THE ROLE OF INTEREST RATES ON LOAN REPAYMENTS IN MICRO FINANCE INSTITUTIONS IN UGANDA. A CASE OF FINCA JINJA BRANCH

BY

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A RESEARCH REPORT SUBMITTED TO THE DEPARTMENT OF DISTANCE EDUCATION OF MAKERERE UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF A BACHELORS DEGREE IN COMMERCE ACCOUNTING OPTION

MAY
DECLARATION.

I hereby declare that this report is as a result of my own independent research and has not been submitted to any institution of higher learning for any award.

Signature…………………………… ......................................................

MIREMBE SUZAN Date

(RESEARCHER)
RESEARCH APPROVAL.

I certify that Ms. Mirembe Suzan carried out this research under my supervision and is submitted with my approval.

Signature:………………………………………………………..………………………………

DR. MUYINDA PAUL BIREVU                                      Date

(SUPERVISOR)
DEDICATION

This book is dedicated to my lovely mother, husband and dear children.
ACKNOWLEDGEMENT

I would like to thank first of all, my Supervisor Dr. Muyinda Paul Birevu for his great encouragement and guidance, which enabled me to carry out this research up to its rightful conclusion.

I express my gratitude to all lecturers I have met for all the many comments and suggestions, which severely have been a source of great inspiration towards the successful realization of what I set to achieve.

Am greatly indebted to the staff of FINCA for their valuable help in providing me with the necessary materials in the form of records, memos, literature and newsletters without which it would have been impossible to carry out this study.

Special thanks to particularly my mother, husband, children and friends for their perseverance of whatever they missed in the due course of my study.

For all the above, I will forever remain sincerely indebted. May the almighty God richly bless them abundantly.
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<table>
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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>MFI</td>
<td>Micro Finance Institutions</td>
</tr>
<tr>
<td>SPSS</td>
<td>Scientific Package for Social Scientists.</td>
</tr>
<tr>
<td>MDI</td>
<td>Micro Deposit- taking Institution.</td>
</tr>
<tr>
<td>AMFIU</td>
<td>Association of Micro Finance Institutions in Uganda.</td>
</tr>
<tr>
<td>FINCA</td>
<td>Foundation International for Community Assistance</td>
</tr>
</tbody>
</table>
### DEFINITION OF TERMS.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan disbursement</td>
<td>Availing loan funds to successful loan application.</td>
</tr>
<tr>
<td>Loans</td>
<td>Monies lent to members in society.</td>
</tr>
<tr>
<td>Loan repayment</td>
<td>Paying back the borrowed money at timely intervals.</td>
</tr>
<tr>
<td>Interest rate</td>
<td>Charges on borrowed money as a cost of capital.</td>
</tr>
<tr>
<td>Clients</td>
<td>Customers who comes for goods or services of an entity.</td>
</tr>
<tr>
<td>Port folio</td>
<td>The amount of loan investment in the hands of the customers.</td>
</tr>
<tr>
<td>Cross section survey</td>
<td>A study where data is collected once from each unit of analysis.</td>
</tr>
<tr>
<td>Design</td>
<td></td>
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</table>
ABSTRACT

The study was about interest rate and loan repayment in micro finance institutions in Uganda. The study took a case of FINCA Jinja branch and was aimed at establishing the relationship between interest rate and repayment of loans.

The study employed a cross sectional study design that was both qualitative and quantitative in nature. The study took a sample of 45 respondents from the study population from which purposive sampling method was used. Data was collected using mail questionnaires and interview method.

The findings from the study revealed that there is a significant positive relationship between interest rate and loan repayment in micro finance institutions. That is, a low interest rate charged on loans enhances prompt loan repayment by the client and it was concluded that the financial losses suffered by micro finance institutions is as a result of high interest rate charged making it hard for the clients to repay as scheduled hence bad debts or portfolio at risk.

It was recommended that the interest rates charged should be streamlined and made moderate so that the loans are accessible by both the poor and the rich. Among the suggestions, the clients should be made aware of the interest rate expected to be paid prior to taking the loans. Schedules of loan payments should be made available on loan disbursement day, and policies put in place to follow up to ensure compliance. This will not only benefit the institutions in terms of profit forecasting but also enhance growth in the customer base. The role of credit assessment on loan repayment capacity was recommended for further research since the results showed that it played no significant role in bringing about losses as seen from loan write offs by the micro finance organization and yet in actual sense it does affect the loan repayment process.
CHAPTER ONE

1.0 INTRODUCTION

Loans are given to individuals ranging from low income earners to well off individuals. The repayment of the loans is timely after interests are added on the principals. The purpose of this research was to find out the role played by interest rates on the loan repayments in micro finance institutions in Uganda.

Findings are of great importance for micro finance institutions to find out the role of interest rates on the repayment capacities of the loans they give out. This does not rule out other factors that could be affecting the loan repayments capacity of an individual.

1.1 Background of the Study

FINCA Uganda was founded in 1992 and has provided micro finance service using a group based methodology to low income entrepreneurs for more than 16 years. FINCA Uganda is one of the four African affiliates of FINCA international. Besides village banking methodology as its core business, and money transfer services, FINCA Uganda under MDI act 2003 became a Micro Deposit- taking Institution (MDI) in 2004 going on record as being the first Micro finance institution (MFI) to be regulated by bank of Uganda and taking deposits from the public. In 2010, FINCA Uganda Limited rebranded and this changed its name to only FINCA making it one organization across the world.

Interest is a reward of capital. Some people have money not needed for use at that particular moment and yet others have the need for money to use but have no money at the moment for various reasons. So those in need and willing to invest may use that money therefore those having it may give it out and must be rewarded in form of interest .

Interest is computed and agreed upon by the lender and the borrower and added onto the principle which is later paid back basing on the agreed terms and conditions. These interests are charged ranges from flat rate basis to reducing balance depending on the lenders policy.
Alongside other factors which could be affecting the repayment of these loans, interest rates seem to be playing a significant role for the same case.

FINCA charges interest on a flat basis basing on the type of loan given to the client. Village group loans are given out at an interest rate of 3.5% per month, 2% on business loans above 2.5 millions Uganda shillings, 2.5% for business loans below 2.5 million, and top up loans like school fees loans at 3% per month.

Loan repayment is the process of the borrower paying back the loan and interest on the agreed terms and conditions. This may be weekly, bi-weekly or monthly depending on the agreed terms between the two parties and the repayment schedule drawn to the followed. A good repayment enhances trust in the client and also is a sign when assessing a client to qualify for bigger loans in future if need arises but sometimes these schedules are not followed by the borrower leading to defaulting.

Therefore the researcher picked interest in finding out the role played by interest rates charged onto loans repayment in FINCA, a case study being Jinja Branch.

According to Micro finance best practice (2000) published by the Uganda institute of bankers, repayment rates below 90% is unhealthy for an institution. FINCA Jinja Branch has a repayment rate below 90% as compared to other micro finance institutions as illustrated in the Table 1 below.

<table>
<thead>
<tr>
<th>Institution</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Vision</td>
<td>89</td>
<td>91</td>
<td>94</td>
<td>93</td>
</tr>
<tr>
<td>Accord</td>
<td>92</td>
<td>93</td>
<td>95</td>
<td>94</td>
</tr>
<tr>
<td>Pride Microfinance</td>
<td>90</td>
<td>89</td>
<td>93</td>
<td>95</td>
</tr>
<tr>
<td>FINCA Jinja Branch</td>
<td>81</td>
<td>83</td>
<td>88</td>
<td>89</td>
</tr>
</tbody>
</table>

Source: (Association of Micro finance institutions of Uganda (AMFIU), 2008)
From the above table 1.1 above, it is clear that the loan of FINCA Jinja Branch is far below the sector required repayment rate of 90% as prescribed by Microfinance best practices (2000). The cause of this performance has been the basis of this research especially for the selected period when FINCA Uganda had not reduced its interest rates on its loans.

1.2 Statement of the Problem

Interest rates are agreed and charged prior investment taking place but on the other hand returns can be forecasted though not conclusive. Therefore interest rate is a fixed cost on investment with variable income and profits. By December 2006, FINCA Uganda reported a loss of approximately US$130,000 (AMFIU, 2006), so the researcher investigated the cause of poor repayment of loans in FINCA.

1.3 Purpose of the Study

The purpose of the study was to analyze the role played by interest rates on the repayment of loans. There are many micro finance defaulters in Uganda which is evidenced by a high number of properties being attached by court brokers and other law enforcement agencies.

Therefore the researcher aimed at finding out whether there was any relationship between interest rates and the repayment of loans in FINCA. Interest rate being the independent variable, and the repayments in micro finance institutions in Uganda being the dependant variable.

1.4 Objectives of the Study

i. To find out customer views on the different interest rates in FINCA.
ii. To find out the loan repayment rate in FINCA?
iii. To find out the role played by interest rate in loan repayment capacity in FINCA.

1.5 Research Questions

i. What are customer views on interest rates in FINCA?
ii. What is the loan repayment rate in FINCA?
iii. What is the role played by interest rate on loan repayment in FINCA?
1.6 Scope of the Study

1.6.1 Geographical Scope

The study was carried out at FINCA Jinja Branch.

1.6.2 Subject/Content Scope

The study focused on interest rate and loan repayment as independent and dependent variables respectively. The sub variables in the study included the credit polices and the 5 Cs of credit assessment.

1.6.3 Time Scope

The period under study has been be 4 years (2004- 2007) because this was the time when FINCA Uganda registered a consistent poor performance in terms of portfolio at risk.

1.7 Significance of the Study.

i. The study is to help the management of FINCA in setting interest rates at a rate that is affordable and at the same time enable they continue operating as a going concern.

ii. The study is also to be utilized by other micro finance institutions in Uganda to formulate interest rate policies that can enable them reduce on the number defaulters in their operations.

iii. The study is also to help other future researchers in the field of micro finance institutions and their operations as a literature review.
CHAPTER TWO.

2.0 LITERATURE REVIEW.

2.1 Introduction

This chapter reviews the available literature in relation to interest rates and the repayment of loans. It looks at the causes for defaulting in loans and the relationship between interest rates and repayment of the loans.

2.2 Interest Rates

Interest is a reward of capital. Some people have money not needed for use at that particular moment and yet others have the need for money to use but have no money at the moment for various reasons. So those in need and willing to invest may use that money therefore those having it may give it out and must be rewarded in form of interest.

According to Hoff etal. (1990), interest rate can be defined as the premium received by the lender after a stated period of time. From the borrower’s point of view, it is the cost of capital at the time of obtaining a loan. There are several schools of thought regarding the interest rates. According to the classical school, the rate of interest is the main determinant of savings and investment. This school asserted that the aggregate investment is inversely related to the rate of interest. This relationship has been observed to be a weak one; that is, investment tends to fairly interest-inelastic because it is influenced by the businessmen’s expectations, and yields are normally estimated within a particular range for example 10% to 15%. So a small increase in interest rate, it will not disturb the long run expansion of the enterprises. The Neo-classical school maintains that the interest rate is determined by the supply (savings) and demand (marginal efficiency of capital). Autonomous increase in the savings reduces the interest rate and the additional cost of capital. Because additional investments contributes to the diminishing returns, this will cause a ‘switch’ from less capital intensive to more capital intensive methods of production. The phenomenon of re-switching has led the two Cambridge’s controversy of capital theory (Hardwick etal. 1990). Keynes believes that the quantity of money played a key role determining the rate of interest. He viewed the equilibrium interest rate as that rate which equates the supply with the demand for money. The modern view of interest rate is based on the imperfect information paradigm as explained by Hoff etal (1990).
Operationalising interest rate in the context of the demand for credit by the SME’s shows the interplay of several factors. According to Funkor (2000), some of these factors include high inflation, high bank interest rates, among others. The average Ugandan business operators in the private sector view interest rate as a measure of the price paid by the borrower to a lender for the use of financial resources for the time interval.

The Ugandan government capped the interest rate that microfinance institutions may charge. According to Kasita, a news reporter, the new rule sets rates at or below inflation rate, which stood at 8.1% in 2005. Microfinance institutions in Uganda currently give out loans at 18 to 100 percent.

Interest rate caps tend to reduce the supply of microcredit, as fewer microfinance institutions enter the industry and existing ones scale back operations, reports Eric Duflos of The Consultative Group to Assist the Poor (CGAP). Uganda’s President, however, stated August 7, 2006 that “the aim of microfinance is to boost the productivity of the rural poor rather than turn a profit”. Consistent with that belief, he recently criticized the “high interest rate” in the country.

In 1999, the government of Uganda recognized microfinance “as a line of business”, reports the CGAP, with interest rates “set at market levels”. The recognition followed the failure of its 1998 subsidized microloan scheme, “Entendikwa”, in which $193,000 was repaid out of loans totaling $5.1 million. This latest interest rate cap is an example of how the government has again politicized the microfinance industry in Uganda, to its detriment over the long run.

I hope those interested in this question will take a look at the data we developed and form their own views. My own appraisal is that the worldwide picture of microcredit rates is an encouraging one. Given thousands of MFIs, there will always be some whose interest charges and profits might seem hard to square with the best interests of clients, but I can’t find any indication that this is a common problem. I have a list of things that might worry me about the development of microfinance, but price gouging is a long, long way from the top of that list Richard Rosenberg: Wednesday, February 25, 2009.

Rich Rosenberg (June 17, 2008 )says one approach is to compare MFI interest rates in a country to the rates on other kinds of small loans that lower income people use. The idea is that making lots of small loans will inevitably cost more than making a few big loans, so what kind of rates are
charged by other small lenders? Where we've been able to get data, it appears that MFIs almost always charge far less than informal moneylenders. They're in roughly the same ballpark as rates on credit cards and other consumption credit. MFIs tend to charge more than credit unions, though we find that MFIs with banking licenses charge less than credit unions on average. The most powerful approach to the question of whether interest charges are too high is to look at the individual cost items that those charges cover (cost of funds, loan losses, and administrative costs) and the profit that's left over after paying the costs. MFIs borrow much of the money they lend out, and the interest they pay on these borrowed funds ties up about a quarter of their interest income from their clients. It doesn't seem too useful to argue about whether these funding costs are too high, because MFI managers usually have little control over what their outside funding sources charge, in the near term at least. Managers have a lot of control over loan losses, but in good MFIs these are only a tiny factor, about 1-1.5 percent.

_Muhammad Yunus, November 2001_, writes that there are three kinds of costs the MFI has to cover when it makes microloans. The first two, the cost of the money that it lends and the cost of loan defaults, are proportional to the amount lent. For instance, if the cost paid by the MFI for the money it lends is 10%, and it experiences defaults of 1% of the amount lent, then these two costs will total $11 for a loan of $100, and $55 for a loan of $500. An interest rate of 11% of the loan amount thus covers both these costs for either loan.

The third type of cost, transaction costs, is not proportional to the amount lent. The transaction cost of the $500 loan is not much different from the transaction cost of the $100 loan. Both loans require roughly the same amount of staff time for meeting with the borrower to appraise the loan, processing the loan disbursement and repayments, and follow-up monitoring. Suppose that the transaction cost is $25 per loan and that the loans are for one year. To break even on the $500 loan, the MFI would need to collect interest of $50 + 5 + $25 = $80, which represents an annual interest rate of 16%. To break even on the $100 loan, the MFI would need to collect interest of $10 + 1 + $25 = $36, which is an interest rate of 36%. At first glance, a rate this high looks abusive to many people, especially when the clients are poor. But in fact, this interest rate simply reflects the basic reality that when loan sizes get very small, transaction costs loom larger because these costs can't be cut below certain minimums.” (CGAP)
2.3 Loan Repayment

_Ssemakula (1997)_ defined repayment as a collection of individual accounts. He suggested loan repayment rate normally move hand in hand with loan default rate. He defined the loan recovery rate as the ratio of performing loans to the total loan disbursement of the lending institution. On the other hand defaulting rate is the ratio of bad debt losses to the total loan advances or disbursements of a lending institution.

_Mugisha (1995)_ asserts that one of the biggest problems in Uganda’s commercial banking sector is the large share of non performing advances thus high defaulting rate. _Bategeka (1995)_ concurs with Mugisha when he writes that money lending institutions in Uganda fail to recover loans from borrowers due to high interest rates which he says normally range between 10% and 20% per annum.

_Jeffrey Sachs (2001)_ asserted that for microcredit to be appropriate however, the clients must have the capacity to repay the loan under the terms by which it is provided. Otherwise, clients may not be able to benefit from credit and risk being pushed into debt problems. This sounds obvious, but microcredit is viewed by some as “one size fits all”

According to the chartered institute of bankers (CIB) lending text of (February 1993), the lending policies of an institution should be concerned with ensuring as far as possible that borrowers are able to meet the schedule of payments in full and within the required period of time especially by considering the character, marital status and ability to repay the loan as a credit standard.

A member who experiences difficulties in meeting his/her repayment should inform the credit institution without delay, in writing. Every effort should be made to examine the member’s problem with a view to assist him/her work out a convenient repayment schedule. All legal fees incidental to the granting of a loan should be borne by the client; however such fees may be added to the loan on request of the member. Cost of insurance should be included in the loan repayment (_Berger, 1989)_.

This however indicates that the burden of other requirements prior to the disbursement of the loan is purely met by the client in addition to the interest rate charged. This eventually leads to defaulting after the client failing to meet his obligation as scheduled.
Loan defaulting has affected the performance of lending institutions as they cannot have enough funds to re-lend to the potential clients due to improper policies. In this case, the borrowers are not warned about the interest rates and the way the whole programme is handled (New vision 3rd November 1996). The best way of helping the borrowers to utilize the loans and minimize the risk of nonpayment, is to charge fair interest rates to the clients.

2.3 Relationship between Interest Rates and Loan Repayment

Asa chaffer (6th April 2010) wrote that It won't come as a huge surprise to discover that the cheapest unsecured loans are offered to those applicants who are in the best position to repay them. This type of low interest rate loan is provided without collateral so it can be extremely difficult for the lender to recover its money in the event of default. The lending criteria for low cost loans has been tightened in recent years, but building credit scores for a better credit report will increase the likelihood of approval. Not only that, a higher credit score will dramatically reduce the cost of borrowing money.

Rachel Shirley (13th November 2009) wrote that lenders have tightened the eligibility criteria for low interest loans due to rising levels of default. In order to get approval for an affordable loan, it is necessary to have a good credit score, a stable job and a sustainable level of existing debt. Whilst financial institutions make money by lending money to customers, many have withdrawn unsecured low costs loans due to the growing risk of bad debt.

Bruce lliff (7th November 2009), asserted that the amount of debt an individual has, expressed as a percentage of disposable income, ultimately determines that person's ability to repay the money they owe. Lenders are looking for an income to debt ratio of under 36%. This is because low debt gives the customer a better chance of maintaining their repayment schedule in the event of a change of personal circumstances.

Martin Bell (29th October 2009), urged that receiving approval for the cheapest loans means that less interest will be paid over the full lending term. Despite low central bank base rates, the cost of borrowing has actually risen over the last couple of years. Whilst rising unemployment has meant that many lenders have withdrawn their loan and credit card products, the remainder will only lend
money to customers with very good credit scores because they are less likely to default on their agreement.

2.5 Conclusion

From the above literature, much as they have analyzed interest rates and loan repayments, very few had paid particular attention on the relationship that exist between the two variables. Consequently the researcher adventured into establishing more about the relationship between interest rate and loan repayment from the field study.
CHAPTER THREE

3.0 METHODOLOGY

3.1 Introduction
This chapter outlines the methods that were used during the research study. The basic contents in this chapter includes; research design, the target population, the sample selection, data sources, and data collection instruments, data analysis techniques and limitations in the study process.

3.2 Study Design
A cross sectional descriptive survey both qualitative and quantitative in nature was used.

3.3 Area of Study
The study was focused on interest rate and loan repayment as independent and dependent variables respectively.

3.4 Population
This included the credit management officials’ branch and clients of FINCA Jinja and the total number of respondents was 45.

3.5 Sample Size and Selection Method

3.5.1 Sample Size
A sample was selected according to Krejcie & Morgan, (1970) method of determining a sample size. Estimation of sample size in research using Krejcie & Morgan is a commonly employed method. Krejcie & Morgan, (1970) used the following formula to determine sampling size.

\[ S = \frac{X^2NP}{D^2(N-1)} + X^2P(1-P) \]

\( S = \) required sample size
\( X^2 = \) the table value of chi-square for one degree of freedom at the desired confidence level.
N = the population Size.

P = the population (assumed to be 50 since it could provide the maximum sample size)

D= the degree of accuracy expressed as proportion (.05)

Based on Krejcie & Morgan’s, (1970) table for determining sample size, for a given population of 500, a sample of 217 would be appropriate to represent a cross-section of the population. However, it is important for a researcher to consider whether the sample size is adequate to provide enough accuracy to be based on for decision on findings with confidence.

This consisted of 15 credit management officials and 30 clients who were selected, making a total of 45 expected respondents.

<table>
<thead>
<tr>
<th>Table 3.1 Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
</tr>
<tr>
<td>Credit management officials</td>
</tr>
<tr>
<td>Clients</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

3.5.2 Sampling Methods

Purposive sampling method was employed in the selection of credit management officials because the researcher had to identify respondents with full knowledge of credit management in the organization. On the other hand, simple random sampling was employed in the selection of respondents from the clients since they were assumed to have similar responses regarding the subject under study.

3.6 Data Collection Tools /Methods

3.6.1 Data Sources

Both primary and secondary data source were employed in the study process. Primary data was collected from the organization officials and clients respondents while secondary data was
collected from organization’s official records, text books from the library, and internet information relating to interest rates and repayment of loans.

For valid and reliable data the researcher used the following instruments.

**Questionnaire**

This is one of the major instruments used to collect data which was in a form of structured and semi structured format. These set of questions were printed in clear, simple, precise and concise language for the respondents to understand using a five point liked scale and were mailed and hand delivered to respondents. These targeted the credit management officials for they were able to read, write and could be easily traced.

**Interviews Guide**

Interviews were held so some of them who cannot read or write and un traceable but believed to have vital information relevant to the study.

3.7 **Data Management.**

3.7.1 **Data Processing**

Data was edited and validated on filled instruments and there after coding was done to feed the respondents in the computer.

Before going in for data collection the researcher first sought permission from the organization. Then a list of respondents was obtained from where the respondents were selected using the sampling methods mentioned above. From there, the researcher sought to meet the respondents and physically deliver the questionnaires where possible and got addresses for the ones to be mailed. The researcher again arranged to meet organization clients on the days they come to the organization’s offices and interviews were carried on for a short time.

3.7.2 **Data Analysis**

Data was processed and analyzed with the help of the SPSS to get the relevant frequencies and the percentages were used in making conclusions on the objectives of the study. The
relationship between interest rates and loan repayment was established using the Pearson’s correlation coefficient.

3.8 Limitations

Some respondents provided information to the researcher with suspicion and they were not responding very well during the study. They were looking at the research as being of no benefit to them hence being reluctant in filling the questionnaires or responding to the interviewer. But the researcher sensitized the respondents about the benefits, aims and objectives of the study and eventually the respondents started cooperating.

The research was also costly in terms of money and time. This involved stationery, transport costs and feeding among others. However, the researcher solicited funds from own income and well- wishers to complete the study.
CHAPTER FOUR

4.0 PRESENTATION, INTERPRETATION AND DISCUSSION OF FINDINGS.

4.1 Introduction

Under this chapter, a presentation, interpretation and discussion of the findings is done in accordance with the study objectives. For precision and conciseness, the following codes are used; SA- Strongly Agree, A – Agree, NS – Not Sure, D – Disagree and SD – Strongly Disagree.

4.2 Customer Views on the Different Interest Rates in FINCA

This section answered the first research question which was to find out customer views on interest rate charged in FINCA Uganda.

According to the organization’s records available, FINCA charged 3.5% per month on village group loans, 2% per month on business loans above 2,500,000/= (two million five hundred thousand shillings), 2.5% per month on loans below 2,500,000/= (two million five hundred thousand shillings), and 3% per month on top up loans. These aggregate to 42%, 24, 30% and 36% respectively. These rates are charged on flat rate basis not on reducing balance basis as (73%) of the respondents strongly agree with this, making interest rates in FINCA Uganda un friendly compared to other micro finance institutions who charge interests on reducing balance basis.

In order to establish this, respondents were asked to provide their level of agreement and disagreement through several statements. These included FINCA credit officials and clients, and the findings are as tabulated below.

Table 4.1: Customer Views on Different Interest Rates of FINCA.

<table>
<thead>
<tr>
<th>#</th>
<th>Questions</th>
<th>SD</th>
<th>D</th>
<th>NS</th>
<th>A</th>
<th>SA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Is FINCA interest rate on loans fair to its clients?</td>
<td>37</td>
<td>83</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2.</td>
<td>Interest rates on FINCA loans are fair compared to other micro finance</td>
<td>25</td>
<td>56</td>
<td>10</td>
<td>22</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>---</td>
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<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>3.</td>
<td>Interest rates on FINCA loans charged on a flat rate basis?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Interest rates on FINCA loans are determined by forces of demand and supply?</td>
<td>35</td>
<td>78</td>
<td>5</td>
<td>11</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>5.</td>
<td>Interest rates in FINCA are the same for all types of loans offered to its clients.</td>
<td>40</td>
<td>89</td>
<td>5</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Are clients made aware of the interest rates prior to taking the loans?</td>
<td>13</td>
<td>29</td>
<td></td>
<td></td>
<td>10</td>
<td>22</td>
</tr>
<tr>
<td>7.</td>
<td>Interest rates on FINCA loans change over time?</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>11</td>
<td>5</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Primary data.

Responses in Table 4.1 above show that most of the respondents (83%) strongly disagree that FINCA interest rates are fair to its clients. This can be evidenced by the 56% of the respondents strongly disagreeing with Interest rates on FINCA loans being fair compared to other microfinance institutions. These rates seem to favor big borrowers who end up paying lower interest rates compared to the small borrowers. This is in line with Rich Rosenberg (June 17, 2008) who said that one approach is to compare MFI interest rates in a country to the rates on other kinds of small loans that lower income people use. The idea is that making lots of small loans will inevitably cost more than making a few big loans.

Interest rates are not determined by the forces of demand and supply in FINCA Uganda as evidenced by the (78%) of the respondents who strongly disagree that Interest rates on FINCA loans are determined by the forces of demand and supply. As asserted by Keynes, the quantity of money played a key role determining the rate of interest. He viewed the equilibrium interest rate as that rate which equates the supply with the demand for money. The modern view of interest
rate is based on the imperfect information paradigm as explained by Hoff and Stiglitz (1990). In FINCA Uganda the case is different because the interest rates are determined by the board of governors in their annual general meetings putting many factors into consideration indexation inclusive. This is also done after getting guidance from bank of Uganda which is the regulatory body for Micro Finance Institutions in Uganda.

From the above the interest rates charged by FINCA Uganda are not the same for its products. These ranges from village group loans at 3.5% per month to 2% on business loans. This is however due to lack of collateral security required for the later because it is only three ground member who stand as assurances for the colleague before a loan is granted. This makes the business loans cheaper due to the collateral security attached compared to other products offered in terms of interest rates.

Asa chaffer (6th April 2010) wrote that It won't come as a huge surprise to discover that the cheapest unsecured loans are offered to those applicants who are in the best position to repay them. This type of low interest rate loan is provided without collateral so it can be extremely difficult for the lender to recover its money in the event of default. This is true with FINCA as most of its clients are low income earners who have small or no security to qualify for the cheap business loans. They end up going with the alternative source of the village group loans at a higher interest rate.

In the table 4.1 above 29% of the respondents strongly disagree that the clients are made aware of the interest rates to be paid. And also 27% and 22% agree and strongly agree respectively that clients are made aware of the interest rates prior to taking the loans. Further investigations were made and it is true that the customers get the forms to fill in on which the interest to be paid is clearly indicated. However the few clients take interest in analyzing the interest to be paid.

### 4.3 Loan Repayment in FINCA

This section answered the second research question which was to find out the loan repayment rate in FINCA. According to the records at FINCA Jinja Branch which include end of year reports, the loan repayment schedules are made available on a day after the loan disbursement date and therefore the client follows it to enhance a good repayment record. According to Micro finance best practice (2000) published by the Uganda institute of bankers, repayment rates below
90% is unhealthy for an institution. FINCA Jinja Branch had a repayment rate below 90% as compared to other micro finance institutions.

In order to find out this, respondents were asked to provide their level of agreement and disagreement through several statements. These included FINCA credit officials and clients, and the findings are as tabulated below.

Table 4.2: Loan Repayment in FINCA

<table>
<thead>
<tr>
<th>#</th>
<th>Questions</th>
<th>SD</th>
<th>D</th>
<th>NS</th>
<th>A</th>
<th>SA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>f</td>
<td>%</td>
<td>f</td>
<td>%</td>
<td>f</td>
<td>%</td>
</tr>
<tr>
<td>1</td>
<td>Are loans repaid by clients promptly as scheduled in FINCA?</td>
<td>5</td>
<td>11</td>
<td>4</td>
<td>11</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5</td>
<td>11</td>
<td>4</td>
<td>11</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>2</td>
<td>Are loans repaid in FINCA promptly as compared to other micro finance</td>
<td>13</td>
<td>30</td>
<td>20</td>
<td>44</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>institutions?</td>
<td>13</td>
<td>30</td>
<td>20</td>
<td>44</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>3</td>
<td>Is the default rate in FINCA fair compared to the standards set?</td>
<td>33</td>
<td>74</td>
<td>2</td>
<td>11</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>4</td>
<td>Does staff of FINCA find any problem with some clients not being able to</td>
<td>5</td>
<td>11</td>
<td>5</td>
<td>11</td>
<td>35</td>
<td>78</td>
</tr>
<tr>
<td></td>
<td>pay?</td>
<td>5</td>
<td>11</td>
<td>5</td>
<td>11</td>
<td>35</td>
<td>78</td>
</tr>
<tr>
<td>5</td>
<td>Are there fines charged to clients</td>
<td>5</td>
<td>11</td>
<td>40</td>
<td>89</td>
<td>45</td>
<td>100</td>
</tr>
</tbody>
</table>
In the table 4.2 above, the 67% of the respondents agreed that most loans are repaid by the clients promptly as agreed and documented in the loan repayment schedules in FINCA. However 67% and 11% of the respondents strongly disagree and disagree with this respectively due to either intentional or unintentional circumstances.

This is in line with the chartered institute of bankers (CIB) lending text of (February 1993), where it says that the lending policies of an institution should be concerned with ensuring as far as possible that borrowers are able to meet the schedule of payments in full and within the required period of time especially by considering the character, marital status and ability to repay the loan as a credit standard.

30% and 44% of the respondents strongly disagree and disagree respectively that loans in FINCA are repaid promptly as compared to other micro finance institutions. This means that the rate of recovery of these loans is low compared to other financial institutions. This may be either due to policies in place, or clients are experiencing difficulties in meeting their repayment. According to Berger, 1989, efforts should be made to examine the client’s problem with a view to assist him/her work out a convenient repayment schedule.

The default rate in FINCA is not fair compared to the industrial standards set of 10%. This is seen by the 74% of the respondents who do not agree. This means that it is a general problem in micro finance institutions in Uganda.
According to Mugisha (1995), he asserts that one of the biggest problems in Uganda’s commercial banking sector is the large share of non performing advances thus high defaulting rate. Bategeka (1995) concurs with Mugisha when he writes that money lending institutions in Uganda fail to recover loans from borrowers due to high interest rates which he says normally ranges from 10% to 20% per annum.

Jeffrey Sachs (2001) also asserted that for microcredit to be appropriate however, the clients must have the capacity to repay the loan under the terms by which it is provided. Otherwise, clients may not be able to benefit from credit and risk being pushed into debt problems. This sounds obvious, but microcredit is viewed by some as “one size fits all”

Staffs of FINCA seem to be finding problems with some clients not being able to repay their loans as scheduled. This is evidenced by 78% of the respondents who strongly agree. Clients also seem to be made aware of their due dates to pay back their loans as 49% and 22% of the respondents agree and strongly agree respectively.

Fines are charged to clients in case of failure to pay as 89% of the respondents strongly agree. These are entirely borne by the client as asserted by Berger, 1989 that a member who experiences difficulties in meeting his/her repayment should inform the credit institution without delay, in writing. Every effort should be made to examine the member’s problem with a view to assist him/her work out a convenient repayment schedule. All legal fees incidental to the granting of a loan should be borne by the client; however such fees may be added to the loan on request of the member. Cost of insurance should be included in the loan repayment.

This however indicates that the burden of other requirements prior to the disbursement of the loan is purely met by the client in addition to the interest rate charged. This eventually leads to defaulting after the client failing to meet his obligation as scheduled.

New vision 3rd November 1996, stated that loan defaulting has affected the performance of lending institutions as they cannot have enough funds to re- lend to the potential clients due to improper policies. In this case, the borrowers are not aware about the interest rates and the way the whole
programme is handled. The best way of helping the borrowers to utilize the loans and minimize the risk of nonpayment, is to charge fair interest rates to the clients.

The clientele base of FINCA has grown over the years under study. This is seen from the 67% of the respondents in the table 4.2 who strongly agreed. This is attributed to the level of professionalism in the organization, good customer care, and the good credit policies as discussed.

4.4 Relationship between Interest Rates and Loan Repayment in FINCA.

This section answered the third research question which was to find out the relationship between interest rates and loan repayment in FINCA. According to the organisation’s official records, the interest rates are 3.5% per month on village group loans, 2% per month on business loans above 2,500,000/= (two million five hundred thousand shillings), 2.5% per month on loans below 2,500,000/= (two million five hundred thousand shillings), and 3% per month on top up loans. These aggregate to 42%, 24, 30% and 36% respectively. This may be so to ensure that the organization meets its operational costs and obtain at least a profit margin.

In order to find out this, respondents were asked to provide their level of agreement and disagreement through several statements. These included FINCA credit officials and clients, and the findings are as tabulated below.

Table 4.3: Relationship between Interest Rates and Loan Repayment in FINCA.

<table>
<thead>
<tr>
<th>Questions</th>
<th>SD</th>
<th>D</th>
<th>NS</th>
<th>A</th>
<th>SA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Loans repaid by clients are delayed as scheduled in FINCA due to high interest rate charged?</td>
<td>5</td>
<td>11</td>
<td>10</td>
<td>22</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>9</td>
<td>25</td>
<td>10</td>
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<td>22</td>
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<td></td>
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<td>11</td>
<td>5</td>
<td>11</td>
<td>25</td>
<td>55</td>
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<tr>
<td></td>
<td>25</td>
<td>56</td>
<td>45</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Loans repaid in FINCA are lower compared to other</td>
<td>5</td>
<td>11</td>
<td>5</td>
<td>11</td>
<td>10</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>10</td>
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<tr>
<td></td>
<td>25</td>
<td>55</td>
<td>45</td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Loans repaid by clients seem to be delayed as scheduled in FINCA due to high interest rate charged as seen from the 56% of the respondents who strongly agree. This may be evidenced by the high default rate of more than 10% compared to the industrial standard. This is line with Rachel Shirley (13th November 2009) who asserts that lenders have to tighten the eligibility criteria for low interest loans due to rising levels of default. In order to get approval for an affordable loan, it is necessary to have a good credit score, a stable job and a sustainable level of existing debt. Whilst financial institutions make money by lending money to customers, many have withdrawn unsecured low costs loans due to the growing risk of bad debt.

Loans repaid in FINCA seem not to be lower compared to other micro finance institutions in Uganda due to interest rates. As seen in the table above 55% of the respondents disagree and 22% who strongly disagree with this. Like Rich Rosenberg (June 17, 2008) asserts that the most powerful approach to the question of whether interest charges are too high is to look at the individual cost items that those charges cover (cost of funds, loan losses, and administrative costs).
and the profit that's left over after paying the costs.

The default rate in FINCA seems to be high being between 15% and 20%, compared to the standards set in the industrial sector as 55% of the respondents disagree and 22% strongly disagree that the default rate is low compared to the sector of 10%. However this is contrary to Mugisha (1995), who asserts that one of the biggest problems in Uganda’s commercial banking sector is the large share of non performing advances thus high defaulting rate. Bategeka (1995) concur with the respondents when he asserts that money lending institutions in Uganda fail to recover loans from borrowers due to high interest rates which he says normally ranges between 10% and 20% per annum.

FINCA finds problems with some clients not being able to pay due to the interest rate charged. This is evidenced by the 78% of the respondents strongly agreeing and 11% agree that the organization find some difficulties in collecting these loans from its clients due to high interest rates. This is contrary to Martin Bell (29th October 2009), who urged that receiving approval for the cheapest loans means that less interest will be paid over the full lending term. Despite low central bank base rates, the cost of borrowing has actually risen over the last couple of years.

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate (average in %)</td>
<td>35</td>
<td>35</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td>Loan repayment rates (%)</td>
<td>81</td>
<td>83</td>
<td>88</td>
<td>89</td>
</tr>
</tbody>
</table>

Source: FINCA credit department January 2007

Findings revealed that the lower the interest rates, the higher the rate of loan recovery in FINCA. Basing on this, the mathematical relationship was derived using Pearson’s correlation coefficient as follows;
### Table 4.5 Computation of Pearson’s Correlation Coefficient.

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Interest Rates</th>
<th>Loan Repayment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest Rates</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson’s Correlation</td>
<td>1.000</td>
<td><strong>.851</strong></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td><strong>.006</strong></td>
</tr>
<tr>
<td><strong>Loan Repayment Rate</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson’s Correlation</td>
<td><strong>.851</strong></td>
<td>1.000</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td><strong>.006</strong></td>
<td></td>
</tr>
</tbody>
</table>

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

Source: Primary data.

The results showed that there is a significant positive relationship between interest rates and loan repayment of 0.851 magnitudes. This is also highlighted by Bategeka (1995), Mugisha (1995), Rachel Shirley (13th November 2009) and Jeffrey Sachs (2001) who asserted that a positive relationship existed between interest rates and loan repayments in that a high interest rate is expected to directly affect the loan repayment capacity of a client.
CHAPTER FIVE

5.0 SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

Under this chapter, the researcher summarized the study findings, recommendations and makes conclusions in accordance with the study objectives.

5.2 Summary

Under this study the topic was interest rate and loan repayment, case study of FINCA. The study aimed at finding out the relationship between interest rates and loan repayment. The study took a sample of 45 respondents from which data was collected using both a questionnaire and interview method.

On the interest rate charges, the study found out that there are a number of interest rates charged on different types of loans ranging from 2% to 3.5% depending on the type of loan. These loans include business loans, school fees loans, village group loans, asset loans, energy loans and special loans.

On loan repayments rates fostered by FINCA, the study found out that many loan recovery procedures do exist like legal procedures, demand notices, on time repayment schedules and good credit risk analysis on part of staffs.

On the relationship between interest rate and loan repayment, a significant positive relationship was found out between the variables using Pearson’s correlation coefficient.

5.3 Recommendations

From the above conclusion, it is recommended that:

The company should make a revision of the interest rate charged by looking at the competitor’s rates, inflation rates and the industry lending rates from the central bank.
With loan repayment, there should be improvement in the policy of credit management to avoid high portfolio at risk by revising the credit limits, proper evaluation of the client’s character, capital, collateral, capacity and conditions before a loan is disbursed to a person.

The company should improve on the recovery procedures in that demand notices should be sent to clients quite often before it’s too late, taking legal action as the last resort; putting into consideration of its effect on goodwill, resorting to writing off some bad debts in case the recovery costs are beyond the recovery amounts. These consequently will reduce on losses due to poor repayments by clients and will enhance profits to the company.

5.4 Conclusion

From the above findings, the researcher concludes that:

FINCA has a well established tax rate which depends on what type of loan is given out ranging from 2% to 3.5% per month. Its upon the prospective customer to choose what loan to take, the company sets the other credit terms and finally loan disbursement takes place.

On loan repayments, it is concluded that the company has most of the recommended procedures to ensure that a client pays well and on time but still does not exploit all of them. Procedures like seeking security against any loan were found lacking on some loans like the village group loans yet it should be the best policy if a good repayment record is to be enhanced.

On the relationship between interest rate and repayment, it can be concluded that the cause of many losses in micro finance institutions through loan write offs as seen from the statement of problems was as a result of high interest rates charged on the loans which leaves the client with little or zero profit and consequently a poor repayment record is enhanced.

5.5 Areas of Further Research

In the process of the study, the researcher felt that the following areas should be further researched about since findings never went into details of them:

5.5.1 The relationship between legal procedures and loan repayment.

5.5.2 The role of credit assessment on loan repayment capacity.
5.5.3 The relationship between employee’s remuneration and loan repayment
REFERENCES.


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Martin Bell (29th October 2009) Retrieved march 10, from
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Muhammad Yunus, November 2001, Retrieved march 10, from
http://www.lendingtree.com/personal-loans/advice/personal-loan-basics/personal-loan-interest-rates/


Rich Rosenberg (June 17, 2008) Retrieved March 10, from


APPENDIX 1

A QUESTIONNAIRE TO THE RESPONDENTS FROM CREDIT MANGEMENT OFFICIALS OF FINCA – JINJA BRANCH.

Dear respondent,

This questionnaire on interest rates and loan repayment designed for the credit officials of FINCA a Jinja branch. A student of bachelor of commerce from Makerere University is conducting it. Thus feel to give responses to the best of your knowledge since the information you give is purely for academic purpose and will be treated with utmost confidentiality.

USE: STRONGLY AGREE, AGREE, NOT SURE, DISAGREE OR STRONGLY DISAGREE WHERE APPLICABLE.

SECTION A: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS. (Tick where appropriate)

1. Gender
   a) Male [ ]
   b) Female [ ]

2. Level of education
   a) Certificate [ ]
   b) Diploma [ ]
   c) Bachelor’s [ ]
   d) Masters Degree [ ]

3. What department do you serve in?
   ……………………………………………………………………………………………………………………

4. What is your Job title?
   ……………………………………………………………………………………………………………………

5. How long have you served in FINCA:
   a) 1-3 years [ ]
   b) 4-6 years [ ]
   c) 7-9 years [ ]
   d) 9-12 years [ ]
   e) 13 and above [ ]
### Part I: Interest Rates of FINCA.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Not Sure</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. FINCA interest rates on loans are fair to its clients?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Interest rates on FINCA loans are fair compared to other micro finance institutions?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Interest rates on FINCA loans are charged on a flat rate basis?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Interest rates on FINCA loans are determined by forces of demand and supply?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Interest rates in FINCA are the same for all types of loans offered to its clients.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Clients are made aware of the interest rates prior to taking the loans?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Interest rates on FINCA loans change over time?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Part II: Loan Repayment in FINCA.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Not Sure</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Loans are repaid by clients promptly as scheduled in FINCA?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Loans are repaid in FINCA promptly as compared to other micro finance institutions?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Default rate in FINCA is fair compared to the standards set?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Staffs of FINCA find no problem with some clients not being able to pay?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Fines are charged to clients in case of failure to pay as scheduled?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Clients are made aware of their due dates to pay back their loans in advance?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. The clientele base grown in FINCA over time?</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
### Part III: Relationship between Interest Rates and Loan Repayment in FINCA.

<table>
<thead>
<tr>
<th>#</th>
<th>Questions</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Not Sure</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Loans repaid by clients are delayed as scheduled in FINCA due to high interest rate charged?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Loans repaid in FINCA are lower compared to other micro finance institutions due to interest rates being high?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>The default rate in FINCA is low compared to the standards set in the sector?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Does FINCA find any problem with some clients not being able to pay due to the interest rate charged?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. What has been the level of loans disbursed in Ugandan shillings for the past three years? i.e. 2006, 2007 and 2008.
   
   2006………………………….
   2007………………………….
   2008………………………….

2. What has been the level of loan repayment in percentages for the past three years? i.e. 2006, 2007 and 2008.
   
   2006………………………….
   2007………………………….
   2008………………………….

Thank you so much for your time and cooperation.
Dear respondent,

This questionnaire on interest rates and loan repayment designed to clients of FINCA Jinja branch. A student of bachelor of commerce from Makerere University is conducting it. Thus feel to give responses to the best of your knowledge for the information is for purely academic purpose and will be treated with utmost confidentiality.

CIRCLE THE SELECTED ALTERNATIVE OR TICK AS TO WHETHER YOU STRONGLY AGREE, AGREE, NOT SURE, DISAGREE OR STRONGLY DISAGREE WHERE APPLICABLE.

SECTION A: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS. (Tick where appropriate)

1. Gender
   a) Male □
   b) Female □

2. Level of education
   a) Certificate □
   b) Diploma □
   c) Bachelor’s □
   d) Masters Degree □

3. What department do you serve in?
   ……………………………………………………………………………………………………………………………………………
   ……………………………………………………………………………………………………………………………………………

4. What is your Job title?
   ……………………………………………………………………………………………………………………………………………
   ……………………………………………………………………………………………………………………………………………

5. How long have you served in FINCA:  a) 1-3 years □  b) 4–6 years □
   c) 7–9 years □  d) 9–12 years □  e) 13 and above □
**Part I: Interest Rates of FINCA.**

<table>
<thead>
<tr>
<th>Questions</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Not Sure</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.  FINCA interest rates on loans are fair to its clients?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.  Interest rates on FINCA loans are fair compared to other micro finance institutions?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.  Interest rates on FINCA loans charged on a flat rate basis?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.  Interest rates on FINCA loans determined by forces of demand and supply?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.  Interest rates in FINCA are the same for all types of loans offered to its clients.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.  Clients are made aware of the interest rates prior to taking the loans?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.  Interest rates on FINCA loans change over time?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Part II: Loan Repayment in FINCA.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Not Sure</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Loans repayments by clients are promptly done as scheduled in FINCA?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Loans are repaid in FINCA promptly as compared to other micro finance institutions?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Default rate in FINCA is fair compared to the standards set?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Staff of FINCA finds no problem with some clients not being able to pay?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Fines are charged to clients in case of failure to pay as scheduled?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Clients are made aware of their due dates to pay back their loans?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. The clientele base grown in FINCA over time?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Part III: Relationship between Interest Rates and Loan Repayment in FINCA.

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<tbody>
<tr>
<td>1.</td>
<td>Loans repayments by clients are delayed as scheduled in FINCA due to high interest rate charged?</td>
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<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>FINCA finds no problem with some clients not being able to pay other than interest rate cause?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you so much for your time and cooperation.
APPENDIX III

BUDGET ESTIMATES.

The researcher utilized an amount equivalent to Ug shs. 300,000/= (Three hundred thousand shillings only) to enable her coordinate the various activities during the study as illustrated below:

Table 5.1: showing Budget estimates for the study.

<table>
<thead>
<tr>
<th>#</th>
<th>Activity</th>
<th>Quantity</th>
<th>Rate</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Transport to the organization.</td>
<td>25 times</td>
<td>2,000/=</td>
<td>50,000/=</td>
</tr>
<tr>
<td>2.</td>
<td>Air time and internet charges</td>
<td></td>
<td>50,000/=</td>
<td>50,000/=</td>
</tr>
<tr>
<td>3.</td>
<td>Lunch</td>
<td>90 days</td>
<td>1,000/=</td>
<td>90,000/=</td>
</tr>
<tr>
<td>4.</td>
<td>Typesetting, printing , photocopy and binding</td>
<td>250 pages</td>
<td>500/=</td>
<td>125,000/=</td>
</tr>
<tr>
<td>5.</td>
<td>Miscellaneous</td>
<td></td>
<td></td>
<td>35,000/=</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>300,000/=</strong></td>
</tr>
</tbody>
</table>
APPENDIX 1V

TIME SCHEDULE ESTIMATES.

The time frame in which the researcher performed the various activities is as shown in the following table below:

Table 5.2: Time Schedule Showing the Time Frame for the Study.

<table>
<thead>
<tr>
<th>#</th>
<th>Activity</th>
<th>Weeks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Questionnaire designing</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>Data collection</td>
<td>2</td>
</tr>
<tr>
<td>3.</td>
<td>Data Analysis</td>
<td>3</td>
</tr>
<tr>
<td>4.</td>
<td>Report writing</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>9</strong></td>
</tr>
</tbody>
</table>