Normally measured by the position of the client as shown by ration analysis, trends in cash flow and just looking at cash position.

2.2.4 Credit standard and performance of loan portfolio

Credit standards (accessibility measures) are criteria to decide the type of customer for purpose of extending credit such as capital adequacy and asset quality Pandey (1995). He further argues that credit standards should be set on individual credit applicant by considering credit information, credit limits and default rate. He contends that an institution may have standards higher than what a good and reputable client can offer.

According to Kakuru (2001), a firm should lower its quality standards of accounts accepted as long as the profitability of the sales generated exceeds the added costs of receivables. Credit standards must always be emphasized when advancing loans, Werue (2012). He argues that this makes credit provider gain a level of confidence of acceptance so that the debtor is given maximum amount of credit with lowest cost possible. According to Pandey (2001) credit standards can be loose or tight. Loose credit standards may not mean increased profitability because they are associated with higher administrative costs.

Van Horne (2004) argues that the length of the period is usually determined by the industry, culture, repayment habits of clients and repetitive nature of borrowing.

Credit application appraisal is a key area of credit management policies regarding credit standards Owusu (2008). He asserts that application appraised cannot assess the inherent credit risks when taking the right and appropriate credit decision though. Therefore the credit management statement should include essentials such as credit delivery process, credit portfolio risks, basis for pricing, management of loan problem and all these have a bearing on performance of loan portfolio.

2.2.5 Credit collection procedure and performance of loan portfolio

Collection procedures provide a set of techniques used to collect accounts receivables revenue before they get overdue (Van Horne 2009). Krest low et al, (2012) avails these techniques as follows; letters, telephone calls, visits by the firms officials for face to face remainders and legal reinforcement. Of course, well designed procedure weigh the strength and weakness of the institution, addresses questions such as whether collections should be done internally or externally through a factor and whether staff is properly trained, motivated and evaluated. The study will be tailored to establish the techniques of credit collection by PMF and the effect on performance of loan portfolio. Effective collection policy prompts payments and regular collections. The justification is that not all clients are effective, others take things for granted, others forget, while there is culture of irresponsiveness in payments and these need to be persuaded to do so. Meaning a strict collective procedures keeps debtors alert, reduces portfolio at risk and subsequently reduces losses due to bad debts and ultimate increased profitability.

On the other hand Centre for Study of Financial Institutions (2008); views procedures as a strategic activity and process in generating good habits and payment culture among clients. The centre sees these as business activity of generating returns for the MFIs converting the would be losses into income, and during this period the institution receives feedback on policies themselves and activities in the lending cycle- promotion, evaluation, approval, and disbursement. The collection period seen as an activity should be on going rather than sporadic directed to all related parties, spouse, guarantors, family or friends who served as referees in accordance with client's risk profile and probability of repayment.

Krestow et al (2012) puts emphasis on use of a variety of collection methods on unpaid accounts. Dickerson and Pandey (1995) agree with Krestow et al (2012) that when determining the method to use, the cost and funds available for the purpose must be put in mind, otherwise the collection cost may increase and hence reducing the benefits due to the increased expenditure levels. Such activities should be directed to quicken recovery from slow payers and decrease bad losses, Kakuru (2001).

Krestow et al (2012) argues that to achieve healthy, sustainable growth MFIs should prepare collection strategies before launching a new product program or loan product. This aims at avoiding a delinquent loan, creates proactive strategies to reduce debts overdue or zero them out. It makes aware the public constituency of both internal and external existence of an MFI staff ever prepared intentions to perform and deliver. Fisher & Siram (2002) provide a list of policies and procedures that contribute to a successful collection of delinquent loans.

2.3 Summary of literature review

The researcher noted that literature reviewed dose not differentiate the applicability of credit policies in reference to financial Tiers in the banking sector between commercial banks and Micro Financial Institutions and in this regard, the researcher observed that micro financial setting needed that the policies should fit to serve the social and economic environment grounded to the community's grass root level.

III. METHODOLOGY

3.0 Introduction

This chapter presents the methodology which was used in the study. It describes research design, the study area and population, sample size and selection procedure, data collection methods that was used and the respective data collection instruments, data management and analysis as well as steps that ensured validity and reliability of the study.

31 Research design

The researcher used a combination of descriptive, quantitative, cross sectional and survey design. The cross section design was preferred because it estimated the outcome of the interest of the study as selected from the whole population of braches of PMF. This was further cost effective and timely. This case the researcher allowed intensive investigation and focused on the few cases of phenomenon of interest. Quantitative approach helped to describe the situation as it prevailed giving relationships and the effects.

3.3Study population

The latest employ's list from human resource of PMF was provided which showed the categories of these employees. The study population comprised of 100 people and includes managers and employees of PMF. Out of these 1 is the managing director, 12 were the heads of credit, 1 operation manager and 36 were credit officers who provided relevant information which helped researcher access information on the 50 customers.

3.4 Sample size

The sample size comprised 80 respondents, the sample size was determined by Krejice and Morgan (1970) table as cited by Amin (2005).Purposive sampling targeted people who had knowledge on what the researcher intended to investigate, had served in PMF for at least 2 years and had enough information about credit policies, Random sampling was used since Kampala region has many customers who were royal to it for the period of investigation and they were randomly picked without bias.

Purposive sampling was applied on managers and head of credit sections. Random sampling was applied on credit officers selected from the roster at the head quarters according to each branch and every third officer would be selected continually until the required number of 36 was arrived at.

3.5 Sampling techniques

Simple sampling was used on credit officers and purposive was applied on Managers and head of credit officers, Simple random was used because it eliminates bias and ensures participants had equal chance of representation. Credit officers and clients to participant were obtained from the head office, their names were put on a Rota and randomly selected and general findings across all credit officers and clients were ensured. Purposive sampling were applied to key respondents including the managing director, the head of credit department and the operations manager these have knowledge about credit policies and portfolio performance since they are among PMF's decision makers.

3.6 Data collection methods

Data collection method used quantitative methods; these included both primary data and secondary data collection methods. And the research instruments adopted for the study were a questionnaire and studying documentary.

3.6.1 Questionnaires

Questionnaires were used because the researcher wanted collect more data from a large number of respondents in a short period. The questions were closed ended which allowed easy correlation and regression of respondents' attitudes on study of the independent and dependent variables. Questionnaires helped respondents fill them conveniently and their views, opinions were done without compulsion or victimization as Sekaran (2003) observed.

3.6.2 Documentary review methods

Sekaran (2003) considers this to involve collecting information from already written materials and the researcher viewed documents relating to credit policies, loan compliance reports, audited books of accounts and any document, memo on credit policies and performance of loan portfolio.

3.7 Reliability and validity of research instruments

3.7.1 Validity

Validity is the accuracy and meaningfulness of inferences which are based on results (Mugenda (1999).To ensure the validity of questionnaire as developed by the researcher, they were given to expert judges and the supervisors to determine the relevance of each question in providing answers to the question of the study. Such establishes an opinion, content of validity index (CVI) and as given by a formula;

$$\text{CVI} = \frac{\text{No of items declared relevant by judges}}{\text{Total No of items on the Questionnaires}}$$

A score of 0.7 and above was accepted as Amin (2005) suggested. A test of CVI was conducted on the following variables; credit terms, credit standards, credit collection procedures and performance of loan portfolio and determined their content validity index given the number of questions, as indicated by the table 2 below.

Table 2: Sowing the Content validity index of the research questionnaire

	Judge1		Judge 2		Judge 3				Total	CVI
	R	IRR	R	IRR	R	IRR	Total relevant	Total irrelevant		
Credit terms	8	2	7	3	9	1	24	6	30	0.8
Credit standards	6	2	7	1	8	0	21	3	24	0.88
Credit collection procedures	6	1	5	2	4	3	15	6	21	0.71
Performance	5	1	6	0	6	0	17	1	18	0.94

Source: primary data (2018)

3.7.2 Reliability of the Research Instrument

Reliability refers to consistence or uniformity of measuring instruments (Sekaran 2003) and this was censured by handling a pretest on 8 respondents. This was ascertained by running a Cronbach Alpha test from where the researcher realized 0.82 which was fit for the study.

Cronbach Alpha	Number of items
0.82	34

Source: primary data (2018)

3.8 Data analysis

Data analysis involved closely related operations intended to summarize collected data and organize them in a manner that answered the research questions (Amin 2005). Data was analyzed using the descriptive statistics with aid of statistical package of social scientists (SPSS). Different statistical techniques included descriptive, correlation, regression analysis and ANOVA analysis. The upper level of statistical significance for hypothesis was 5% and was computed at 2-tailed level of significance. Pearson correlation co-efficient (r) analysis was used to determine the association between independent and dependent variables. The ANOVA analysis was done by analyzing the data by using a table of critical values for the F distribution. The critical values of F at the α (0.05) were applied and compared with the calculated.

3.9 Measurements of variable

Data on respondent's views and opinions about the study variables were subjected to scaled variables from a self developed questionnaire as a result of extensive review of literature. A 5 point likert scale of SD = strongly disagree, D = disagree, N = not sure, SA = agree and A = strongly agree was used to tap opinions on variables under investigation.

3.10 Ethical consideration

The researcher obtained a letter from TEAM University to be granted information from PMF. Permission was given and access to respondents at PMF granted and briefed about objectives, purposes of the study and its relevance at large. Confidentiality of their responses and any doubt was cleared before them as documents were filled. A letter of appreciation was written to PMF.

3.11 Anticipated limitations

The researcher had anticipated to encounter a financial constraint as the data collection process was expensive however this was solved by soliciting funds from friends and relatives that helped him to accomplish the data collection exercise and the study as whole.

Further the study was limited by some respondent being biased in giving the information however this was overcome by ensuring confidentiality and anonymity of the respondent.

IV. DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the response rate, respondent's bio data according to highest level of education, work experience, and length of service into PMF. In addition, this section assesses the data in relation to the research objectives.

4.1 Response Rate

Table 3: Response rate 2018

	Response rate	Percentage (%)
Respondents	72	90
Sample Size	80	

Source: primary data (2018)

Table 3 shows that 72 respondents responded to the study which represents a 90% response rate that is above 50% hence viable for this study.

4.2 Respondent bio data

This section represents respondent's bio data recording to the respondent's highest education level, length of period with PMF and work experience.

Table 4: Respondents level of education

Education level	Number of respondents	Percentage (%)
Diploma	28	38.9
Bachelors	40	55.5
Masters	2	2.8
Others	2	2.8

N= 72

Source: primary data 2018

In relation to the level of education of the respondents, the study findings revealed that majority had bachelors degree as represented by 55.5%. This was followed by those with diploma as given by 38.9%, then those with masters and others with 2.8 and 2.8% respectively.

Table 5: Length of period with PMF

Length with PMF	Number of Respondents	Percentage (%)
Less than 2years	15	21
2-6 Years	54	75
> 6 years	3	4

N=72

Source: primary data 2018

The researcher also sought to understand the length of period respondents had taken in PMF and the study findings revealed that majority had spent 2-6 Years as represented by 75%, followed by those that had spent less than 2 years as

represented by 21% and lastly those that had spent more than 6 years as given by 4%.

Table 6: Working experience

Period & working experience	Number of respondents	Percentage (%)
2-6 years	18	50
Less than 2 years	15	42
More than 6 years	3	8

N=36

Source: primary data 2018

The researcher further investigated the working experience of the respondents and the results revealed that majority had spent between 2-6 years in working as represented by 50%, these were followed by those with less than 2 years as given by 42% and lastly those of more than 6 years as represented by 8%.

4.2 Empirical findings from the study

4.2.1 Performance of Loan Portfolio

During the study, six statements on Performance of Loan Portfolio were presented to credit officers at PMF, who were asked to provide their opinion on the performance of Loan Portfolio at PMF, results are presented in the table;

Table 7: Responses on performance of Loan Portfolio

Performance of Loan Portfolio	SD	D	N	A	SA	Mean	Std deviation
Borrowers at PMF pay loans promptly	6(18%)	12(37%)	0	8(24%)	7(21%)	2.9	1.48
There are low levels of loan default at PMF	20(60%)	2(6%)	1(3%)	4(12%)	6(19%)	2.21	1.65
There is effective payment of interest on loans by borrowers at PMF	13(40%)	10(30%)	0	8(24%)	2(6%)	2.27	1.35
There is effective payment of principal by the borrowers at PMF	22(67%)	4(12%)	0	2(6%)	5(15%)	1.45	1.57
Profitability at PMF has improved as a result of proper loan payment between 2012 to 2014	26(79%)	5(15%)	0	0	2(6%)	1.39	0.98
Loan recovery at PMF is cost effective	12(36%)	15(46%)	0	2(6%)	4(12%)	2.12	1.3
Average						2.06	1.39

N=33

Source: primary data 2018

During the analysis the statement of respondents who agreed and strongly agreed, on the other hand those who disagreed and strongly disagreed were grouped as disagreed and the third group being those who were not sure.

According to the above only 45% of respondents agreed that borrowers pay promptly, on the other hand majority 55% disagree implying that borrower do not pay their loan promptly. This has a negative effect on the institutions portfolio as evidenced by a high mean of 2.9 and a standard deviation of 1.48.

Asked whether there is low level of loan default at PMF, only 29% agreed while 68% disagreed and 3% were not sure. The above findings were provided by a credit officer who said *"The default rate is very high; in fact this has led to strict attention of group loans because most customers have been defaulting and very hard to control"*. This means high default rate was responsible for strictness on how members of a group pay their installments, which affects performance of loan portfolio. This is further explained by a high mean of 2.21 and a standard deviation of 1.65.

On whether there is effective payment of interest on loans by borrowers at PMF, only 30% of the respondents agreed with the majority of 70% on the contrary. The majority are not effective implying payments of interest rate on the loans by borrowers were not effective. This further explained by a high mean of 2.27 with a low standard deviation of 1.35.

On the question of effective of payment of principal, only 21% of respondents agreed while 79% disagreed. This implies that few loan clients are in position to pay the principal as indicated by a lower mean of 1.45 and a slightly higher standard deviation of 1.57.

The researcher further assessed whether the profitability at PMF has improved as a result of loan payment in the period, 21% of respondents agreed while the majority 79% of respondents disagreed which implies that ineffective repayment of loans has affected profitability of PMF. This is further explained by a low mean of 1.39 and the standard deviation of 0.98.

Asked whether loan recovery at PMF is cost effective, only 18% of the respondents agreed compared to 82% who disagreed. This implies that the loan recovery cost is

inefficient as much incomes are incurred in recovery the loans. This is further supported by a credit officer who was quoted saying "*We make so many calls reminding the debtors and sometimes make spot visits hence making a substantial expenditure on the side of the institution"*. This is further explained by a higher mean of 2.12 with a lower standard deviation of 1.3.

4.2.2 The effect of credit terms on performance of loan portfolio at PMF Uganda

During the study, ten statements were presented to respondents who ranked them according to the level to which they agreed or disagreed with them. During the analysis respondents who agreed and those who strongly agreed were combined to a category of agree.

Table 8: Responses on credit terms and performance of loan portfolio

Statement	SD	D	N	A	SA	Mean	Std deviation
PMF has credit terms in place	0	0	0	35(48%)	37(52%)	4.51	0.5
The credit terms are clear	4(5%)	2(3%)	2(3%)	37(51%)	27(38%)	4.13	1.0
The interest rates charged by PMF are appropriate	4(6%)	12(17%)	3(4%)	24(33%)	29(40%)	3.86	1.26
The repayment schedule is flexible	0	42(59%)	5(7%)	25(34%)	0	2.72	0.94
The loan repayment period is adequate	6(8%)	6(8%)	2(3%)	32(45%)	26(36%)	3.92	1.21
the collateral for accessing loans is manageable	5(7%)	10(14%)	1(1%)	27(38%)	29(40%)	3.9	1.26
The loan amount given is always enough to meet business needs of a client	5(7%)	2(3%)	1(1%)	37(51%)	27(38%)	4.1	1.06
The waiting time until the client receives a loan is short	2(3%)	5(7%)	2(3%)	27(37%)	36(50%)	4.25	1.0
The benefits of a loan outweigh the expenses associated with it	1(1%)	3(4%)	1(1%)	30(42%)	37(52%)	4.38	0.82
The processes of acquiring loan is smooth	4(5%)	10(14%)	1(1%)	27(38%)	30(42%)	3.96	1.22
Average						3.973	1.03

N=72

Source: primary data 2018

Results from table 8 indicate that PMF has credit terms in place as shown by 100% in agreement. This is further explained by a mean of 4.51 and a lower standard deviation of 0.5 which implies that there are credit terms in place in the institution.

In addition, 89% of respondents agreed that credit terms are clear, compared to 8% who disagreed while 3% were not sure. This was confirmed by the credit officer who had this to say "*Our credit terms are very clear, we normally explain to our clients all the terms of borrowing. One must have security such as land, if one wants a business loan he must have an existing business, a salary loan he must be employed with an appointment letter for an example"*. This is explained by the higher mean of 4.13 and a normally distributed standard deviation of 1.0.

Majority of respondents 73% further reported that the interest rate charged by PMF are appropriate while 23% disagreed while 4% were not sure, this was supported by a customer who said "*When I accessed a loan of 3,000,000UGX I was charged an interest of 10% equivalent of 300,000/= to be paid within 10 months. I considered this to be fair because profits I make are more than 10% pay for interest"*. This is explained by a slightly lower mean of 3.86 and a slightly high standard deviation of 1.26.

The repayment schedule is flexible only 34% of the respondents agreed while majority 59% disagreed and 5% were not sure. This was due to the fact that's when a client accessed a loan, he/she is given fixed dates on which to pay back the loan installments. With the majority disagreeing, it implies that the repayment schedule is not flexible as shown by a lower mean of 2.72 and low standard deviation of 0.94.

Asked whether the loan repayment period is enough, 81% agreed, 15% disagreed and 3% were not sure. In an interview a customer who agreed with the findings stated, "*We are normally given a period of 12 months within which to pay back the money we borrow enough because we are able to make profits while paying back the money"*. This conquers with the mean of 3.92 which is slightly low and the standard deviation of 1.21.

Study findings indicate that the collateral for accessing loans is manageable. This was reported by 78% though 21% disagreed while 1% was not sure. This was supported by a client who said "*the collateral they demand before giving the loan is manageable. They ask for land titles or agreement, vehicle log books and sometimes household chattels. Therefore if one has them is quickly given a loan"*. This supported by a mean of 3.9 and a slightly high standard deviation of 1.26.

The study revealed that loan amount given is always enough to meet business needs of a client supported by 89% respondents and while 10% disagreed, and 1% was not sure. This was further supported by a slightly high mean of 4.1 and a normally distributed standard deviation of 1.06.

In the same line the study found that the waiting time until the client receives the loan is short, as given by 87% in agreement compared to 10% who disagreed and 3% were not sure. This was supported by a higher mean of 4.25 and a normally distributed standard deviation of 1.0 as supported by a credit officer who said "*If a customer fulfills all the requirements needed to access the loan, he/she is able to receive the amount of money requested within less than a week"*.

The study indicated that the benefit of the loan outweighs the expense associated with it: this was accepted by 94%, only 5% disagreed and 1% not sure. This collaborates with earlier statement that the interest rate of 10% was affordable and that the customers were able to benefit from loan acquired. This is further explained by a higher mean of 4.38 and a slightly lower Standard deviation of 0.82.

In addition the study found that the process of acquiring the loan is smooth as reported by 80%, though 19% disagreed and 1% not sure. An officer supported this finding by saying "*The process of accessing a loan is smooth because we only ask for collateral, passport photo, a national Identity card copy, and two guarantors with passport size photo each. If these are met the client gets the loan in a period of less than a week".* The study findings are explained by a mean of 3.96 and a slightly high Standard deviation of 1.22.

The above findings indicate that if a customer provides for the requirement asked for, amount applied for within a short period of time is given.

Table 9: Correlation coefficient for credit terms and performance of loan portfolio

The correlation coefficient for credit terms and performance of loan portfolio meant to establish whether there is or no relation between credit terms and performance of loan portfolio.

		Credit terms	Performance of loan portfolio
Credit terms:	Person correlation Significant (2 tailed) N	1 72	0.825** 0.000 72
Performance of loan portfolio	Person correlation Significant (2 tailed) N	0.825 0.000 72	1 72

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

Source: primary source 2018

Results in table 9 shows the correlation (r) of 0.825** and its significance 0.000 which is less than 0.05 level of significance. This implies that the credit terms significantly affect performance of loan portfolio and therefore they favor customers who can afford to pay back the loans; performance of loan portfolio will also improve.

Table 10: Regression analysis for credit terms and portfolio of loan performance

Regression analysis was further done to determine the strength of the relationship between credit terms and performance of loan portfolio as shown below.

Model	R	R square	Adjusted R square	Standard error of the estimate
1	0.825[a]	0.680	0.669	0.44286

a Predictors (constant) , credit terms

Source: primary data 2018

The table 10 above indicates that the coefficient of determination (Adjusted R^2) value is 0.669; this implies that credit terms explain 66.9% variation in performance of loan portfolio.

Table 11: ANOVA Summary table for Credit terms

	Sums of Squares	Degrees of freedom	Mean squares	F ratio
Between	2127.62	40	53.19	0.0031
Within	-153,736	9	-17,081.78	
Total	-151,608.38			

Source: primary data 2018

The Anova table above shows an F ratio of 0.0031<2.12 as given by the T-test table at a critical value for the level α=5% with the degrees of freedom 9 against 40. Since the $F_c < F_r$, the researcher rejects the null hypothesis and concludes that there is exist a significant relationship between credit terms and performance of loan portfolio.

4.2.3 The effect of credit standards on performance of loan portfolio at PMF Uganda

During the study eight statements were presented to respondents to give their opinions on credit standards and performance of loan portfolio and the following results were as presented below;

Table 12: Responses on credit standards

N=72

Source; primary data 2018

Results from table 12 show that PMF has clear credit standards as supported by 93% of respondents, while 5% disagreed and 3% not sure. The majority of respondents in agreement implies that there are clear credit standards as supported by a high mean of 4.24 and low standard deviation of 0.81.

During the study, it was found that credit standards of PMF were set basing on the borrowers individual credit information revealed by 92% of the respondents. This was confirmed by the head of credit that had this to say "*We provide credit to our customers according to the information they provide and we have business loans, school fees loans, agricultural loans, salary loans. Therefore the loan provided depends on which the customer wants"*. This is further supported by a high mean of 4.15 and a normally distributed standard deviation of 0.95.

Credit standards at PMF are set according to the borrowers default rate. This was supported by 62% while 37% disagreed and 1% was not sure. A less mean of 3.43 and a high standard deviation of 1.57 explain the above statement.

In addition credit standards at PMF are set considering the borrower's credit limits revealed by 89% agreed compared to 10% who disagreed while 1% was not sure. The above findings were confirmed by one credit officer who reported "*when a customer has been defaulting, we don't give him another loan, however if the customer has been paying back the required installment in time, we give him another loan whenever he applies for one"*. This was supported by a mean 0f 3.43 and a slightly higher standard deviation of 1.57. This shows that customers who pay promptly easily get loans, while those who default are not given more credit.

The researcher investigated whether credit standards at PMF are set considering the borrower's credit limit and this was supported by 89% in agreement, 10% disagreed while 1% was not sure. This is in line with the credit officer who had this to say *"So long as the client can give the institution a security for the applied loan, then whether standards are tight or loose, the institution gives the loan"*. This is supported by a high mean of 4.25 and a normally distributed standard distribution of 1.06.

Further, the researcher investigated whether in advancing loans, credit standards must be emphasized to the borrower. 94% were in agreement and 5% disagreeing. The findings were supported by a high mean of 4.33 and low standard deviation of 0.83.

Credit standards are emphasized in order to minimize default rate, the study further showed that PMF credit standards are tight as reported by 90% of respondents while 7% disagreed and 3% was not sure as supported by mean of 4.28 and the standard deviation of 1 that is normally distributed. This confirms why 8% agreed that PMF are loose, majority 89% reported that credit standards are tight to ensure that there is minimum default rate disagreed while 3% were not sure with the mean of 1.93 and low standard deviation of 0.93.

During the study it was established that credit standards set are optimum as reported by 68% however 29% disagreed while 3% were not sure as supported by a mean of 3.88 and a high standard deviation of 1.49.

Table 13: Correlation coefficient for credit standards and performance of loan portfolio

The correlation coefficient for credit standards and performance of loan portfolio was to establish whether there is or no relation between credit standards and performance of loan portfolio.

		Credit standards	Performance of loan portfolio
Credit standards:	Person correlation Significant (2 tailed) N	1 72	0.776** 0.000 72
Performance of loan portfolio	Person correlation Significant (2 tailed) N	0.776 0.000 72	1 72

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

Source: primary data 2018

In table 13, results show that the correlation coefficient 0.776** and its significance level 0.000 which is less than 0.05 level of significant. Implying that credit standards relates significantly to performance of loan portfolio. Thus the finding showed that improvement in credit standards positively and significantly relate to performance of loan portfolio.

Table 14: Regression analysis for credit standards and portfolio of loan performance

Regression analysis was further done to determine the strength of the relationship between credit standards and performance of loan portfolio as shown below.

Model	R	R square	Adjusted R square	Standard error of the estimate
1	0.776[a]	0.602	0.589	0.49384

a Predictors (constant) , credit standards

Source: primary data 2018

The table 14 above shows that the adjusted coefficient of determination value (R^2) of 0.589 implies that credit standards explain 58.9% variation in performance of loan portfolio.

Table 15: ANOVA Summary table for Credit standards

	Sums of Squares	Degrees of freedom	Mean squares	F ratio
Between	4900.7	32	153.15	-0.0095
Within	-113,383.5	7	-16197.6	
Total	-108,482.5			

Source: primary data 2018

The ANOVA table 15 above shows an F ratio of -0.0095 < 2.31 as given by the T-test table at a critical value for the level

α=5% with the degrees of freedom 7 against 32. Since the F_c <F_r, the researcher rejects the null hypothesis and concludes that there is exist a significant relationship between credit standards and performance of loan portfolio.

4.2.4 The effect of credit collection procedures on performance of loan portfolio at PMF Uganda

During the study, seven statements were presented to respondents and asked to give their opinions on credit collection procedures and performance of loan portfolio and below was the responses;

Table 16: Responses on credit collection procedure

Statement	SD	A	D	A	SA	Mean	Std deviation
PMF has credit collection procedures in place	0	0	2(3%)	30(41%)	40(56%)	4.53	0.55
The credit collection procedures at PMF are clear	2(3%)	4(6%)	1(1%)	26(36%)	39(54%)	4.33	0.96
At PMF, there is emphasis on strict collection procedures	1(1%)	1(1%)	1(1%)	29(41%)	40(56%)	4.47	0.73
At PMF, customers are reminded through telephone calls to pay back the call	2(3%)	1(1%)	2(3%)	27(37%)	40(56%)	4.42	0.85
At PMF, customers are reminded through letters to pay back the loan	19(27%)	28(39%)	3(4%)	9(12%)	13(18%)	2.57	1.45
There are regular visits by PMF's officials to customers for face to face reminder to pay the loan	1(1%)	1(1%)	3(4%)	41(57%)	26(37%)	4.26	0.72
PMF uses legal means to make the customers pay the loans	9(13%)	4(5%)	3(4%)	37(52%)	19(26%)	3.68	1.26
Average						4.09	0.93

N=72

Source: primary data 2018

Results in table 16 shows that PMF has credit collection procedures in place. This was supported by 97%of respondents while 3% were not sure. This implies that there are credit collection procedures in place as indicated by a high mean of 4.53 with a low deviation of 0.55.

The study further revealed collection procedures at PMF are clear as confirmed by 90% while 8% disagreed and 2% were not sure. This is further explained by the high mean of 4.33 and a normally distributed standard deviation of 0.96.

Results further emphasized that there is strict collection procedures supported by 97%, 2% disagreed and 1% was not sure. This is elaborated by the high mean of 4.47 and a low standard deviation of 0.73.

At PMF customers, are reminded through telephone calls to pay back the loan. It was confirmed by 93%, only 4% disagreed and 3% were not sure. This is depicted in the high mean of 4.42 with a low standard deviation of 0.85.

Client are reminded through letters (emails) to pay back the loan as reflected by responses from 30% agreed while 66%disagreed and 4% were not sure. This is further explained by a low mean of 2.57 and a high standard deviation of 1.45.

On whether there are regular visits by PMFs officials to customers for face to face reminders to pay the loan, 30% agreed, while 66% disagreed and 4% were not sure. This was in line the customer who had this to say, "*There is no need for PMFs officials to visit our premises because reminding us, can be done conveniently through calling, spending SMSs and emails by use of telephones".* This is further explained by a high mean of 4.26 and a slightly low standard deviation of 0.72.

Further it showed that PMF has legal means to ensure that loans are paid, this was agreed by 78%of respondents while 18% disagreed and 4% were not sure. The above results were supported by a credit officer who had this to say "*Our credit collection procedures are very clear. Some customers send money using mobile while others bring it by themselves to the bank. For those who delay to pay we use face to face reminders, telephones, and in some instances legal procedures".* This is further explained by a slightly low mean of 3.68 and a high standard deviation of 1.26.

The findings indicate that PMF has various mechanisms it uses for credit collection procedures as indicated in the table below.

Table 17: Credit collection procedures

Collection procedures mechanisms	Number of respondents	Percentage (%)
Face to face	36	51
Telephone	26	36
Legal procedures	6	7
Monthly deductions	5	5
Emails	1	1

N=72

Source: primary data 2018

Table 18: Correlation coefficient for credit collection procedures and performance of loan portfolio

		Credit collection procedures	Performance of loan portfolio
Credit collection procedures :	Person correlation Significant (2 tailed) N	1 72	0.650** 0.000 72
Performance of loan portfolio	Person correlation Significant (2 tailed) N	0.650 0.000 72	1 72

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

Source: primary source 2018

The table 18 indicated positive relationship between credit collection procedures and performance of loan portfolio as shown by 0.65 that is significant at 0.0000<0.05. This implies that credit collection procedures influence the performance of the loan portfolio.

Table 19: Regression analysis for credit collection procedures and portfolio of loan performance

Model	R	R square	Adjusted R square	Standard error of the estimate
1	650a	.422	0.403	0.59521

a Predictors (constant) , credit collection procedures

Source: primary data 2018

From the table 19, R value of 0.650 represents a simple sample correlation which indicates a high degree of correlation. The R2 value indicates how variation in the dependent variable portfolio of loan performance can be explained by the independent variable credit collection procedures. In this case 40.3% variation in the portfolio of loan performance is explained by credit collection procedures and is relatively large.

Table 20: ANOVA Summary table for Credit Collection procedures

	Sums of Squares	Degrees of freedom	Mean squares	F ratio
Between	3136.74	28	112.03	-0.0059
Within	-113,992	6	-18998.67	
Total	-110,855.26			

Source: primary data 2018

The ANOVA table 20 above shows an F ratio of -0.0059 < 2.46 as given by the T-test table at a critical value for the level α=5% with the degrees of freedom 6 against 28. Since the F_c <F_r, the researcher rejects the null hypothesis and concludes that there is exist a significant relationship between credit collection procedures and performance of loan portfolio.

V. SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter presents the summary, discussion and recommendations of the study based on the research objectives.

5.1 Summary of the study findings

Findings indicated that credit terms contribute to better performance of loan portfolio at PMF Uganda as shown by r=0.825 and adjusted R square of 66.9%. Also it revealed that credit standards have a significant influence on performance of loan portfolio at PMF Uganda and finally findings revealed that credit collection procedures affect performance of loan portfolio at PMF Uganda as shown by r=0.776 and Adjusted R square of 58.9%, r=0.65 and Adjusted R square of 40.3% respectively. All this indicate that these findings answer the general objective of assessing the effect of credit policies on performance of loan portfolio of PMF Uganda.

5.2 Discussion of findings

5.2.1. Credit terms and performance of loan portfolio at PMF Uganda.

During the study it was revealed that PMF has clear credit terms aimed at minimizing costs. This was supported by Anderson (2002) who contends that credit terms are designed to minimize costs associated with credit which maximizes the benefits from it. Further the study shows that interest rate charged by PMF is appropriate especially for clients who have stable business. However customers who face challenges of business shocks find it hard to pay 10% monthly. This agrees with Calvin (2009) who asserted that high interest rates, absence of grace period set by MFIs are seen as exploitative and very self serving to the MFIs and contribute to the increased loan default.

According to the study findings, the repayment schedule is not flexible, and that the loan amounts are inadequate. Customers are expected to pay back loan installments at the end of every month for individual loans and weekly for group loan borrowers. This is so in line with Calvin (2009) who observed those weekly repayments and the mandatory weekly meetings affects customer's ability to make adequate profits from the loan money and they are unable to pay back the loan within the required period of time. This was further supported by Mugo and Otuya (2013) who observed that lack of flexibility in terms of loan repayment affects profitability and that most clients gain less from the loans they acquire.

Study findings further indicate that collateral for accessing loans is manageable. PMF needs land titles, and other assets with amount of loan applied and that the loan given often supplies needs of business, it is enough. Similarly the study

revealed that the waiting time until a client receives a loan is short, notably less than a week. Van Horne (2004) supports this; he contends that the length of the period which is normally determined by the industry customs, repayment habits of clients, and the level of repetitive borrowing should not be too long. Shorter periods are preferred because clients who default frequently generate bad debts and these are losses which can be checked before it is too late to take corrective measures. This was further supported by Khemraj and Pasha (2014) who asserted that good credit terms provide the institutions with reasonable and adequate return on loans and capital employed- return on investment.

5.2.2. Credit standards and performance of loan portfolio

According to study findings, PMF has credit standards which are set basing on borrower's individual credit information. This enable PMF select customers for credit. Further the study shows that credit standards at PMF are set considering the borrower's default rate. The above findings are in line with Pandey (1995) who noted that credit standards should be set basing on individual credit applicant, consider the credit information, credit limits and default rates. Thus a customer whose information does not qualify for these is not accepted. Such position collaborates with Owusu (2008) who asserted that customers are evaluated to see if they meet standards of management before loans are extended to them. Kagwa (2013) contend that clear credit standards enable MFIs to select customers who are able to pay back loans acquired.

In advancing loans, credit standards are emphasized to customers. This is so to ensure that borrowers understand the terms and conditions which must be adhered to before and after acquiring a loan. This view is supported by Werue,(2012) who stated that in advancing loans ,credit standards must be emphasized such that the supplier gains an acceptable level of amount of credit at the lowest possible cost.

Additionally the study found that credit standards at PMF are tight which further explains why most respondents revealed that credit standards are not loose. Pandey (2008) says that tight credit standards make a firm lose a big number of customers and when credit standards are loose the firm gets an increased number of customers but at a risk of loss brought through bad debts. Relating this to Kakuru (2001) stated that Microfinance institutions should lower quality standards of a account as long as the profitability of sales generated exceed the added cost of the receivables. This is further supported by Emeok Pararia (2013) who suggested that there should be some degree of flexibility in the set standards to increase the number of customers and that care must be ensured not to extend loans to bad customers.

5.2.3. Credit collection procedures and performance loan portfolio.

Study findings indicated that PMF has clear and well designed credit collection procedures in place which include face to face reminders, phone calls, legal procedures, monthly deductions and others. Krestow et al (2012) supported such a view and stated that well designed collection strategies weigh the strength or weakness of the institution addressing general questions such as whether collections should be handed internally or externally, through third party as well as considering what measures should be in place to ensure staff is properly trained, motivated and measured. In this regard, most collections are done internally by credit officers; legal procedures are often used after the collection has become difficult and faced to pay back the loan.

The fact that PMF puts emphasis on strict collection procedures indicates that there are efforts to recover loans and minimize default rates. This correlates with Dickenson et al (1995); that asserts that an effective collection policy ensures prompt payment and regular collection.

5.3 Conclusions

5.3.1 Credit terms and Performance of loan portfolio

According to the study findings, credit terms contribute to better performance of loan portfolio through the interest rate charged, repayment rates and credit period.

5.3.2 Credit standard and performance of loan portfolio

It was again concluded that credit standards has a significant effect on performance of loan portfolio. This conclusion was based on Pearson credit coefficient which allowed a strong positive correlation between credit standards and performance of loan portfolio.

5.3.3. Credit collection procedures and Performance of loan portfolio

Credit procedures affect performance of loan portfolio basing on the appropriateness of the method used. This shows that strong credit collection procedures contribute to improved performance of loan portfolio.

5.4 Recommendations

The study recommends that PMF should extend the loan repayment period to at least 12 months instead of mandatory 10 months. This will reduce on the amount of installment money paid per month and in turn allow customers adequate time to pay back the loan.

The study recommends that PMF make its credit standards friendly by reducing the minimum amount of loan they can offer to at least 1,000,000/=. This will lead to increase of customers and the performance of loan portfolio. In addition PMF should make credit standards loose in order to attract more customers.

The study further recommends that PMF should stop relying on making phone calls as a method of making customers to pay. This has a problem of not telling the truth by the client. Credit officers should personally make physical visits to customers' premises as this is more effective and a reliable

method that triggers customer to pay back promptly as opposed to phone calls.

5.5 Contribution of the study

This is a provision of first hand information on credit policy and performance of loan portfolio at PMF. It revealed that credit terms, credit standards and credit collection procedures are key in improving Performance of Loan Portfolio of MFIs. Such findings increase PMF's understanding on the extent to which credit policies influence performance of loan portfolio. The information gathered can be used to design better credit policies to improve performance of loan portfolio at PMFs.

5.6 Areas of study

Further research should be conducted on factors that affect customer's loan satisfaction at PMF. The study also concentrated on PMF and this limits its appropriateness to commercial banks since they may also be facing similar challenges of credit policies and performance of loan portfolio. As therefore further research need to be conducted in that area.

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APPENDICES

Appendix A: Questionnaire for staff and customers

Dear respondents I am a student at TEAM University under taking a study on the Effect on Credit Policies on Performance of loan portfolio in Microfinance Institutions case study PMF. The study is in partial fulfillment of the requirement for Master's Degree in Finance. I kindly request you to answer the following questions and faithfully respond to this only academic purpose. No name is required and all information required will be kept confidential.

Thank you for your kind cooperation

Yours faithfully,

Obadia Kamugisha

Section A: General information about the respondent

Level of education
Diploma
Bachelor's Degree
Master's Degree
PHD
Others specify
Length of time with the company
Less than 2 years
2 to 6 years
More than 6 years

Working experience (applicable to staff)
Less than 2 years
2 to 6 years
More than 6 years

Section B: Credit terms

The following statements are designed to understand the credit terms at PMF Uganda. From your own understanding, indicate by ticking the most answer appropriate.

1 = strongly disagree, 2= disagree, 3= not sure, 4= agree, 5= strongly agree

1	PMF has credit terms in place	1	2	3	4	5
2	The credit terms are clear	1	2	3	4	5
3	The interest rates charged by PMF are appropriate	1	2	3	4	5
4	The repayment schedule is flexible	1	2	3	4	5
5	The loan repayment period is adequate	1	2	3	4	5
6	the collateral for accessing loans is manageable	1	2	3	4	5
7	The loan amount given is always enough to meet business needs of a client	1	2	3	4	5
8	The waiting time until the client receives a loan is short	1	2	3	4	5
9	The benefits of a loan outweigh the expenses associated with it	1	2	3	4	5
10	The processes of acquiring loan is smooth	1	2	3	4	5

Section C: Credit standards

The following statements are designed to understand the credit standards at PMF Uganda. From your own understanding, indicate by ticking the most answer appropriate.

1 = strongly disagree, 2= disagree, 3= not sure, 4= agree, 5= strongly agree

1	PMF has clear credit standards	1	2	3	4	5
2	Credit standards at PMF are set basing on individual credit information	1	2	3	4	5
3	Credit standards at PMF are set according to individual default rate	1	2	3	4	5
4	Credit standards at PMF are set considering the borrower's credit limit	1	2	3	4	5
5	In advancing loans, credit standards must be emphasized to the borrower	1	2	3	4	5
6	At PMF, credit standards are tight	1	2	3	4	5
7	At PMF, credit standards are loose	1	2	3	4	5
8	At PMF, credit standards set are optimum	1	2	3	4	5

Section D: Credit collection procedures

The following statements are designed to understand the credit collection procedure at PMF Uganda. From your own understanding, indicate by ticking the most answer appropriate.

1 = strongly disagree, 2= disagree, 3= not sure, 4= agree, 5= strongly agree

1	PMF has credit collection procedures in place	1	2	3	4	5
2	The credit collection procedures at PMF are clear	1	2	3	4	5
3	At PMF, there is emphasis on strict collection procedures	1	2	3	4	5
4	At PMF, customers are reminded through telephone calls to pay back the call	1	2	3	4	5
5	At PMF, customers are reminded through letters to pay back the loan	1	2	3	4	5
6	There are regular visits by PMF's officials to customers for face to face reminder to pay the loan	1	2	3	4	5
7	PMF uses legal means to make the customers pay the loans	1	2	3	4	5

8. What are the commonly used credit collection procedures employed by PMF?

………………………………………………………………………..

………………………………………………………………………..

…………………………………………………………………………

Section E: Performance of loan portfolio (applicable to staff only)

The following statements are designed to understand the Performance of loan portfolio at PMF Uganda. From your own understanding, indicate by ticking the most answer appropriate.

1 = strongly disagree, 2= disagree, 3= not sure, 4= agree, 5= strongly agree

1	Borrowers at PMF pay loans promptly	1	2	3	4	5
2	There are low levels of loan default at PMF	1	2	3	4	5
3	There is effective payment of interest on loans by borrowers at PMF	1	2	3	4	5
4	There is effective payment of principal by the borrowers at PMF	1	2	3	4	5
5	Profitability at PMF has improved as a result of proper loan payment between 2011 to 2014	1	2	3	4	5
6	Loan recovery at PMF is cost effective	1	2	3	4	5

Thank you for the response

APPENDIX B: Documentary review check list

1. Credit Terms
2. Credit Standards
3. Credit Collection Procedures
4. Balance books of accounts
5. Profile of pride
6. Copies of agreement (for active loans to determine the loan terms)
7. Clients appraisal reports
8. Monthly loan recovery reports
9. Current loan portfolio report
10. Any other relevant documents

APPENDIX C: Krejice & Morgan table 1970

Total	*Sample*	*Total*	*Sample*	*Total*	*Sample*
10 ⇒	10	220 ⇒	140	1200 ⇒	291
15 ⇒	14	230 ⇒	144	1300 ⇒	297
20 ⇒	19	240 ⇒	148	1400 ⇒	302
25 ⇒	24	250 ⇒	152	1500 ⇒	306
30 ⇒	28	260 ⇒	155	1600 ⇒	310
35 ⇒	32	270 ⇒	159	1700 ⇒	313
40 ⇒	36	280 ⇒	162	1800 ⇒	317
45 ⇒	40	290 ⇒	165	1900 ⇒	320
50 ⇒	44	300 ⇒	169	2000 ⇒	322
55 ⇒	48	320 ⇒	175	2200 ⇒	327
60 ⇒	52	340 ⇒	181	2400 ⇒	331
65 ⇒	56	360 ⇒	186	2600 ⇒	335
70 ⇒	59	380 ⇒	191	2800 ⇒	338
75 ⇒	63	400 ⇒	196	3000 ⇒	341
80 ⇒	66	420 ⇒	201	3500 ⇒	346
85 ⇒	70	440 ⇒	205	4000 ⇒	351
90 ⇒	73	460 ⇒	210	4500 ⇒	354
95 ⇒	76	480 ⇒	214	5000 ⇒	357
100 ⇒	80	500 ⇒	217	6000 ⇒	361
110 ⇒	86	550 ⇒	226	7000 ⇒	364
120 ⇒	92	600 ⇒	234	8000 ⇒	367
130 ⇒	97	650 ⇒	242	9000 ⇒	368
140 ⇒	103	700 ⇒	248	10000 ⇒	370
150 ⇒	108	750 ⇒	254	15000 ⇒	375
160 ⇒	113	800 ⇒	260	20000 ⇒	377
170 ⇒	118	850 ⇒	265	30000 ⇒	379
180 ⇒	123	900 ⇒	269	40000 ⇒	380
190 ⇒	127	950 ⇒	274	50000 ⇒	381
200 ⇒	132	1000 ⇒	278	75000 ⇒	382
210 ⇒	136	1100 ⇒	285	100000 ⇒	384