INSTITUTIONAL FACTORS AFFECTING LOAN PERFORMANCE OF UGANDA DEVELOPMENT BANK LIMITED

By

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A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS AND MANAGEMENT IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF EXECUTIVE MASTERS IN BUSINESS ADMINISTRATION (FINANCIAL MANAGEMENT) OF UGANDA TECHNOLOGY AND MANAGEMENT UNIVERSITY (UTAMU)

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Declaration

I, ALEX AREA, do declare that the work presented in this dissertation is my own except where acknowledged, and that it has never been submitted any other or similar award at any university or high institution of learning for any academic award.

Dated _____ day of _____2016

Candidate: AREA ALEX.

Signature: _____

Approval

This is to certify that this dissertation titled, 'Institutional Factors Affecting Loan Performance of Uganda Development Bank' was submitted with my approval as the authorized and nominated supervisor of Uganda Technology and Management University.

Signature …….

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Dedication

I dedicate this work to my lovely Parents, Mrs Lena Omara and Mr Ricahrd Omara

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LIST OF ABBREVIATIONS

ADB-African Development Bank

BOU- Bank Of Uganda

BIL- Business Instalment 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

Abstract

The purpose of this study was to find out the Institutional factors affecting loan performance at Uganda Development Bank Limited (UDBL). The study was motivated by the hypothesis that bank-specific variables have an effect on loan repayment. The institutional factors were categorized into staff-related factors, credit policy-related factors, and Management Information System-related factors. A survey was undertaken and questionnaires were distributed to the Bank's credit staff and clients who had taken out loans with UDBL. Regression models were run to determine the strength of both staff-related factors and credit policy-related factors individually but both models were not significant. A multiple regression model was done to ascertain the combined effect of staff and credit policy-related factors on loan repayment but found to be insignificant. However, it was discovered that the inadequate relationship management to clients by responsible Bank staff had a significant positive relationship with loan repayment ($r=0.477$, $p<0.01$). An improvement in effective monitoring on the performance of UDBL borrowers by the credit staff would improve loan repayment by 22.7%. One of the suggested recommendations is that the Bank should build capacity in the loans department to manage the end-to-end process of the lending value chain. That is right from application through to termination of the borrower’s relationship. This would greatly mitigate unforeseen circumstances that occur during the tenure of the loan.

CHAPTER ONE: INTRODUCTION

1.0 Introduction

The traditional role of a bank is lending and loans make up the bulk of banks' 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, 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 on their payment 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, and 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 delved into establishing how institutional factors affect the performance of loans disbursed in Uganda's financial institutions. The study was solely focused on the country's development finance institution -- Uganda Development Bank Limited (UDBL). The dependent variable in the study was loan performance while the independent variables were the institutional factors. The institutional factors primarily focused 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, hypotheses, significance, scope of the study and brief operational definitions of some of the key terms and concepts used herein.

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 an individual country level at the bottom following a Broader-Narrow perspective adopted by the researcher 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 institutional 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 NPLs at the big four banks could still be as high as 30% (Ma.& Fung, 2012).

Masood, Bellalah & Mansour (2010) state that most developing economies that undergo the process of financial liberalisation have banking systems that are burdened by a large proportion of bad loans and risky credits. The most common cause of bad loans is directed lending to preferred individuals or favoured sectors of the economy. These loans have created several problems for financial sectors and have seriously hindered the growth of developing economies especially in the Pakistani and Turkey financial systems.

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 credit 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 to Derge (2010) who states that, 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.

1.1.1 Contextual Background

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 UGX3.4 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-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 and 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 institutional 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 institutional factors have limited research available. This is further delineated in the statement of the problem hereafter.

1.2 Problem Statement

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 are related to the client or know the client very well. These pose a definite threat to the ank 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.

Despite a growth in its loan portfolio, Uganda Development Bank Limited is saddled 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). The 2014 audited reports show that the provision for impairment losses charged to the statement of comprehensive income for the year amounted to UGX 2.7 billion down from UGX 3.2 billion in 2013; the non-performing loan ratio improved from 36% in 2013 to 25% in 2014 which is a still a reflection of an unhealthy asset book.

The process of granting credit in UDBL follows a value chain process of Initiation-Assessment-Disbursement-Monitoring-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 that was undertaken in 2012 now complete, the researcher undertook a case study research design to ascertain if institutional 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 was to determine the effect of institutional factors on 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 effect 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 that were studied.

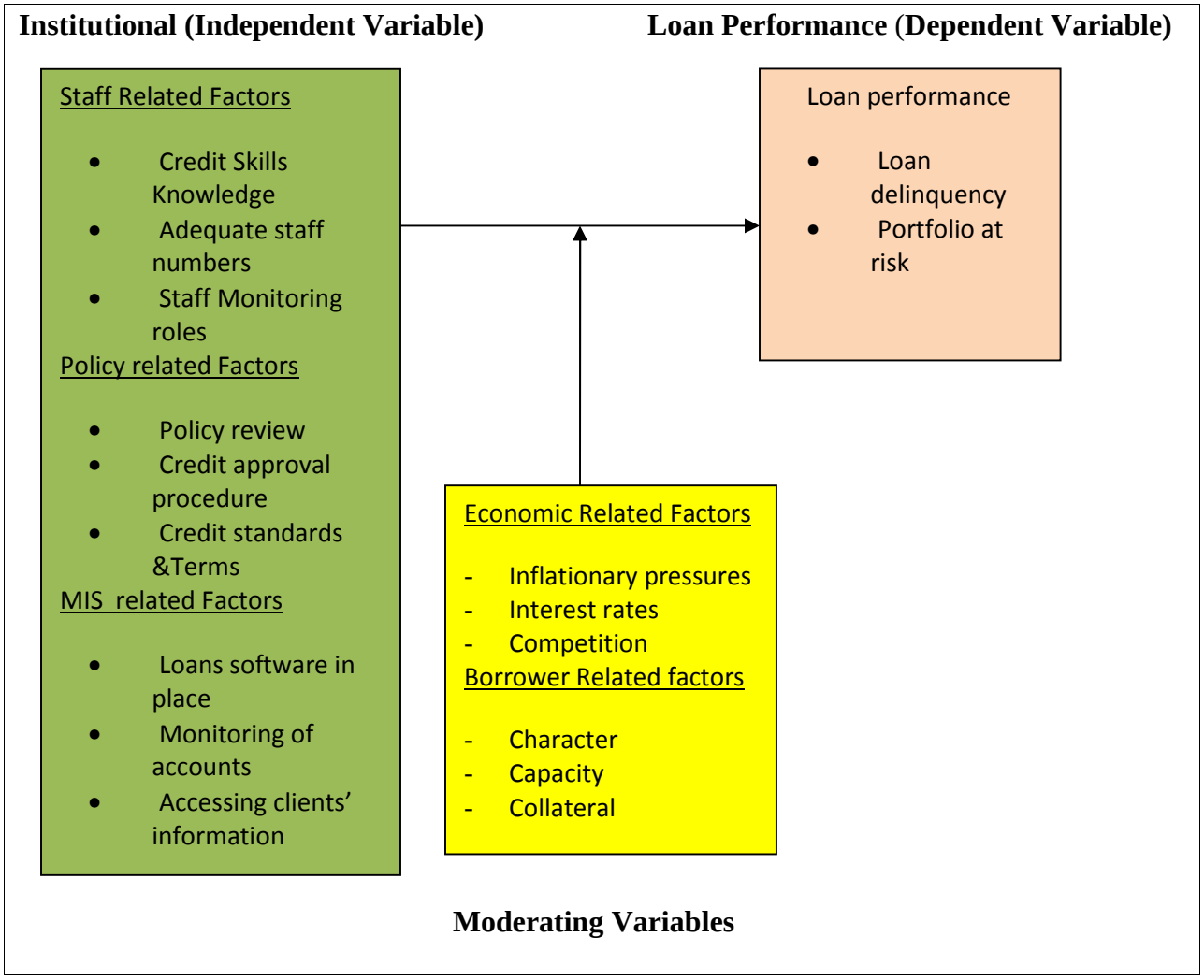


Figure 1: Conceptual Framework Showing the Relationship between Institutional Factors and Loan Performance

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 and Victor (2009). It shows that loan performance is affected by institutional 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 used 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 were investigated as well by the researcher.

1.8 Significance of the study

This study will help various stakeholders 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 covered 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 studied include: staff involved in credit management, the credit policy and the MIS Software used formed the scope of this study. The preceding variables mentioned determined the impact on loan performance which is the dependent variable. Conducting this research took 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.

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

Lending Process: The process of advancing loans to borrowers in UDBL follows a value chain process of: Initiation-Assessment-Disbursement-Monitoring-Collection-termination. This process is handled at different levels by different individuals within the Bank (UDBL Revised Credit Policy, 2013).

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.

2.0 CHAPTER TWO: 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 Institutional factors affecting NPLs

In this section the two themes of the study, that is Institutional 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 follows 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 institutional factors have been identified for this research. This is further supported by Panta (2007) who noted that all kinds of lending involve 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, Irshad and Zaman's (2011) research was focused on examining the relationship between Institutional and macroeconomic factors on bank profitability by using data of top 15 Pakistani 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.

2.1.1Staff factors affecting NPLs

According to Louzis,Vouldis and 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 and DeYoung's (1997) seminal paper sampled US 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 and Weill (2008) who discovered the same phenomenon in the Czech banking industry between 1994 and 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 and Abdul (2005) identified that 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 moulded the researcher's 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 notes 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) states 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) states 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 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 overexposed to a specific client.

For a while now, UDBL 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 affected the NPL ratio for a large panel of Italian banks over the period 1985 to 2002. Furthermore, Cifter, Yilmazer, and 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 a bank’s financial performance. Cordella and 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 and 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 and 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 and 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 the 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 carried out to identify the relationship between the mentioned staff-related variables in our conceptual framework.

CHAPTER THREE: METHODOLOGY

3.0 Introduction

This chapter presents a description of research design and methodology that were 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.

3.1 Research design

This study used cross-section design involving a mixed approach to collect both quantitative and qualitative data. The cross-section design was used since the influence of institutional factors was examined at one point in time (Amin, 2005). This involved a case study and case series to collect data. Both quantitative and qualitative data was collected. Several bank staff within UDBL and the bank's clients were interviewed accordingly. The qualitative data basically focused on the bank officials' views about factors inherent in the loans department of UDBL right from policies to the value chain process of lending. Quantitative methods were applied 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), and portfolio at risk reports.

3.2 Study population

The study was carried out at UDBL Head Office, specifically the department of development fiinance, with a population of 31 people. The target population included the staff involved in the value chain process of the lending function; that is Business Development, Credit Control, Credit Strategy and Policy, and Credit Collections. A sample of the bank's clients was also 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 used purposive sampling and simple random sampling to determine the sample. Staff in the UDBL development finance department located at the Head Office of Rwenzori Towers, Plot 2 Nakasero Road were selected. All the 31 staff that consist of both managerial,

supervisory and support were interviewed. The Bank's clients (100 in total) were sought and 40 were chosen using simple random sampling to answer the questionnaire.

3.4 Data collection methods and research instruments used

Qualitative methods that were used include interviews (structured questions), while the quantitative method employed used questionnaires with ranked questions. Primary data was sourced from face-to-face interviews with both bank staff and clients whilst secondary data was obtained from the internal records of the bank; plus financial, economic and banking textbooks. Other data sources included journals, newspapers, and other financial reports.

The major instruments of data collection that were used were questionnaires and interview guides. Self-administered questionnaires were distributed to respondents. Questions were precise and relatively short, but comprehensive to capture the information in line with the research questions and objectives of the study. Questionnaires were used in obtaining detailed information concerning the research questions and objectives of the study. Questionnaires were designed and given to the respondents to fill and much care was taken to ensure that maximum response is obtained. The advantage of this method is that misinterpretation by the respondents was minimized. The researcher used both open-ended and closed-ended questions.

3.5 Interview guides

Depending on the characteristic of the respondents, the questions asked by the researcher were simple and straightforward to ensure active participation of all members. The researcher designed questions to obtain qualitative data relating to the problem and the people's views about the study. The guided approach was intended to ensure that the same general areas of information were collected from each interviewee. This provided more focus than the conversational approach, but still allowed a degree of freedom and adaptability in getting the

information from the interviewee. This method was applied basically to the heads of department and supervisory staff in the development finance department.

3.6 Pre-testing (validity and reliability) measures

In order to test for content validity, Polit and Beck (2006) recommend the use of content validity index (CVI). The results are summarized in Table 2 below.

3.6.1 Content validity

Table 2: Content validity results of the measuring instruments

Variables	**Total Items Tested**	**R**	**N**	**IR**	**CVI**
Staff-related factors	7	7	0	0	1.00
Credit policies	16	14	0	2	0.88
Technological systems	7	5	0	2	0.71
Interview guide	14	11	0	3	0.79

Source: Researcher's own calculations

As shown in Table 2 above, the resultant content validity indices for all the variables were above the recommended minimum of 0.70 which indicated that the content of the measuring instrument were valid. In other words, the measuring instrument had appropriate items for the constructs that were being measured.

3.6.2 Reliability

Reliability was tested using Cronbach's alpha coefficient for consistency. The results are presented in Table 3.

Table 3: Reliability of the questionnaire

Items		Item-Total Correl.	Alpha Coefficient
	Staff-related factors	0.6621	0.788
	Credit policies	0.589	0.781
	Technological systems	0.687	0.774
	Interview	0.588	0.814

Source: Results from statistical analysis

The results in Table 3 indicate Cronbach's alpha coefficients of above 0.70. Hence sufficient evidence of reliability for this construct was established. The inter-item correlations indicate that there were non-perfect correlations between the items, which indicates that these items were not measuring the same construct but there was consistency.

3.7. Procedure for data collection

Introductory meetings were held with the authorities of UDBL Development Finance Department; and during the meeting, the researcher explained the need to carry out the study and the purpose of the study. A letter from UTAMU explaining the purpose of the study was presented by the researcher to provide further proof of the researcher's intention and to seek permission to carry out the study. The same was applied to all other respondents in the sample. The researcher administered the questionnaires himself. Questions in the questionnaires were in English so as to facilitate effective communication and the collection of the right data. The interview guide was used to get responses from selected respondents.

3.8. Data Analysis

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

Qualitative data: Data collected was analyzed through critical scrutiny of literature, for example bank policies being used to mitigate loan delinquency. Primary data collected, like interviewee responses were discussed in line with the research objectives in order to establish areas of convergence and divergence. The analysis involved coding, listing and summarizing data in compilation sheets, bar graphs, pie charts, diagrams and narratives.

Quantitative data: The data collected was analyzed using MS Excel and statistical computer programmes like SPSS version 16.0. The data analyzed was then presented in the form of descriptive tabulations, percentages, frequencies, and correlations after a comprehensive analysis of statistics generated to determine their relationships (Mugenda & Mugenda, 1999). Correlation was 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 are 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 formed the 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, Neutral, Disagree and Strongly Disagree was used to measure the variables under study. In using this, each respondent would select the response that is most suitable in describing each statement. The response categories were weighed from 1-5 and averaged for all items so as to rank them and make inferences accordingly.

CHAPTER FOUR: PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.0 Introduction

This chapter presents and discusses the findings of the study. As discussed in the preceding chapters, this study is aimed at examining institutional determinants of non-performing loans. This chapter presents the results of the different sources of data.

The chapter is organized into four sections. The first section, 4.1, presents a brief documentary analysis of the current NPL scenario at UDBL and findings from an interview with the bank's CEO; the second section, 4.2, presents findings from the survey administered to bank staff; . section 4.3 presents findings from the survey administered to the bank's clients, and section 4.4 delves into the correlation and regression results obtained from the survey.

4.1 Latest Overview of UDBL Loan Performance

UDBL's annual report for the year ended 2014 indicated that the bank expanded its outreach through increased lending operations throughout the country. The bank's lending operation resulted into the growth in the gross loan portfolio by 13% from UGX 105,839 million in 2013 to UGX 119,425 million as at the end of the financial year 2014. The largest sector composition was in agriculture, agro processing and other manufacturing concerns that accounted for 54% of the loan book.

Between the financial years 2013 and 2014, the bank's total asset base expanded by 16% from UGX 146,898 million to UGX 169,973 million on account of a 13% growth in gross loan book in 2014. The impairment loss on loans and advances declined with a 15.6% drop in 2014 of UGX451 million.

The provision for impairment losses charged to the statement of comprehensive income for the year amounted to UGX 2.7 billion down from UGX 3.2 billion in 2013; the non-performing loan ratio improved from 36% in 2013 to 25% in 2014. This was as a result of more rigorous loan monitoring, collections and recoveries which have positively impacted on the quality of the loan book.

In comparison, Bank of Uganda's annual report for 2014/15 indicates that the non-performing advances to total advance ratio of the commercial banking industry within Uganda improved from 5.8% in June 2014 to 4% in June 2015. The loan default rate prevailing at UDBL is thus way above that of the commercial banks.

The researcher interviewed the CEO to find out more about the bank's loan performance and a summary of the findings is presented in the voice box below.

According to the Chief Executive Officer, the bank offers short-term loans (less than 18 months), medium-term loans (18 months – 5 years), and long-term loans of 5 - 10 years to its clients. However, she admits that the bank's loan default rate has consistently been higher than the average loan default rate of commercial banks within the financial services industry for a long time. This default rate has had adverse effects on the bank's operations. It has lowered the level of liquidity in the bank and has hampered UDBL's ability to borrow from other lenders. The high default rate has also affected the bank's profitability through impairments. According to her, the main contributing factors to loan defaults at UDBL are:

- Political interference during both the loan approval and recovery processes
- Weaknesses in effective monitoring of loans disbursed and this is partly attributed to low staff numbers

- The nature of projects financed – most are high-risk projects, especially in the agriculture sector
- Some UDBL staff do not have sufficient knowledge pertaining to development financing
- Diversion of loans by clients
- Underfinancing of some projects
- Unwillingness of clients to repay their loans
- Poor business management knowledge by clients.

The bank's CEO thus believes that staff and credit policy related factors are contributory factors to loan defaults at UDBL.

However, she is of the view that the bank's Credit Policy does not contribute to loan defaults at UDBL. It is reviewed by Senior Management and the Board every two years and the necessary adjustments are made to strengthen any weaknesses identified within the Credit Policy. However, she reveals that some staff may not be fully conversant with the Credit Policy in place.

Furthermore, she was of the view that the MIS software in place at the Bank is appropriate and does not contribute to loan defaults at UDBL.

4.2 UDBL Staff Survey Establishing Causes of NPLs

The questionnaire was physically distributed to 36 bank clients and 11 bank employees. Out of 71 questionnaires, 47 were completed thus the response rate was 66 per cent. The bank clients surveyed had a higher response rate (90%) compared to the bank staff surveyed whose response rate was 52%.

In the light of the poor response culture in Uganda, this was impressive. According to Fowler (1988) researchers or survey organizations differ considerably in the extent to which they devote time and money to improve response rate. Thus, there is no agreed-upon standard for a minimum acceptable response rate.

Table 4: Survey response rates

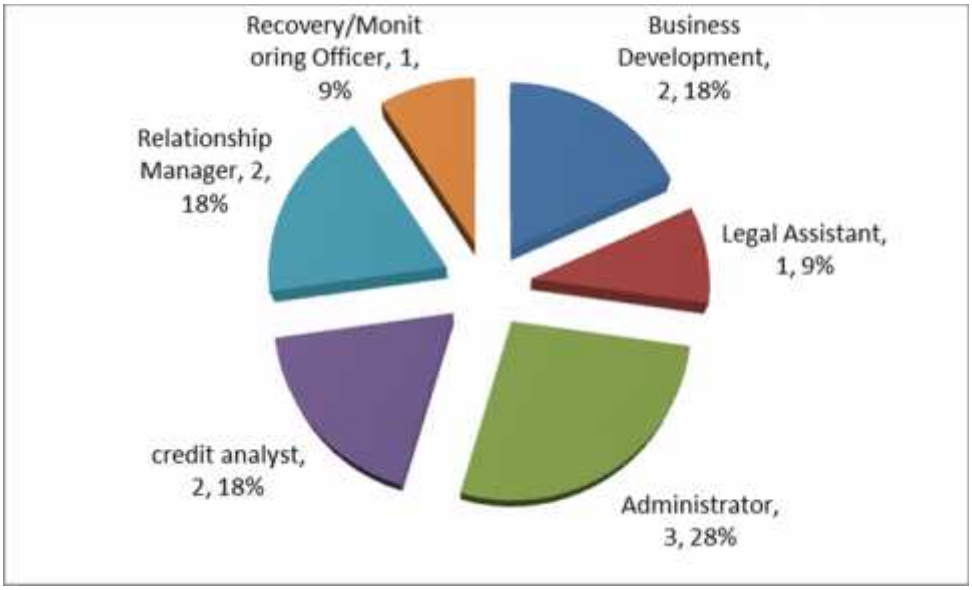
Category of staff	Targeted sample size	Actual number of respondents	Response rate
Bank staff	31	11	35%
Bank Clients	40	36	90%
Total	**71**	**47**	**66%**

Source: Author's computations 2016

4.2.1 Background Information of UDBL staff respondents interviewed

As illustrated in the chart below, the respondents included three administrators, two credit analysts, two relationship managers, two business development staff, a recovery/monitoring officer and a legal assistant. The sample size was thus representative of different departments within the bank.

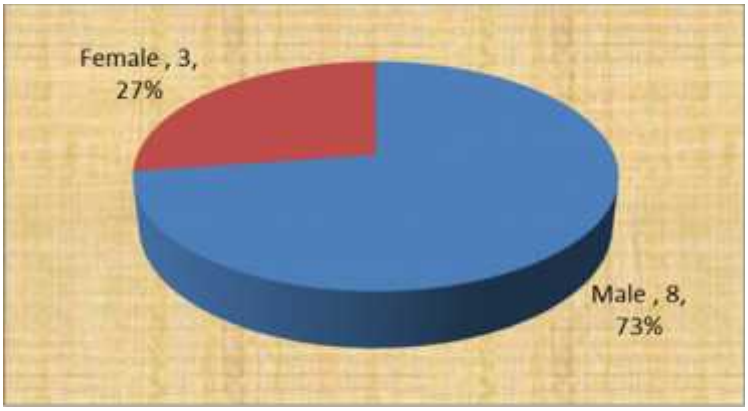
Figure 1: Job titles of bank staff interviewed



Source: Survey findings, 2016

Eight of the bank staff interviewed were male whilst three were female, comprising 73% and 27% of the respondents respectively.

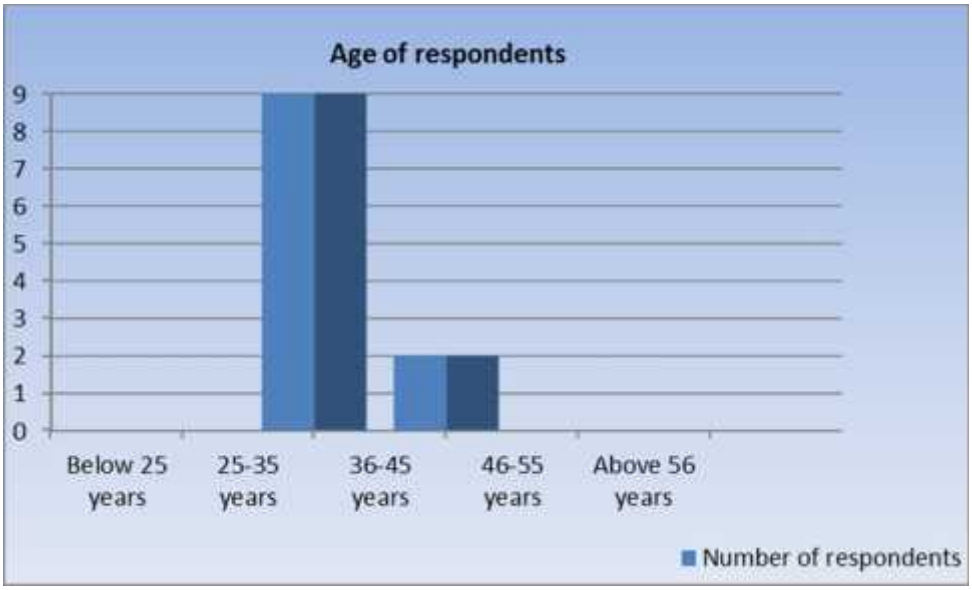
Figure 2: Pie chart showing sex of respondents



Source Survey findings, 2016

As per the chart below, the age of all the respondents was within the 25-45 year category. This could partly be attributed to the restructuring exercise that had been undertaken by the bank in 2012. It was quite surprising that there were no respondents aged 46 years and above.

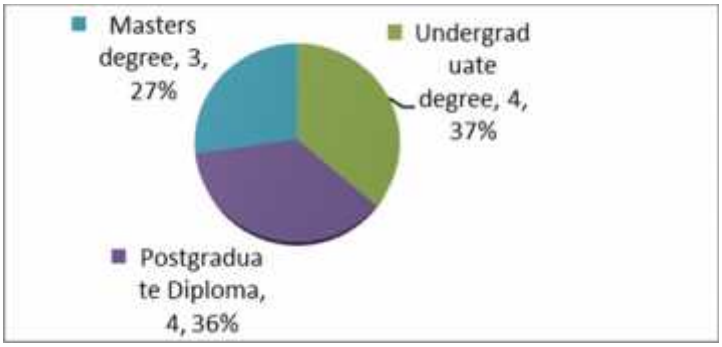
Figure 3: Bar chart showing age of respondents



Source: Survey findings, 2016

Despite the youthful outlook of the survey respondents, most of them were well educated as per the table of findings below. Thirty-six per cent (36%) of them had undergraduate degrees while the rest (64%) had pursued further studies at either postgraduate diploma level or Master's degree level. According to the study of Masood, Bellalah and Mansour (2010), the bankers with high qualification are in a better position to judge the credibility of a customer resulting in decrease in the Non-Performing Loans than one with lower qualification.

Figure 4: Education level of bank staff surveyed



Source: Survey findings, 2016

In addition to the academic qualifications of the respondents, most were found to have commendable experience within the banking industry in general and more specifically, within the credit department of financial institutions. Forty-five per cent (45%) of the bank staff interviewed had 6 to 10 years' experience within the banking industry, while 27% of them had over ten years' experience within the industry. Furthermore, 64% of the bank staff had over six years' experience of working within credit departments of financial institutions. The fact that the majority of the respondents had many years' experience in bank credit operations helped capture good quality data. However, as per the table below, none of the interviewees had over ten years' experience in credit operations.

Table 5: Showing respondents' years of experience

Banking industry experience	**Number of respondents**		**Credit department experience**	**Number of respondents**	
Less than 5 years	3	27%	Less than 5 years	4	36%
6-10 years	5	45%	6-10 years	7	64%
11-15 years	3	27%	11-15 years	0	0%
16-20 years	0	0%	16-20 years	0	0%
Over 20 years	0	0%	Over 20 years	0	0%
	11			**11**	

Source: Survey findings 2016

4.2.2 Main causes of NPLs according to UDBL staff respondents interviewed

The researcher's main objective of the study was to ascertain the impact of staff-related factors, the credit policy in place, and MIS systems on the NPL scenario at UDBL. The results are thus presented in a generalized way, initially to outline the main factors that staff feel contribute to NPLs before a more detailed look at the hypothesized causes of the NPLs.

As per the Table 6 below, over 50% of UDBL staff interviewed are of the view that insider lending and pressure from some managers, board members and politicians to approve some loans; inadequate number of staff in some departments; irregular account balances on the bank's

IT system; and sector of economy to which the loan was availed are the main factors leading to loan defaults at the bank. Half of the staff (50%) also agreed that lack of aggressive credit collection methods leads to NPLs.

Each proposed cause of loan default was categorized by the researcher as either staff-related, policy-related, or MIS-related. *Of the five leading causes of defaults as per the survey results, two were classified as staff-related factors; two were classified as credit policy-related whilst one was attributed to MIS-related factors.*

It is interesting to note that only 27% of the staff interviewed suggested that staff inexperience in credit allocation was a contributory factor to poor loan repayments. This result may be attributed to the bias normally associated with the use of Likert scales for self-evaluation. In addition, all the staff interviewed were of the view that fraudulent loan approvals do not lead to loan default at UDBL.

However, 45% of the staff interviewed acknowledged that poor monitoring / follow-up by credit officers was a cause of poor loan repayments. This contradicts the findings made by Agresti, *et al* (2008) who observed that less monitoring of borrowers leads to NPLs.

Another unanticipated finding was that only 9% of UDBL staff interviewed attributed high interest rates to loan default. This is in contrast to 65% of the UDBL clients interviewed who attributed high interest rates as a major cause of failure to service their loans. Floating interest rates, which usually raise repayment amounts beyond what was forecast, were not attributed to loan default by 9% of the bank staff interviewed.

Table 6: Showing the causes of default in relation to the Institutional factors

Causes of Default	Strongly Disagree (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Agree (SA)	(A+SA)%	Institutional factor
Insider lending and pressure from some managers, board members and politicians to approve some loans	1	2	2	6	0	**55%**	**Staff**
Inadequate number of staff in some departments	0	1	4	6	0	**55%**	**Staff**
Irregular account balances on the system	0	4	1	5	1	**55%**	**MIS**
Sector of economy to which the loan was availed	1	2	2	6	0	**55%**	**Policy**
Lack of aggressive credit collection methods	0	5	0	5	0	**50%**	**Policy**
Poor monitoring / follow up by credit officers	1	3	2	5	0	**45%**	**Staff**
Loan balance mix ups on the Bank's IT systems	0	4	2	4	1	**45%**	**MIS**
Loan amount availed was less than that requested for	1	3	3	4	0	**36%**	**Policy**
Poor risk assessment prior to loan approval	1	6	0	4	0	**36%**	**Staff**
Lack of sound financial management advice provided to clients by UDBL staff	1	3	3	4	0	**36%**	**Staff**
Poor research done on the loan products offered by UDBL	0	6	1	4	0	**36%**	**Policy**
Credit procedure of approving facility	0	3	4	3	0	**30%**	**Policy**
Lenient credit terms	3	5	0	2	1	**27%**	**Policy**
Staff inexperience in credit allocation	1	3	4	2	1	**27%**	**Staff**
Outdated credit policy in use at UDBL	0	7	1	3	0	**27%**	**Policy**
The IT software in place cannot provide all the required reports	1	6	1	2	1	**27%**	**MIS**

Causes of Default	Strongly Disagree (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Agree (SA)	(A+SA)%	Institutional factor
The IT software in place cannot provide all the required information on clients	1	4	3	3	0	**27%**	**MIS**
Loan size / Amount disbursed	0	7	1	3	0	**27%**	**Policy**
Use of credit standards like the 5C's	2	5	1	2	0	**20%**	**Policy**
All information regarding clients cannot be kept on the system; e.g. signed contracts, proof of collateral	1	5	3	2	0	**18%**	**MIS**
Double debiting of interest on customers' accounts	1	7	1	2	0	**18%**	**MIS**
UDBL's use of specific lending and project appraisal techniques	1	7	1	2	0	**18%**	**Policy**
Collateral offered was inadequate or less than what was requested for	0	8	2	1	0	**9%**	**Policy**
Inadequate use of the KYC policy by staff when assessing quality of borrowers	1	6	3	1	0	**9%**	**Policy**
High interest rates	5	5	0	0	1	**9%**	**Policy**
Short repayment period	3	7	0	1	0	**9%**	**Policy**
Floating interest rates that raise repayment amounts beyond what was forecast	5	5	0	0	1	**9%**	**Policy**
Very high number of clients issued loans leads to more NPLs	3	7	1	0	0	**0%**	**Policy**
Fraudulent approval of loans	3	5	3	0	0	**0%**	**Staff**
Customer accounts being dropped off the system	1	8	2	0	0	**0%**	**MIS**

Source: Survey findings

We shall now filter the table above to have a closer look at each of the three hypothesized Institutional factors and analyze their contribution to the poor loan performance at UDBL.

4.2.2.1 Staff-related factors contributing to NPLs

From the survey, the main staff-related factors that UDBL employees believed were contributing to NPL's are outlined below.

Table 7: Showing the relationship between staff-related factors as an independent variable and Loan performance as a dependent variable

Causes of Default	Strongly Disagree (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Agree (SA)	(A+SA)%	Institutional factor
Insider lending and pressure from some managers, board members and politicians to approve some loans	1	2	2	6	0	**55%**	**Staff**
Inadequate number of staff in some departments	0	1	4	6	0	**55%**	**Staff**
Poor monitoring / follow up by credit officers	1	3	2	5	0	**45%**	**Staff**
Poor risk assessment prior to loan approval	1	6	0	4	0	**36%**	**Staff**
Lack of sound financial management advice provided to clients by UDBL staff	1	3	3	4	0	**36%**	**Staff**
Staff inexperience in	1	3	4	2	1	**27%**	**Staff**

Causes of Default	Strongly Disagree (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Agree (SA)	(A+SA)%	Institutional factor
credit allocation							
Fraudulent approval of loans	3	5	3	0	0	**0%**	**Staff**

Source: Survey findings

Seven staff-related factors were suggested by the researcher as causes of NPLs at UDBL. Two of the staff-related factors were agreed to by more than half of the respondents as contributory to NPLs at UDBL. These were related to insider lending and pressure to approve some loan disbursements (55%) and low staff numbers in some departments (55%).

The above table thus provides us with evidence that some staff-related factors are considered by the bank's staff as having influence on the loan performance at UDBL.

4.2.2.2 Credit Management Policy-related factors contributing to NPLs

From the survey, the main credit management policy factors that staff believed were contributing to NPLs are outlined hereafter.

Table 8: Showing the relationship between Policies-related factors as an independent variable and Loan performance as a dependent variable

Causes of Default	Strongly Disagree (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Agree (SA)	(A+SA)%	Institutional factor
Sector of economy to which the loan was availed	1	2	2	6	0	**55%**	Policy
Lack of aggressive credit collection methods	0	5	0	5	0	**50%**	Policy
Loan amount availed was less than that requested for	1	3	3	4	0	**36%**	Policy
Poor research done	0	6	1	4	0	**36%**	Policy

Causes of Default	Strongly Disagree (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Agree (SA)	(A+SA)%	Institutional factor
on the loan products offered by UDBL							
Credit procedure of approving facility	0	3	4	3	0	**30%**	Policy
Lenient credit terms	3	5	0	2	1	**27%**	Policy
Outdated credit policy in use at UDBL	0	7	1	3	0	**27%**	Policy
Loan size / Amount disbursed	0	7	1	3	0	**27%**	Policy
Use of credit standards like the 5C's	2	5	1	2	0	**20%**	Policy
UDBL's use of specific lending and project appraisal techniques	1	7	1	2	0	**18%**	Policy
Collateral offered was inadequate or less than what was requested for	0	8	2	1	0	**9%**	Policy
Inadequate use of the KYC policy by staff when assessing quality of borrowers	1	6	3	1	0	**9%**	Policy
High interest rates	5	5	0	0	1	**9%**	Policy
Short repayment period	3	7	0	1	0	**9%**	Policy
Floating interest rates that raise repayment amounts beyond what was forecast	5	5	0	0	1	**9%**	Policy
Very high number of clients issued loans leads to more NPLs	3	7	1	0	0	**0%**	Policy

Source: Survey findings

Sixteen credit policy-related factors were suggested by the researcher as causes of NPLs at UDBL. Two of the credit policy-related factors were agreed to by at least a half of the respondents as contributory to NPLs at UDBL. These were related to sector of the economy to which the loan was disbursed (55%) and lack of aggressive credit collection methods (50%).

The previous table thus provides us with evidence that some credit policy-related factors are considered by the bank's staff as having influence on the loan performance at UDBL.

Thirty-six per cent (36%) of the bank staff interviewed were of the view that availing clients with loan amounts less than what they requested for leads to loan defaults. This is similar to the findings from the survey of UDBL clients, of whom 40% argued that receiving less loan amounts than desired affects their ability to re-service their loans.

4.2.2.3 MIS-related factors contributing to NPLs

From the survey, the main MIS-related factors that staff believed were contributing to NPLs are outlined below.

Table 9: Showing the relationship between -related factors as an independent variable and Loan performance as a dependent variable

Causes of Default	Strongly Disagree (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Agree (SA)	(A+SA)%	Institutional factor
Irregular account balances on the system	0	4	1	5	1	**55%**	**MIS**
Loan balance mix ups on the Bank's IT systems	0	4	2	4	1	**45%**	**MIS**
The IT software in place cannot	1	6	1	2	1	**27%**	**MIS**

Causes of Default	Strongly Disagree (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Agree (SA)	(A+SA)%	Institutional factor
provide all the required reports							
The IT software in place cannot provide all the required information on clients	1	4	3	3	0	**27%**	**MIS**
All information regarding clients cannot be kept on the system; e.g. signed contracts, proof of collateral	1	5	3	2	0	**18%**	**MIS**
Double debiting of interest on customers' accounts	1	7	1	2	0	**18%**	**MIS**
Customer accounts being dropped off the system	1	8	2	0	0	**0%**	**MIS**

Source: Survey findings

Seven MIS-related factors were suggested by the researcher as causes of NPLs at UDBL. One of them – Irregular account balances on the system - had more than half (55%) of the respondents in agreement that it was a contributory factor to NPLs at UDBL. Loan balance mix-ups on the bank's IT systems were noted by 45% of the bank staff as contributing to poor loan repayment performance.

The above table thus provides us with evidence that some MIS-related factors are considered by the bank's staff as having influence on the loan performance at UDBL.

4.3 UDBL clients survey establishing causes of NPL's

Having evaluated the causes of NPL's from the perspective of the Bank's CEO and other staff, the researcher sought to establish the main causes of NPLs from the perspective of UDBL clients. Different aspects including, *inter alia*, sector of business the loan was allocated to, loan amount disbursed, interest rate given, were studied to ascertain if they had any impact on loan performance. These are discussed in depth hereafter.

4.3.1 Loan repayment performance of company and individual clients

Of the 36 UDBL clients in the sample, the majority (28 in number) who constituted 78% obtained credit facilities as companies while only 8 clients (22%) obtained loans in their capacity as individuals. This implies that most of the financing from UDBL was advanced to companies/institutions as opposed to individuals. Of the 36 clients interviewed, 21 (58%) had failed to service their loans whilst 15 (42%) of them were compliant with their repayments. *The loan default rate for individual borrowers (63%) was higher than that of company borrowers (57%) as depicted in the table below.*

Table 10: Showing the category of borrowers

Category of borrower	Number of clients		Defaulters	
Individuals	8	22%	5	63%
Companies	28	78%	16	57%
	36		**21**	58%

Source: Survey findings 2016

4.3.2 Loan repayment performance of different sectors

As per the Table 11 below, the loan clients surveyed used the funding in different sectors of the economy. The agriculture sector was allocated the most credit by the bank, with 11 clients,

representing 31%. The manufacturing sector accounted for 25% of the loans undertaken by the survey respondents, while the education sector took 17% of the loans disbursed to the survey respondents.

Table 11: Showing the different sectors of the borrowers.

Sector	Number of clients	Sector distribution	Defaulters	
Trading	3	8%	2	67%
Agriculture	11	31%	7	64%
Transport	3	8%	0	0%
Manufacturing	9	25%	5	56%
Education	6	17%	3	50%
Hospitality	3	8%	3	100%
Health	1	3%	1	100%
	36	**100%**	**21**	

Source: Survey findings 2016

In terms of loan repayment, the transport sector - which accounted for only 8% of the survey respondents - performed best with all the clients making their repayments as scheduled. Almost two-thirds of the clients who undertook loans in the trading and agriculture sectors defaulted on their loan repayments. All the borrowers in the hospitality and health sectors defaulted on their loan repayments.

4.3.3 Loan repayment performance of first-time borrowers and repeat customers

The survey also sought to establish the loan performance of clients who had undertaken a single loan from the bank as opposed to those who had taken loans from the bank previously (repeat customers). The corresponding statistics are presented in Table 12 below and indicate that the majority of the clients (22) (61%) had only one loan with the bank and 68% of them were in default on their payments. *The loan performance of the 13 clients who had received a second credit facility from the bank was much better with their default rate dropping to 38%.*

Interestingly, one client surveyed had borrowed for the third time but was now in default on his/her repayments.

Table 12: Showing the number of borrowings from the bank clients

Number of loans taken	Number of clients		Defaulters	
One	22	61%	15	68%
Two	13	36%	5	38%
Three	1	3%	1	100%
	36		**21**	

Source: Survey findings 2016

4.3.4 Effect of loan size on loan repayment

The researcher also investigated whether the amount of loan disbursed was a contributory factor to the high rate of default at UDBL. All the UDBL clients who had loans of less than UGX 50 million were defaulting on their loan repayments as shown below. This is in contrast to the findings of Shofiqul, Nikhil and Abdul (2005) who recognised that in Bangladesh, small-size loans outperformed large-size loans The least loan default (30%) was witnessed in the loan amount range of UGX500 million to UGX 999 million; which accounted for 28% of the total sample respondents. *Loan default rates were noticeably high across all the loan amounts offered*.

Table 13: Showing loan sizes taken by the borrowers.

Loan size in UGX	Number of clients		Defaulters	
Less than 50mn	2	6%	2	100%
50mn - 99mn	4	11%	3	75%
100mn - 199mn	5	14%	2	40%
200mn - 499mn	7	19%	5	71%
500mn - 999mn	10	28%	3	30%
1bn - 2.99bn	4	11%	3	75%
Over 3bn	4	11%	3	75%
	36		**21**	

Source: Survey findings 2016

4.3.5 Effect of approval of full loan amount on loan repayment performance

As per Table 14 below, only 28% of the bank's clients were availed less financing than they requested for. However, the default rate of clients who received less financing than they actually applied for (60%) is close to the default rate (58%) of clients who were availed the full amount of the loan they requested for. *There is thus no significant difference between the rate of default of clients offered the full amount requested for and those that were offered loan amounts less than what they requested for.*

Table 14: Showing effect of approval of full loan amount on loan repayment performance

Full loan amount offered to client	Number of clients		Defaulters	
Yes	26	72%	15	58%
No	10	28%	6	60%
	36		**21**	

Source: Survey findings 2016

As per Table 15 below, the main reason for non-disbursement of the loan amount requested for was that the value of the collateral offered was found to be less than the loan amount.

Table 15: Showing reason for non-disbursement of full loan amount

Reason for non-disbursement of full loan amount	Number of clients	
Startup business so disbursements were phased during construction	1	10%
Value of collateral inadequate for loan amount needed	7	70%
Some components of loan finance were removed from initial plan	1	10%
Too many loans undertaken	1	10%
	10	

Source: Survey findings 2016

4.3.6 Main causes of NPLs at UDBL as outlined by the Bank's clients

Using a questionnaire with a Likert scale, the researcher presented eleven likely issues that may hinder clients from fulfilling their loan repayment obligations and the clients' responses are

summarized in Table 16. Interestingly, the clients were in agreement or strongly agreed with seven of the proposed issues leading to loan default.

The short repayment period was cited by 74% of the bank's clients as a major cause of loan defaults. This was followed by the problem of high interest rates - agreed to by 65% of bank's clients interviewed.

Kickbacks to bank staff to obtain loan approvals were noted by 9% as causes of loan default at UDBL. Furthermore, 9% of the UDBL clients interviewed also agreed that rude behaviour of credit department staff contributes to their loan defaults. The bank should look into this aspect of customer service as a matter of urgency.

Table 16: Showing main causes of NPLs at UDBL as outlined by the bank's clients

Causes of Default	Strongly Disagree (SD)	Disagree(D)	Neutral (N)	Agree (A)	Strongly Agree (SA)	(A+SA)%
Short repayment period	0	6	3	21	5	**74%**
High interest rates	0	6	6	16	6	**65%**
Difficulty in obtaining required collateral	2	8	3	17	5	**63%**
Lack of sound financial management advise provided to clients by bank staff	1	10	2	20	2	**63%**
Delay in disbursement of loans	0	6	7	13	8	**62%**
High loan processing fees	0	9	6	16	3	**56%**
Lack of monitoring by bank staff	4	8	5	12	6	**51%**
Floating interest rates	3	10	7	10	4	**41%**
Loan amount availed less than requested	5	13	3	10	4	**40%**
Rude behavior of credit staff	8	22	1	2	1	**9%**
Bribes to UDBL staff for loan approval	10	18	4	2	1	**9%**

Source: Survey findings

From the above table, it is evident that UDBL's clients are most affected by bank's credit-related policies (5 in the table above scored over 50%) as opposed to staff-related policies (2 in the table above scored over 50%). The MIS-related policies do not affect the bank's clients with regard to their loan repayment.

4.3.7 Effect of interest rates on NPLs at UDBL

A low correlation of 0.216 was found between interest rates and loan performance. Most clients (53%) undertook loans with interest rates ranging from 9 to 12.99%. The loan default rate in this category of borrowers was 57%. However, borrowers within the higher interest bands had lower loan default rates as evidenced below.

Table 17: Showing effect of interest rates on NPLs at UDBL

Interest rate	Number of clients		Defaulters	
Less than 5%	0	0%	0	0%
5 - 8.99%	4	11%	1	5%
9 - 12.99%	19	53%	12	57%
13 - 20.99%	10	28%	5	24%
21 - 24.99%	3	8%	3	14%
over 25%	0	0%	0	0%
	36		**21**	

Source: Survey Data 2016

It was also observed that clients who obtained credit on floating interest rates (39% of respondents) had a lower default rate of 33% when compared with clients who obtained credit on fixed interest rates (61% of respondents) but had a default rate of 67%. This is illustrated in Table 16.

Table 16: Showing effect of fixed and floating rates on NPLs at UDBL

Interest rate	Number of clients		Defaulters	
Fixed	22	61%	14	67%
Floating	14	39%	7	33%
	36		**21**	

Source: Survey Data 2016

4.3.8 Effect of customer service on NPLs at UDBL

Customer service was hypothesized by considering the clients' perception of the quality of service received from staff in the credit department. The correlation between customer service

and loan default was found to have a fairly strong correlation of 0.6929, implying that the two may have a causal relationship.

Seventy-one per cent (71%) of the clients interviewed were neutral about the bank's customer service and simply rated it as either good or average. The default rate of clients who rated their experience as either good or average is a combined 80%. Of the clients that rated the service provided as either excellent or very good (29%), their combined default rate is lower at 10%.

None of the respondents rated their experience as either poor or extremely bad.

Table 18: Showing effect of Effect of customer service on NPLs at UDBL

Customer service perceptions	Number of clients		Defaulters	
Excellent	3	9%	1	5%
Very Good	7	20%	1	5%
Good	20	57%	13	65%
Average	5	14%	5	25%
Poor	0	0%	0	0%
Extremely Bad	0	0%	0	0%
	35		**20**	

Source: Survey Data 2016

4.3.9 Main causes of NPLs at UDBL as outlined by the bank's clients

Using a questionnaire with a Likert scale, the researcher presented eleven likely issues that may hinder clients from fulfilling their loan repayment obligations and the clients' responses are

summarized in Table 19. Interestingly, the clients were in agreement or strongly agreed with seven of the proposed issues leading to loan default.

The short repayment period was cited by 74% of the bank's clients as a major cause of loan defaults. This was followed by the problem of high interest rates - agreed to by 65% of bank's clients interviewed.

Kickbacks to bank staff to obtain loan approvals were noted by 9% as causes of loan default at UDBL. Furthermore, 9% of the UDBL clients interviewed also agreed that rude behaviour of credit department staff contributes to their loan defaults. The Bank should look into this aspect of customer service as a matter of urgency.

Table 19: Bank client's rating of main Institutional factors causing NPLs

Causes of Default	**Strongly Disagree (SD)**	**Disagree(D)**	**Neutral (N)**	**Agree (A)**	**Strongly Agree (SA)**	**(A+SA)%**
Short repayment period	0	6	3	21	5	**74%**
High interest rates	0	6	6	16	6	**65%**
Difficulty in obtaining required collateral	2	8	3	17	5	**63%**
Lack of sound financial management advise provided to clients by bank staff	1	10	2	20	2	**63%**
Delay in disbursement of loans	0	6	7	13	8	**62%**
High loan processing fees	0	9	6	16	3	**56%**
Lack of monitoring by bank staff	4	8	5	12	6	**51%**
Floating interest rates	3	10	7	10	4	**41%**
Loan amount availed less than requested	5	13	3	10	4	**40%**
Rude behaviour of credit staff	8	22	1	2	1	**9%**
Bribes to UDBL staff for loan approval	10	18	4	2	1	**9%**

Source: Survey findings

From the above table, it is evident that UDBL's clients are most affected by bank's credit-related policies (5 in the table above scored over 50%) as opposed to staff-related policies (2 in the table above scored over 50%). The MIS-related policies do not affect the bank's clients with regard to their loan repayment.

4.4 Correlation and Regression Results

The Likert scales used in the survey presented evidence that institutional factors were indeed determinants of loan default at UDBL. However, they do not provide evidence as to the causal effects attributed to the institutional factors are indeed statistically significant. The researcher thus drew up a regression equation and employed the use of a statistical package, SPSS, to establish more information.

The regression equation the researcher came up with was

Loan Default rate = β_0 + β_1(Ownership) + β_2(sector) + β_3(Previous loans) + β_4(loan size) + β_5(full loan disbursement) + β_6(interest rate) + β_7(fixed or floating interest rate) + β_8(rating of credit officers performance) + ϵ

Where ϵ is the error term under a normal distribution with zero mean and constant variance, β_0 is the intercept term of the equation, and β_i are the coefficients of the independent variables or Institutional factors. (i=1, 2, 3… 8).

The explanatory variables were chosen basing on previous empirical studies, with emphasis on ascertaining the contribution of institutional factors to loan default. MIS-related factors were not included in the regression model as the researcher, basing on questionnaire responses from the Likert scale, felt they were not likely to generate significant results.

4.4.1 Correlation Matrix for the different Institutional factors affecting loan default

The researcher then measured the correlation coefficients between the dependent variable (loan default rate) and each of the selected independent variables. The findings revealed that among the factors that affect loan repayment, only one factor, the service of credit officers had a significant positive relationship with loan repayment ($r=0.477$, $p<0.01$). The remainder of the factors did not show any significant relationship with loan repayment as the level of significance

(p) is either > 0.01 or 0.05. The results suggest that improving the service by credit officers would positively improve loan repayment by loan customers.

A very strong significant correlation ($r=0.708$, $p<0.01$) was also found between the size of the loan and whether it was given to an individual or company. This suggests that companies are given larger loan amounts than individuals.

In addition, a positive and significant correlation ($r=0.401$, $p<0.05$) was also found between the size of the loan and the sector it was allocated to. This suggests that some specific sectors tend to get higher loan amounts than others.

The correlation matrix is depicted below.

Table 20: Correlation Matrix for the relationship between the Institutional factors and Loan Repayment

		1	2	3	4	5	6	7	8	9
1.Was loan taken as an individual or company	Pearson Correlation	1								
	Sig. (2-tailed)									
	N	36								
2.Type of business	Pearson Correlation	.201	1							
	Sig. (2-tailed)	.240								
	N	36	36							
3.How many times have you benefited from loan facilities of UDBL	Pearson Correlation	.285	.093	1						
	Sig. (2-tailed)	.092	.588							
	N	36	36	36						
4.What was the size of your last loan	Pearson Correlation	.708**	.401*	.229	1					
	Sig. (2-tailed)	.000	.015	.179						
	N	36	36	36	36					
5.Did the bank give you the amount requested	Pearson Correlation	.033	-.106	-.246	.149	1				
	Sig. (2-tailed)	.848	.538	.148	.387					
	N	36	36	36	36	36				
6.What interest rate was charged by the bank for your loan facility	Pearson Correlation	-.114	.007	.000	-.252	-.026	1			
	Sig. (2-tailed)	.508	.966	1.000	.139	.878				
	N	36	36	36	36	36	36			

7.At the time of taking the loan, was interest fixed or floating	Pearson Correlation	-.259	-.129	-.191	-.321	.269	.316	1		
	Sig. (2-tailed)	.127	.452	.264	.056	.113	.061			
	N	36	36	36	36	36	36	36		
8.How would you describe the services you have been receiving from UDBL Credit officers	Pearson Correlation	-.071	-.035	-.233	-.231	.023	.024	.072	1	
	Sig. (2-tailed)	.686	.840	.177	.182	.897	.893	.680		
	N	35	35	35	35	35	35	35	35	
9.Have you been able to repay the loan as scheduled	Pearson Correlation	-.045	.109	-.180	-.083	.021	.216	-.135	.477**	1
	Sig. (2-tailed)	.794	.526	.292	.632	.903	.205	.433	.004	
	N	36	36	36	36	36	36	36	35	36

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

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

The priori expectations of the signs of the coefficients of the independent variables were in tandem with those from other studies mentioned in the literature review. For example, a positive correlation (r = 0.216) was found between interest rates and loan default. However, the correlation was not significant.

4.4.2 Regression results

The results produced from SPSS for the regression model outlined earlier are presented below.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.609[a]	.371	.177	.45541

a. Predictors: (Constant), How would you describe the services you have been receiving from UDBL Credit officers, Did the bank give you the amount requested , What interest rate was charged by the bank for your loan facility, Type of business, Was loan taken as an individual or company, How many times have you benefited from loan facilities of UDBL, At the time of taking the loan, was interest fixed or floating, What was the size of your last loan

b. Dependent Variable: Have you been able to repay the loan as scheduled

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.179	8	.397	1.916	.100[b]
	Residual	5.392	26	.207		
	Total	8.571	34			

a. Dependent Variable: Have you been able to repay the loan as scheduled

b. Predictors: (Constant), How would you describe the services you have been receiving from UDBL Credit officers, Did the bank give you the amount requested , What interest rate was charged by the bank for your loan facility, Type of business, Was loan taken as an individual or company, How many times have you benefited from loan facilities of UDBL, At the time of taking the loan, was interest fixed or floating, What was the size of your last loan

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
- (Constant)	.660	.685		.964	.344
- Was loan taken as an individual or company	-.097	.274	-.082	-.355	.725
- Type of business	.028	.055	.090	.512	.613
- How many times have you benefited from loan facilities of UDBL	-.062	.158	-.068	-.389	.700
- What was the size of your last loan	-.004	.081	-.013	-.048	.962
- Did the bank give you the amount requested	.142	.199	.130	.715	.481
- What interest rate was charged by the bank for your loan facility	.178	.106	.282	1.674	.106
- At the time of taking the loan, was interest fixed or floating	-.360	.189	-.351	-1.903	.068
- How would you describe the services you have been receiving from UDBL Credit officers	.293	.103	.471	2.829	.009

a. Dependent Variable: Have you been able to repay the loan as scheduled

The above regression table indicates that the R-squared value is 0.371, implying that the regression model developed only accounts for 37.1% of the causes of loan default at UDBL. Furthermore, the F-value of the regression model specified was computed by SPSS to be 1.916 which was not significant. The probability of the model being insignificant is 0.1, hence the researcher discarded it.

Given that the model entailed independent variables that were a combination of both staff-related factors and credit policy-related factors, it can then be noted that a combination of the two was found to have no effect on loan repayment at UDBL.

However, from the above regression tables, the only independent variable that was statistically significant at the 1% level of significance was to do with the rating of the service offered by UDBL credit staff to their clients. None of the other independent variables was significant even at the 5% level.

The researcher run further regressions having split the independent variables into two categories; i.e staff-related factors and credit-related factors. However, none of the regressions was found to be significant as shown below.

4.4.3. Testing Hypothesis One: Do staff -elated factors contribute to NPLs at UDBL

Regression results for staff=related factors

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.481[a]	.231	.129	.46870

a. Predictors: (Constant), How would you describe the services you have been receiving from UDBL Credit officers, Did the bank give you the amount requested , What was the size of your last loan , How many times have you benefited from loan facilities of UDBL

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.981	4	.495	2.254	.087[b]
	Residual	6.590	30	.220		
	Total	8.571	34			

a. Dependent Variable: Have you been able to repay the loan as scheduled

b. Predictors: (Constant), How would you describe the services you have been receiving from UDBL Credit officers, Did the bank give you the amount requested , What was the size of your last loan, How many times have you benefited from loan facilities of UDBL

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
- (Constant)	.799	.526		1.518	.140
- How many times have you benefited from loan facilities of UDBL	-.055	.159	-.061	-.346	.732
- What was the size of your last loan	.008	.051	.028	.162	.872
- Did the bank give you the amount requested	.006	.187	.005	.032	.975
- How would you describe the services you have been receiving from UDBL Credit officers	.291	.104	.469	2.798	.009

a. Dependent Variable: Have you been able to repay the loan as scheduled

The R-squared value above indicates that staff-related factors account for 21% of the causes of loan default at UDBL. However, the computed F-value of 2.254 is not significant hence the model was discarded and we are unable to disregard hypothesis one, i.e

Hypothesis One: There is no significant relationship between staff-related factors and loan performance at UDBL .

Of the staff-related factors, only the rating of the service provided by credit officers to the bank's clients was statistically significant ($p<0.1$).

4.4.4. Testing Hypothesis Two: Do credit policy-related factors contribute to NPLs

Regression results for credit policy-related factors

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.327[a]	.107	-.009	.50215

a. Predictors: (Constant),

At the time of taking the loan, was interest fixed or floating, Type of business, Was loan taken as an individual or company, What interest rate was charged by the bank for your loan facility

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.933	4	.233	.925	.462[b]
	Residual	7.817	31	.252		
	Total	8.750	35			

a. Dependent Variable: Have you been able to repay the loan as scheduled

b. Predictors: (Constant), At the time of taking the loan, was interest fixed or floating, Type of business, Was loan taken as an individual or company, What interest rate was charged by the bank for your loan facility?

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.420	.604		2.350	.025
- Was loan taken as an individual or company	-.111	.212	-.093	-.522	.605
- Type of business	.030	.054	.096	.549	.587
- What interest rate was charged by the bank for your loan facility	.176	.113	.279	1.556	.130
- At the time of taking the loan, was interest fixed or floating	-.237	.187	-.235	-1.269	.214

a. Dependent Variable: Have you been able to repay the loan as scheduled

The R-squared value above indicates that credit policy-related factors account for 10.7% of the causes of loan default at UDBL. However, the computed F-value of 0.925 is not significant, hence the model was discarded and we are unable to disregard hypothesis two, i.e

Hypothesis Two: There is no significant relationship between credit policy-related factors and loan performance at UDBL.

None of the credit policy-related factors affecting loan repayment was found to be statistically significant.

4.4.5. Testing Hypothesis Three: Do MIS-related factors contribute to NPLs

Given that Likert scale interview results, along with interview findings from the bank's CEO, did not reveal any evidence pertaining to the contribution of MIS-related factors to loan default, the researcher did not include them in the hypothesized regression model. It was thus concluded that hypothesis three could not be rejected. i.e.

Hypothesis Three*:* There is no significant relationship between the Management Information Systems in place and loan performance at UDBL.

4.4.6. Simple regression to establish relationship between clients' rating of credit staff and default rates

Having established the above-mentioned as the only statistically significant independent variable affecting NPLs at UDBL, the researcher sought to establish a simple regression to ascertain the extent to which the improvement in service by credit officers would improve the loan repayment rate. The results are presented hereafter.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig.
1	.477[a]	.227	.204	.44802	0.004

a. Predictors: (Constant), How would you describe the services you

have been receiving from UDBL Credit officers

The results indicate that a change (improvement) in the service by credit officers would improve loan repayment by 22.7% as indicated by R-square.

CHAPTER FIVE: SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

This chapter entails a summary of the research findings and provides suggested recommendations that could help reduce the problem of loan default being experienced at UDBL. The limitations encountered while conducting the research are also highlighted within this chapter along with suggestions for further research by other scholars.

5.0 Summary of Findings from Hypotheses Tested

The survey sought to determine the institutional factors leading to loan default at UDBL. The researcher obtained information from the bank's CEO, other staff within different departments in the bank, and the actual clients who borrowed money from the bank.

The survey revealed that the UDBL staff (apart from the CEO) agreed that all the institutional factors proposed to have an effect on loan repayment were actually prevalent within the bank. These include staff-related factors, credit policy-related factors and, to a lesser extent, MIS-related factors.

The CEO of UDBL, along with the bank's clients, agreed that the abysmal loan performance observed at the bank could be attributed to both staff-related factors and credit policy-related factors . However, both categories of respondents did not find MIS-related factors having any impact on the loan repayments.

The researcher concluded that the high loan default rate at UDBL could be attributed to both staff-related factors and credit policy-related factors.

However, regression models were run to determine the strength of both staff-related factors and credit policy-related factors individually but both models were not significant. A multiple

regression model was done to ascertain the combined effect of staff and credit policy-related factors on loan repayment but found to be insignificant.

Based on the regression results outlined in the previous chapter, there was no statistically significant evidence to reject the survey hypotheses as summarized below:

Hypothesis One: There is no significant relationship between staff related factors and loan performance at UDBL

Hypothesis Two: There is no significant relationship between credit management policies and loan performance at UDBL

Hypothesis Three*:* There is no significant relationship between the Management Information Systems in place and loan performance at UDBL.

However, it was discovered that the service of credit officers had a significant positive relationship with loan repayment ($r=0.477$, $p<0.01$). A change (improvement) in the service by credit officers would improve loan repayment by 22.7%. Efforts to improve loan performance should be vested in improving service by credit staff to the bank's clients.

5.1 Summary of Survey Data Results

i. The loan default rate for individual borrowers (63%) was higher than that of company borrowers (57%).

ii. Loan default was widespread in all the different sectors allocated credit save for the transport sector that had only 8% of the loan portfolio allocated but with no defaulting clients.

iii. The loan performance of clients who had ever received a credit facility from the bank was better than that of "first time borrowers".

iv. Loan default rates were noticeably high across all the loan amounts offered.

v. There is no significant difference between the rate of default of clients offered the full amount requested for and those that were offered loan amounts less than what they requested for.

vi. The level of customer service a client receives from credit department staff has a positive relationship with the loan default rate of the client.

5.2 Recommendations

After detailed examination and analysis of the research findings, the following recommendations are suggested:

UDBL needs to build capacity at the bank to equip its staff in order to improve on the advisory services it offers to its clients prior to loan approval and subsequent disbursement of funds. The clients tend to lack sound business management knowledge and tend to outlook or neglect several aspects when preparing their business plans/proposals. The advisory services should cover financial discipline measures, monitoring and evaluation of the performance of borrowers' projects, and extension services. The advisory services should be offered throughout the duration of the loan facility as opposed to when the client has started defaulting on payments. This would help them greatly reduce on mitigating unforeseen circumstances that occur during the tenure of the loan.

UDBL should also strive to match the loan repayment dates to the clients' anticipated cash flows. For example, school owners in the survey would prefer to have their repayment dates coinciding with the beginning of their academic terms or semesters.

The possibility of offering some clients grace periods for the initial repayment will also reduce on loan defaults. This is especially true for agricultural sector loans. Furthermore, most of the

clients in the survey suggested that a longer repayment period will ease on their burden of loan repayments.

The government should play a positive role in ensuring that politicians do not pressurize or influence the loan advancement decisions of UDBL. The bank's management should be made autonomous to enable it work independently without taking any pressure from politicians.

More aggressive loan recovery techniques need to be implemented by UDBL. This should be preceded by an increase in the staff numbers specifically mandated to monitor and follow up on the loans disbursed. Defaulters need to be identified as quickly as possible and remedial actions taken straightaway. Loan defaults can further be minimized through regular and effective monitoring and supervision of loan facilities granted to clients. This would prevent diversion of funds into business ventures other than the agreed purposes and help credit officers assist customers who are facing some business management problems that affect their business operations.

UDBL should realize that before granting of a loan facility, its adequate assessment is necessary. Therefore, latest assessment procedures should be adopted on selection of customers, credit analysis and sanctioning process. The bank should utilize the services of the Credit Reference Bureau (CRB) to help it screen its borrowers prior to loan approval. This should continue till full maturity of the loan

The loan application procedure within UDBL is too lengthy and loan application fees are costly for the majority of its clients. The use of the CRB would offer a quicker turnaround time. More clear communication pertaining to required documentation needed prior to loan approval needs to be presented by UDBL to its clients.

Prudence of credit-related policies that govern UDBL loans should continuously be ensured along with comparison with international processes, prevailing macroeconomic conditions, and latest developments within the development finance industry of banks in other regions.

Most of the UDBL clients interviewed (65%) are desirous of lower interest rates. In addition, the bank should avoid, as much as possible, issuing floating rate debts and foreign currency denominated debt as adverse interest and foreign exchange movements can raise the repayment amounts beyond the ability of the borrower.

There is a need to conduct various training programmes for the bankers involved in the lending process at UDBL. These can include development finance trainings, credit monitoring techniques, loan rescheduling techniques, and customer care training for all staff involved in the different stages of credit.

It is recommended that management should organize regular training programmes for credit staff in areas like credit management, risk management, and financial analysis. This would sharpen the knowledge and skills of credit officers so as to improve on the quality of credit appraisal, prevent delayed loan approvals, enable credit officers appreciate the need to comply with credit policy and further enhance monitoring of credit. It is also believed that through training programmes, credit staff would be able to conduct effective analysis of loan portfolio structure of their branches and give much attention to loans with warning signals.

Finally, the requirements pertaining to security valuation need to be re-assessed as some clients end up obtaining less financing than was required. This affects their working capital requirements and hinders their ability to repay their loans as stipulated in the loan contracts.

5.3 Limitations Encountered Whilst Conducting Research

- Unwillingness of respondents to fill questionnaires led to a poor response rate

- Secrecy attributed to some clients on some questions.
- Respondents having a view of not obtaining any direct benefit from the research results. However the researcher assured them that they would benefit in the long run when the pertinent issues are raised to management and acted upon.
- Small sample size due to few clients at UDBL.

5.4 Suggested Areas for Further Research

- Political influence and its contribution to NPLs
- More social factors affecting NPLs need to be investigated e.g. legal system, corruption, cultures etc.
- It would be interesting to extend this research to a few commercial banks operating within Uganda that have a much larger client size.
- Macroeconomic determinants of non-performing loans. The focus of this study was institutional determinant of non-performing loans. A similar study should be conducted on macroeconomic determinants of non-performing loans within Uganda's banking industry.

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APPENDIX 1: Work plan and Timeframe

1.1 Gantt chart showing how the research activities flowed

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: Institutional 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					
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: Institutional 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					

	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
staff					
Lack of monitoring by bank staff					

THANK YOU

QUESTIONNAIRE FOR UDBL STAFF

Topic: Institutional 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					

	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
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					
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					

	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
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 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					

	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
Loan balance mix ups					
Irregular account balances on the system					

Other factors leading to loan default. Please specify

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THANK YOU