BANK SPECIFIC FACTORS AFFECTING LOAN PERFORMANCE : A CASE STUDY OF UGANDA DEVELOPMENT BANK LIMITED

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LIST OF ACRONYMS & ABBREVIATIONS

ADB-African Development Bank

BOU- Bank Of Uganda

BIL- Business Installment Loan

CEO- Chief Executive Officer

EIB- European Investment Bank

EU- European Union

FIA- Financial Institutions Act

I T - Information Technology

IDA-International Development Agency

KYC- Know Your Customer

MDI- Micro Deposit Institution

MIS- Management Information Systems

NPA- Non Performing Assets

NPLs- Non Performing Loans

OPEC- Organisation of the Petroleum Exporting Countries

PBC- Peoples Bank of China

PQR- Portfolio Quality Report

SPSS- Statistical Package for Social Scientists

UDBL- Uganda Development Bank Limited

UGX- Uganda Shillings

CHAPTER ONE

1.0 Introduction

The traditional role of a bank is lending and loans make up the bulk of their assets (Njanike, 2009. However, Lending is not an easy task for banks because it creates a big problem which is called non-performing loans (Chhimpa J, 2002) as cited in (Upal, 2009). According to Alton and Hazen (2001) non-performing loans are those loans which are ninety days or more past due or no longer accruing interest.

Due to the nature of their business, Banks expose themselves to the risks of default from borrowers (Waweru and Kalami, 2009). While issuing loans, banks ought to exercise caution in order to avoid cases of default by their potential customers. Several cases of default in a financial institution(s) can easily lead to a collapse in the entire banking system. Saba, Kouser, & Azeem (2012) are of the view that Non-Performing Loans (NPLs) need to be studied closely as they have caused mayhem in the financial markets over the years.

This study will delve into establishing how bank specific factors affect the performance of loans disbursed in Uganda's financial institutions. The study will solely be focused on the country's development finance institution - Uganda Development Bank Limited (UDBL). The independent variable in the study will be loan performance while the dependent variable will be the bank specific factors. The bank specific factors will primarily focus on staff related factors and credit management policies in place at UDBL.

In addition, this chapter presents the background to the study, statement of the problem, the objectives of the study, research questions to be addressed, hypothesis, significance, scope of the study and a brief operational definition of some of the key terms and concepts used therein.

1.1 Background to the Study

This section offers a brief overview of the worldwide problem of loan defaults from a global level to a regional level and down to individual country level at the bottom following a Broader – Narrow perspective as suggested by Mugenda and Mugenda (1999).

On a global view, Banks have been faced with the challenge of credit risk management and the aftermath of the credit crisis whose roots started with the bursting of the housing bubble and high default rate on sub–prime mortgages in the United states, a situation that was a result of high appetites for credit and weak credit controls that saw Lehman brothers collapse while Merrill Lynch and Bear Stearns were sold at fire sale prices (The Economist, 2009)

Exploring the determinant factors of ex post credit risk is an issue of substantial importance for regulatory authorities concerned with financial stability and banks' management. The ex post credit risk takes the form of non-performing loans (NPLs). Despite the fact that banks have developed sophisticated techniques for quantifying ex ante credit risk by focusing on the borrower's idiosyncratic features. The number of NPLs seems to be primarily driven by macroeconomic developments as the business cycle literature has shown (Louzis, Vouldis, & Metaxas, 2012).

Louzis, et.al. (2012) have focused their study on the effect of bank-specific characteristics such as the quality of management, policy choices, and size and market power on problem loans. A case in point attributed to bank specific factors was evidenced in Greece, where the country's financial sector took a downturn in the financial crunch of 2007. This was due to inefficient management of advancing loans without regard to credibility of borrowers and compromising regulations.

The problem of NPL's is also widespread in Asia. Hoang (2006) recognised that the burden of

Non-Performing Loans (NPLs) has slowed the reform process in Viet Nam and hampered the further expansion of the economy. The actual scale of the Non-Performing Loan (NPL) problem in China's banking system is still attracting much attention. A few years back, most estimates put the NPL level within the Chinese system, both carved out and remaining, at around 40% of the total loans outstanding in the late 2000s [Lardy (1998), Dai (2001), Ma (2006)]. Recent statistics from the China Banking Regulatory Commission (CBRC) reported the NPLs of the four major state-owned banks (the big four banks) were just below 10% in the first quarter of 2011. That appears to be a significant improvement in less than ten years. However, a report by Ernst & Young in May 2012, withdrawn shortly after drawing fierce criticism from the Peoples Bank of China, suggested that the NPL at the big four banks could still be as high as 30% (Ma. & Fung, 2012).

Loan default in West Africa has also been documented by Edet (2008). In the East African region, a study on microfinance loans default in Kenya revealed that most of the small loans were defaulted due to non-supervision of the borrowers from MFIs, inadequate training of borrowers before they receive loans, and spending of received loans by borrowers in projects other than agreed ones (Bichanga, 2013). Magali (2013b) revealed that poor credits risk management practices influence the credits default risks for rural SACCOS in Tanzania. Poor portfolio management also influences negatively the profitability of banks, SACCOS or MFIs. Thus, in order to increase their profitability, the rural SACCOS require effective loan portfolio management strategies. Other factors which influence effective loan portfolio management include management strategies, MFIs or banks' staff competencies, choice of lending methodology and management information system (Derrick et al 1998; FCA 1998; OCC 1998; IACPM 2005; Crabb and Keller 2006).

According Derge, (2010) though the credit operations of Development Bank Ethiopia show a dramatic increase in loan approval and disbursements. There are non-performing loans, which resulted from clients' default, which in turn come about from lack of follow-up, market problems, environmental problems, credit policy of the Bank, and so forth. This raises a question on how Development Bank of Ethiopia North Region can improve on the repayment performance of its borrowers. This in turn entails a question on what are the factors that determine the performance of loans in Development Banks.

In Uganda, a towering appetite for loans has prompted Banks to give loans on a roller coaster. Available statistics from Bank of Uganda indicate that total loans in the Industry have grown from UGX 3.4 trillion in 2006 to UGX 9.4 trillion in 2014. (BOU, Annual Supervision Report, 2014) The introduction of other players like Commercial Bank of Africa, Guarantee Trust Bank, Top Finance Bank, Bank of India and NC Bank in the industry has also led to the increase in the loans. However banks face a real danger of recording substantial bad loans on the back of tougher economic times, regulatory and institutional environment in which the banks operate while others are attributable to internal characteristics of the banks themselves (Robinson, 2002). The research report states that corporate governance weaknesses, strategic risk concerns especially with new product development and weaknesses in operational risk management posed challenges to Banks.

Uganda Development Bank Limited, [wholly owned by the Government of Uganda], was established in 1972, under a Decree no. 23 of 1972 and is the country's owned development institution. The bank, a successor company to Uganda Development Bank, was incorporated as a limited liability company under the Public Enterprises Reform and Divestiture Act, Cap.98, Laws of Uganda and it is mandated to finance enterprises in key growth sectors of the economy.

The Bank has been in existence since 1972. UDBL re-positioned itself as a key partner to the Government of Uganda in delivering its National Development Plan (NDP).In order to deliver this aspiration, the Bank focuses on the key growth sectors of the economy by financing development projects at attractive terms. The Bank supports Small & Medium Enterprises (SMEs) and large scale development projects in the various key growth sectors notably; infrastructure development, industrialization, agriculture, services sector, real estate inter alia. (UDBL Overview, n.d.) .The Government of Uganda, in a number of cases guaranteed the Bank's large credits which it obtained from external financiers, notably ADB, IDA, EIB, EU, Kuwait Fund, OPEC Fund and BADEA. The bank used these funds, to build up a significantly large loan portfolio in form of term loans to major industries and most of these loans are non-performing, some have been written off, and others are under recovery with the ratio of non-performing loans to the total loan book in excess of 37% (UDB Financial Report, 2012).

It is against the above backdrop that I intend to establish the bank specific factors inherent at Uganda Development Bank Limited that are responsible for the quality, integrity and reliability of the Bank's credit exposure. The specific factors to be studied include staff related, policy related & system related factors and their overall impact on loan performance. These identified Bank specific factors have limited research available. This is further delineated in the statement of the problem hereafter.

1.2 Problem Statement

Despite a growth in its loan portfolio, Uganda Development Bank Limited is straddled with an alarmingly high level of Non-Performing Loans which have adversely affected its net asset value and overall financial performance. By December 2011, the net asset portfolio (after suspended interest and loan loss provision) amounted to only 37% of gross loans outstanding (UDBL Strategic plan, 2013).

Churchill (1999) indicates that bank staff do not only work in a specific community but also form part of that specific community and thus often find themselves in situations where they have related to the client or know the client very well. These pose a definite threat to the Bank if the staff are not absolutely objective and can easily be manipulated into fraudulent acts. It is not only clients who commit fraud; dishonest staff may grant credit to themselves under a false name or pretence or make bad decisions deliberately to help somebody else.

The Process of granting credit in UDBL follows a value chain process of Initiation-Assessment-Disbursement-Maintenance-Collection-termination This process is handled at different levels by different individuals within the Bank (UDBL Revised Credit Policy, 2013).

With the restructuring at UDBL now complete that was undertaken in 2012, the researcher intends to undertake a case study research design to ascertain if bank specific factors – which include human resource (staff) and credit policies and the MIS in place – are still determinant factors of NPLs at UDBL.

1.3 Purpose of the Study

The purpose of this study is to determine the effect of bank specific factors affecting loan performance in UDBL.

1.4 Objectives of the Study

a) To identify staff related factors responsible for the performance of loans at UDBL.

b) To examine the impact of credit management policies on loan performance at UDBL.

c) To determine the appropriateness of MIS software in the mitigation of loan delinquency at UDBL.

1.5 Research Questions

a) What staff related factors are responsible for the performance of loans in UDBL?

b) What are the effects of credit management policies on loan performance in UDBL?

c) How is the MIS in place appropriate in mitigating loan delinquency?

1.6 Hypothesis of the Study

a) Staff related factors have a significant positive contribution to the performance of loans in UDBL.

b) Credit management policies contribute to the performance of loans in UDBL.

c) The MIS in place contributes to performance of loans in UDBL.

1.7 Conceptual Framework

Below is a diagrammatical representation of the relationship between the variables to be studied.

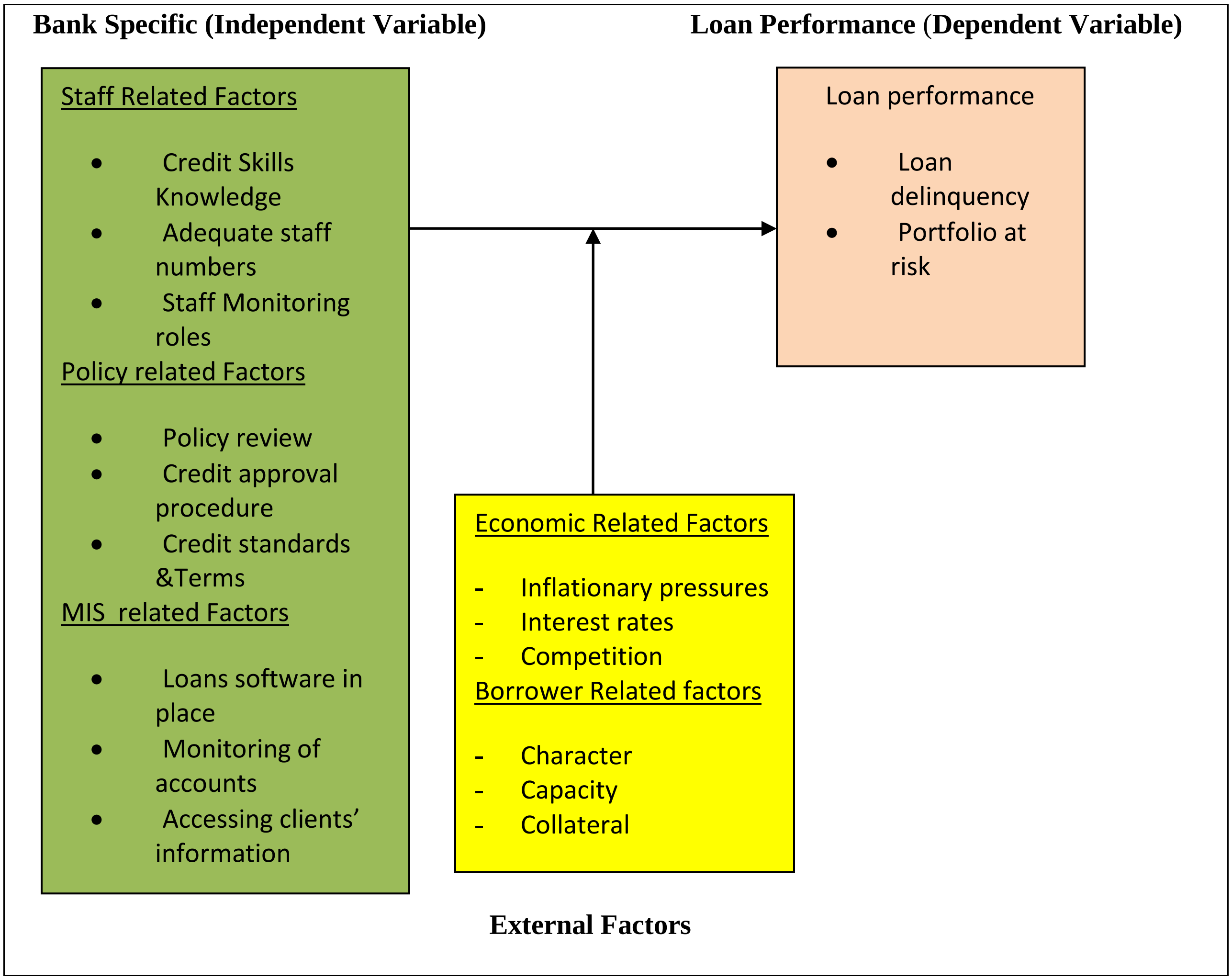

Figure 1: Conceptual Framework Showing the Relationship between Bank Specific Factors and Loan Performance

Source: Adapted and Modified From Nelson & Victor (2009).

The framework traces the theorized relationship existing between institutional factors and loan performance as modified from Nelson & Victor (2009). It shows that loan performance is affected by Bank specific factors (staff, credit policy and MIS Software related factors). However the above conceptualized view is moderated by external factors like Economic related factors (inflation, interest, competition) and borrower factors like (character, capacity, and collateral). The researcher agrees to the view conceptualized above and therefore will use it to determine the effect of the above mentioned factors on loan performance in UDBL. The effects of the moderating variables on the performance of loans will be investigated as well by the researcher.

1.8 Significance of the study

This study will help various stake holders in Banks mainly management and shareholders to identify gaps inherent in their financial institutions and find ways of improving on their asset portfolio.

This study will help financial institutions identify key risk areas in managing credit risk and also develop and implement a credit risk infrastructure to identify appropriate technologies and systems.

It will also help in resource management in credit functions; for instance, developing a process of identifying and planning for capacity requirements

This research is intended to assist in developing and implementing robust processes of monitoring and measuring data quality in respective loan portfolios in relation to accuracy, consistence and completeness.

1.9 Justification of the Study

The basis of this study is from the loan delinquency problem identified in UDBL and therefore limited research has been conducted to find out the possible causes of poor loan performance in UDBL. This has therefore created a very large information gap in this area; so the study will reduce on the existing gap, by adding more knowledge to the few available ones.

1.10 Scope of the Study

This study will cover Uganda Development Bank Limited; mainly the development finance department located at their head office at Plot 6 Nakasero Road, 1st Floor, Wing B Kampala, for the period 2012 to 2015. The independent variables to be studied shall include; staff involved in credit management, the credit policy and the MIS Software used will form the scope of this study. The preceding variables mentioned will determine the impact on loan performance which is the dependent variable. The research is likely to take a period of eight months from February 2016 to September 2016.

1.11 Operational Definitions

Development Bank: According to Armendáriz (1999), "development banks are government-sponsored financial institutions concerned primarily with the provision of long-term capital to industry."They may make loans for specific national or regional projects to private or public bodies or may operate in conjunction with other financial institutions.

Bank specific Factors: This is the totality of interacting factors within the Bank which have real or potential effect on the loan performance.

Loan Performance: This is a measurement of an existing portfolio of facilities lent out to determine whether the borrowers are paying back as stipulated by the contract terms with the Bank and the indicator in this context is the Delinquency ratio which is the ratio of non-performing loans to the total number of loans.

Portfolio at Risk; measures the level of risk in the portfolio by comparing the balance of all loans that have one or more payments past due to the outstanding portfolio. The portfolio at risk rate is considered the most appropriate measure of delinquency.

External Factors: These are exogenous forces influencing the banking industry which have a real or potential effect on the performance of loans. Bank management has no control over these external factors and they mainly include macroeconomic factors.

CHAPTER TWO

2.0 LITERATURE REVIEW

Most of the available literature available attributes the problem of NPLs to major factors. These are bank-specific or institutional factors within the lending institution itself and macroeconomic conditions prevailing within the economy during the term of the loan. This section offers a brief discussion on some of the main ideas advanced by different scholars within this body of knowledge.

2.1 Bank specific factors affecting NPLs

In this section the two themes of the study that is Bank Specific factors which include staff, policy and systems and their impact on loan performance are discussed in line with already existing literature in order to identify the gaps and come up with a basis for this study.

Koch and MacDonald (2000) pointed out that activity in the process of commercial and industrial (C&I) loans follow eight steps. These are application, credit analysis, decision, document preparation, closing, recording, servicing, administration, and collection. The value chain of lending activities identified above provides the rationale upon which the bank specific factors have been identified for this research. This is further supported by Panta, R (2007) who noted that all kinds of lending involves three stages where discretion needs to be exercised (a)Evaluation and assessment of the proposal (b) Timely monitoring and evaluation and (c) Proper assessment of exit decision and modality.

Gul, S., Irshad, F. & Zaman, K. (2011) research was focused on examining the relationship between bank specific and macroeconomic factors on bank profitability by using data of top 15 Pakistan commercial banks over the period 2005-2009. The Pooled Ordinary Least Square

(POLS) method was used to investigate the impact of assets, loans, equity, deposits, economic growth, inflation and market capitalization on profitability, measured through return on asset (ROA), return on equity (ROE), return on capital employed (ROCE) and net interest margin (NIM). The results found evidence that both internal and external factors have a strong influence on profitability.

Mwengei (2013), reasons that it is apparent that banks need to seriously consider all the internal factors causing non-performing loans as well as the impact of non-performing loans on the bank's overall performance. The researchers' deduction was based on secondary data collected on all the Banks in Kenya for a period of five years i.e. 2008-2012. The scholarly articles alluded to above mention broadly the variables to be studied which are further discussed in the sections that follow.

2.1.1 Staff factors affecting NPLs

According to Louzis, Vouldis, & Metaxas, (2012), distinctive features of the banking sector and the policy choices of each particular bank with respect to their efforts for maximum efficiency and improvements in their risk management are expected to exert a decisive influence on the evolution of NPLs.

Several scholars have examined the connection between bank-specific factors and NPLs. Berger & DeYoung's (1997) seminal paper sampled U.S commercial banks during the period 1985-1994 and observed that 'bad' management with poor skills in credit scoring, appraisal of pledged collaterals and monitoring borrowers often led to increases in future NPLs. This was further supported by Podpiera & Weill (2008) who discovered the same phenomenon in the Czech banking industry between 1994 -2005. They recommended that regulatory authorities in emerging economies should focus on managerial performance in order to enhance the stability of the financial system (by reducing nonperforming loans).

Studies have shown that Bank staff productivity is essential to the long run viability of financial institutions e.g. providing job satisfaction and good career prospects (Rhyne & Rotblatt, 1994). Shofiqul, Nikhil & Abdul (2005) identified that a weak follow up by credit officers weakens the system of loan loss mitigation.

All the above scholars clearly illustrate the urgency of well trained and competent staff within banking instutions to mitigate against NPLs and this molded the researchers decision to delve further into this field using a local financial institution within Uganda. I have not come across any literature investigating the relationship between staff related factors and NPLs in Uganda.

2.1.2 Credit Policies affecting NPLs

Credit Policy refers to guidelines that are followed in managing credit in the business. They include credit standards, credit terms and collection effort (Bank for International Settlements, 2001). Weak policies and poor regulation have contributed to the NPLs in financial institutions. In this context we will review the effectiveness of loan products and the KYC policy. Churchill (1999) argues that defining loan products involves balancing the demands for risk management and profitability; he further noted that defining the loan product is challenging because the interest of the borrower and the lender are often in conflict. In his study, he recommends granting of the right product to the right clients at the right time.

Pandey (2008) stated that economic conditions will influence a bank's credit policy and as these economic conditions change, so will the credit policy of the bank. In Uganda, it can be noted that most banks, UDBL inclusive, devise policies based on what other banks have formulated and this leads to a theory of low frequency in business cycles.

Raghuran (1994) stated that banks should maintain a credit policy of lending if and only if borrowers have a positive net present value of their businesses. Credit policies should be formulated in consultation with business units covering collateral, assessment, risk grading, reporting and in compliance with regulatory and statutory requirements.

A bank's credit policy is an essential reference source to all personnel involved in the granting of credit. If the credit policy becomes out-dated or does not specify all relevant aspects clearly it will result in the Bank's downfall. Ultimately, the success of lending out credit depends on the methodology applied to evaluate and to award the credit and therefore the credit decision should be based on a thorough evaluation of the risk conditions of the lending and the characteristics of the borrower.

2.1.3 Effect of banks' technological systems on NPLs

The Computerised systems are important sources of management of information which can normally show up-to-date balances on all accounts and can also be used extensively for management, monitoring and control of credit. All information regarding to clients cannot be kept on computer alone, e.g. signed contracts, proof of collateral. The computer systems of banking groups with different subsidiaries are not fully integrated. Consequently the total exposure and Banking history of a client within a banking group as a whole cannot always be determined by way of the computer system. This makes the bank prone to fraud from clients or could result in the bank becoming over exposed to a specific client.

The Bank, for a while now has been characterized by weak systems of internal control, inadequate governance structures, non-existent or inadequate business processes, and non-responsive Information Technology and Management Information Systems. (UDBL Strategic plan, 2013).

The researcher has noted that there is a dearth of literature pertaining to the impact of MIS systems on loan performance. This study will thus endeavour to establish new views on the subject matter at hand..

2.2 Macroeconomic factors affecting NPLs

The relation between the macroeconomic environment and loan quality has been investigated in the literature linking the phase of the business cycle with banking stability. In this line of research the hypothesis is formulated that the expansion phase of the economy is characterized by a relatively low number of NPLs, as both consumers and firms face a sufficient stream of income and revenues to service their debts. However as the booming period continues, credit is extended to lower-quality debtors and subsequently, when the recession phase sets in, NPLs increase. The inability of lower-quality debtors (either households or firms) to service their loans during a recession is also caused by the decrease in asset values which serve as collateral and the subsequent contraction of credit as banks become more risk-averse (Fisher 1933, Minsky 1986, Kiyotaki & Moore 1997, Geanakoplos 2009).

Empirical studies tend to confirm the aforementioned link between the phase of the cycle and credit defaults. Quagliarello (2007) found that the business cycle affects the NPL ratio for a large panel of Italian banks over the period 1985 to 2002. Furthermore, Cifter, Yilmazer, & Cifter (2009), using neural network based wavelet decomposition, found a lagged impact of industrial production on the number of non-performing loans in the Turkish financial system over the period January 2001 to November 2007.

Macro-economic variables, through factors such as inflation and changes in interest rates, may either enhance or distress commercial Bank’s financial performance. Cordella & Yeyati (1998a) point out that if the shocks of the economy are wide and banks cannot control their asset portfolio risks, this may destabilize the performance of loans.

Finally, Salas & Saurina (2002) estimate a significant negative contemporaneous effect of GDP growth on the NPL ratio and infer a quick transmission of macroeconomic developments to the ability of economic agents to service their loans.

2.3 Other factors affecting NPLs

Shofiqul, Nikhil & Abdul (2005) recognised that in Bangladesh, small size loans outperform large size loans. Loans that are small in volume are less sensitive and less risky. However, given that UDBL advances credit to small retail clients, this may not be applicable to the institution. It would be worth investigating, in another paper, if the findings presented by Shofiqul, Nikhil & Abdul (2005) would hold in Uganda's retail banking sector.

Gahamanyi (2009) notes that several factors were the sources of non reimbursement of loans granted. Some of the causes related to the few judicious investments on behalf of some borrowers, the bad use of borrowed funds, and incompetence of some entrepreneurs, the non - practicability or the non-productivity of some financed projects. This poor performance was due to limited financial, human and material resources given to collection teams and to the lack of experience of the team.

2.4 Summary of the literature review

In light of the above studies carried out in relation to performance of loans it can be noted that most of the studies have mostly concentrated on factors outside financial institutions as the prime cause of non-performance of loans; however internal flaws have hardly been discussed in detail and this forms the basis of this research which I will carry out and identify the relationship between the mentioned staff related variables in our conceptual framework.

CHAPTER THREE

3.0 METHODOLOGY

This chapter presents a description of research design and methodology that will be employed in the study. It particularly looks at the various potential sources of information, sampling design and procedures, sample size, data collection methods and instruments, data processing and analysis and problems that will be encountered in the research.

3.1 Research design

The researcher will employ a descriptive type of design that involves a case study and case series to collect data. Both quantitative and qualitative data will be collected. Several bank staff within UDBL and the Bank's clients will be interviewed accordingly. The qualitative data will be basically focused on the banks official's views about factors inherent in the loans department of UDBL right from policies to the value chain process of lending. Quantitative methods will apply to the numerical aspects of the study such as credit policies, reports, profile of staff, audited books of accounts, system reports on loan performance (which are in figures), portfolio at risk reports.

3.2 Study population

The study will be carried out at UDBL Head Office, specifically the department of development fiinance, with a population of 31 people. The target population includes the staff involved in the value chain process of the lending function; that is Assessors, Credit Control, Credit Strategy and Policy, and Credit Collections. A sample of the Bank's clients will also be sampled for interviews as depicted in the next chapter.

Table 1: Study population and sample structure

Category of staff	Population	Sample Size	Sampling Strategy
Business Development Officers	6	6	Entire Population
Credit Management staff	10	10	Entire Population
Monitoring and Recovery Staff	5	5	Entire Population
Startegy Staff	10	10	Entire Population
Bank Clients	100	40	Simple Random Sampling, Amin (2005)
Total	**131**	**71**	

Adapted from: Krejcie & Morgan (1970), cited by Amin (2005)

3.3 Sampling techniques and procedure

The researcher will use purposive sampling and simple random sampling to determine the sample. Staff in the UDBL development finance department located at Head Office Jinja Road will be selected. All the 31 staff that consists of both managerial, supervisory and support, will be interviewed. A list of the Bank's clients (100 in total) will be sought and 40 will be chosen using simple random sampling to answer the questionnaire.

3.4 Data collection methods and research instruments to be used

Qualitative methods that will be used include the interviews (structured questions) while the quantitative method to be employed using questionnaires with ranked questions. Primary data will be sourced from face to face interviews with both Bank staff and clients whilst secondary data will be obtained from the internal records of the bank: financial, economic and banking text books. Other data sources will include journals, news papers, and other financial reports.

The major instruments of data collection that to be used are questionnaires and interview guides.

Self-administered questionnaires will be employed on respondents. Questions will be precise and relatively short but comprehensive to capture the information concerning the research questions and objectives of the study. Questionnaires will be used in obtaining detailed information concerning the research questions and objectives of the study. Questionnaires will be designed and given to the respondents to fill and much care will taken to ensure that maximum response is obtained. The advantage of this method is that misinterpretation by the respondents will be minimized. The researcher intends to use both open-ended and closed-ended questions.

3.4.5 Interview guides

Depending on the characteristic of the respondents, the questions to be asked by the researcher will be simple and straight forward to ensure active participation of all members. The researcher will design questions to obtain qualitative data relating to the problem and the people's views about the study. The guided approach is intended to ensure that the same general areas of information will be collected from each interviewee; this will provide more focus than the conversational approach, but still allow a degree of freedom and adaptability in getting the information from the interviewee. This method will be applied basically to the heads of department and supervisory staff in the development finance department.

3.6 Pre-testing (validity and reliability) measures

The research instruments will be pre-tested with supervisors and research experts to ensure reliability and validity.

Validity measures refer to the degree to which a test measures what it is supposed to measure. Two approaches namely, content and criterion related validity will be used to measure the degree to which the research instruments employed bring about the required responses which are related to the research phenomena. Pre-testing the research instruments with my supervisors and other research professionals will be undertaken to ensure validity. For example responses on the factors causing loan delinquency will be pre tested in order to form a basis upon which to formulate the right questions that will produce accurate results.

The researcher will pre-test the questionnaire and interview guide (data collection instruments) to check whether the instruments are appropriate or not in capturing the right data. .The researcher will use the retest method to check whether the instruments to be used will give consistent and repeated results collected from various interviewees. The cronbach alpha will be employed to provide a unique estimate of reliability for the given test administration.

3.7. Procedure for data collection

Introductory meetings will be held with the authorities of UDBL Development Finance Department and during the meeting, the researcher will explain the need to carry out the study and the purpose of the study. A letter from UTAMU explaining the purpose of the study will be presented by the researcher to provide further proof of the researcher’s intention and to seek permission to carry out the study. The same will apply to all other respondents in the sample.

The researcher will administer the questionnaires himself. Questions in the questionnaires will be in English so as to facilitate effective communication and the collection of the right data. The interview guide shall be used to get responses from selected respondents and it will be used by the researcher.

3.8. Data Analysis

Completed questionnaires shall be edited for completeness, accuracy, uniformity and comprehensiveness. The interview guide responses will be revised, compiled, checked and coded noting the relationships between the given answers and asked questions.

Qualitative data; Data collected will be analyzed through critical scrutiny of literature, for example bank policies being used to mitigate loan delinquency. Primary data collected like interviewees responses will be discussed in line with the research objectives in order to establish areas of convergence and divergence. The analysis will involve coding, listing and summarizing data in compilation sheets, flow charts, diagrams and narratives

Quantitative data; The data collected here will be summarized to describe variables and identify new variables and thereafter analyzed using computer programs like SPSS version 15.0, Microsoft applications like access and excel. The data analyzed will then be presented in the form of descriptive tabulations, percentages, frequencies, mean and standard deviation after a comprehensive analysis of statistics generated to determine their relationships (Mugenda & Mugenda, 1999). Correlation will be used in this study because it is the most commonly used technique in establishing the relationship between or among variables and the interest in social science research is in understanding the relationship between variables other than determining causes. The results of data analysis will be discussed in line with the research objectives and some of the literature presented on each objective (to help validate the primary data collected). The outcome of the findings in accordance with the predefined study objectives later on will form a basis for drawing conclusions and recommendation of this study.

3.9. Measurement of variables

In the quantitative method of data collection, Remises Likert's scale statement having five category response continuums of Strongly Agree, Agree, Un-decided, Disagree and Strongly Disagree will be used to measure the variables under study. In using this, each respondent will select the response that is most suitable in describing each statement. The response categories will be weighed from 1-5 and averaged for all items so as to rank them and make inferences accordingly.

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APPENDIX 1: Work plan and Timeframe

1.1 Gantt chart showing how the research activities will flow

ACTIVITY	2016							
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Research (problem conceptualization & evaluation, data collection & analysis, sample decision**)**								
Typing, Research editing, proof reading and Submission								

APPENDIX 2: Questionnaires and Interview Guides

QUESTIONNAIRE FOR DIRECTOR DEVELOPMENT FINANCE/ SENIOR MANAGEMENT STAFF

Topic: Bank Specific Factors Affecting Loan Performance: A Case Study of Uganda Development Bank Limited

The following questionnaire is meant to collect data for academic purposes only. All responses shall be treated with strict confidentiality. Your response to this questionnaire would be highly appreciated.

1. What is your position in the bank?
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2. How long have you been with the bank?
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3. What types of credit facilities are normally applied for in your bank and how have they contributed to the loan book?

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4. What is the application procedure for your Loans?

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5. What documents are normally requested for before a facility is processed?
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6. What is normally the duration of your Loan facility?

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7. How is the loan default rate in your bank?

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8. Has the default rate affected your bank's operations? Yes ( ) No ( )

Please give reasons for your answer
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9. In your opinion, what are the main contributing factors to loan defaults at UDBL?
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10. What are the problems faced in your loan recovery?
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11. Do you think non-compliance with credit policy of the Bank accounts for bad loans? Yes ( ) No ( )

12. How often is UDBL's credit policy reviewed and what effect has it had on the performance of the loan book?

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13. Are all staff fully conversant with the credit policy in place? Yes ( ) No ( )

14. What IT Software is being used by UDBL to process and monitor Loans?

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

15. How appropriate is this IT Software in ensuring a good loan book is maintained?

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16. What challenges have you met with the IT Software in regard to loan performance?

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17. How would you rank the following factors as causes of bad loans at UDBL?

	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
Poor credit appraisal					
Untrained bank staff					
Fraudulent approval of loans					
Non-compliance with credit policy					
Inadequate number of staff in some functions					
Lack of aggressive credit collection methods					
Diversion of loans					
Underfinancing					
Banks negligence in monitoring loans					

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Insider lending					
Political interference in loan disbursement					
Poor MIS / IT systems in place at UDBL					
Inadequate processing of loans					
Unwillingness of clients to repay their loans					
Poor business management knowledge of clients					

18. What factors hinder effective monitoring of loans by Credit Officers?

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…………………………………….

19. What are the official procedures undertaken by UDBL to recover loans in default?

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20. What measures should management put in place to reduce on loan defaults? What strategies is UDBL undertaking to help reduce on its NPLs going forward?

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……………………………………..

THANK YOU

QUESTIONNAIRE FOR UDBL CLIENTS

Topic: Bank Specific Factors Affecting Loan Performance: A Case Study of Uganda Development Bank Limited

The following questionnaire is meant to collect data for academic purposes only. All responses shall be treated with strict confidentiality. Your response to this questionnaire would be highly appreciated.

1. Was the loan taken out as an individual or company? Please tick accordingly

Individual loan ( ) Company loan ( )

2. What type of business are you engaged in?

Trading [ ]

Agriculture [ ]

Transportation [ ]

Manufacturing [ ]

Education [ ]

Others, Specify…………………………………………………………………………………………………….
.

3. How many times have you benefited from loan facilities from UDBL?

Once [ ] Twice [ ] Thrice [ ] Others Specify………………………

4. What was the size of your last loan?

Less than UGX 50 million [ ]

Between UGX 51 million – UGX 99 million [ ]

Between UGX 100 million – UGX 199 million [ ]

Between UGX 200 million – UGX 499 million [ ]

Between UGX 500 million - UGX 999 million [ ]

Between UGX 1billion - UGX 2.999 billion [ ]

Over UGX 3 billion [ ]

5. Did the Bank give you the amount requested? Yes [ ] No [ ]

6. If no, why were you denied the amount requested?
………
……………………………………………

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……………………………………………

7. Have you been able to repay your loan as scheduled? Yes [ ] No [ ]

8. If no, what accounted for the default (State as many causes as you can)
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9. What do you think you could have done to improve the situation?
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10. How is the Banks loan processing, right from application stage to disbursement?
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11. What improvement would you like to see in the loan processing procedure at UDBL?

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12. What did the Bank ask you to provide before the loan was advanced?

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13. What was the interest rate charged by the Bank for your loan facility?

Less than 5% [ ] Between 5 – 8.99% [ ]

Between 9-12.99% [ ] Between 13-20.99% [ ]

Between 21-24.99% [ ] Over 25% [ ]

14. At the time of undertaking the loan, was the interest rate fixed or floating??

Fixed [ ] Floating [ ]

15. In your opinion, what do you think the Bank should do to help you reduce on loan defaults?

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16. How would describe the services you have been receiving from UDBL Credit Officers?

a. Excellent [ ]

b. Very good [ ]

c. Good [ ]

d. Average [ ]

e. Poor [ ]

f. Extremely bad [ ]

Any other comments you would like to make about your personal interaction with UDBL staff

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………
………
………
………………………………………

17. How have the factors below impacted on your ability to repay your loan with UDBL? Please tick accordingly.

	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
High interest rates					
Floating interest rates that raise repayment amounts beyond what client had anticipated					
High loan processing fees					
Delay in the disbursement of loans					
Short repayment period					
Kickbacks or bribes to bank staff to secure loan approval					
Loan amount availed was less than what was requested for					
Rude behavior of credit staff and other bank employees towards staff					
Security required is difficult to obtain and hinders client from obtaining financing from other sources					
Lack of sound financial management advise provided to clients by bank staff					
Lack of monitoring by bank staff					

THANK YOU

QUESTIONNAIRE FOR UDBL STAFF

Topic: Bank Specific Factors Affecting Loan Performance: A Case Study of Uganda Development Bank Limited

The following questionnaire is meant to collect data for academic purposes only. All responses shall be treated with strict confidentiality. Your response to this questionnaire would be highly appreciated.

Where necessary, please tick the boxes accordingly.

1. What is your current position in the bank?

Business Development [ ]
Relationship manager [ ]
Credit analyst [ ]
Recovery/ monitoring officer [ ]
Credit Manager [ ]
Administrator [ ]

Other: Please specify……………………………………………………………………………………..

2. Sex: Male [ ] Female [ ]

3. Age:

Below 25 years [ ]
25 – 35 years [ ]
36 – 45 years [ ]
46 – 55 years [ ]
56 years and above [ ]

4. Highest Level of education:

A-Level certificate [ ]
Diploma [ ]
Undergraduate degree [ ]
Post graduate diploma [ ]
Masters degree [ ]
Doctorate [ ]

Other: Please specify……………………………………………………………………………………..

5. Length of service in banking industry

Less than 5 years [ ]
6 – 10 years [ ]
11 – 15 years [ ]
16 – 20 years [ ]
Over 20 years [ ]

6. Length of service in credit department of financial institutions.

Less than 5 years [ ]
6 – 10 years [ ]
11 – 15 years [ ]
16 – 20 years [ ]
Over 20 years [ ]

7. As per the table below, please tick your opinion on each of the factors the researcher believes are leading to the problem of nonperforming loans at UDBL?

	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
Poor monitoring / follow up by credit officers					
Lack of aggressive credit collection methods					
Poor risk assessment prior to loan approval					
Inadequate use of the KYC policy by staff when assessing quality of borrowers					
Lack of sound financial management advice provided to clients by bank staff					
Fraudulent approval of loans					
Insider lending and pressure from senior managers, board members and politicians to approve some loans					
Inadequate number of staff in some departments					
Staff inexperience in credit allocation. May need more training					

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
UDBL uses an outdated credit policy					
Credit procedure of approving facility					
Use of Credit standards like the 5c's e.g. collateral, capital, condition, character and capacity.					
High interest rates					
Floating interest rates that raise repayment amounts beyond what client had anticipated					
Lenient credit terms					
Short repayment period					
Loan amount availed was less than what was requested for					
Collateral offered was inadequate or less than loan amount advanced					
Sector of economy to which the loan was allocated					
Loan size / amount disbursed					
Very high number of clients issued loans leads to more NPLs					
Poor research done on the loan products offered by UDBL					
UDBL's use of specific lending and project appraisal techniques					
The IT Software in place cannot provide all the required					

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
information on clients					
All information regarding clients cannot be kept on the computer e.g. signed contracts, proof of collateral,					
The IT Software in place cannot provide all the required reports e.g. delinquency, location of business, type of business, etc.					
Customer accounts being dropped off the system					
Double debiting of interest on customers' accounts					
Loan balance mix ups					
Irregular account balances on the system					
Other factors leading to loan default. Please specify ……..					

THANK YOU