BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

AN ANALYSIS OF THE EFFECTIVENESS OF CREDIT POLICIES ON LOAN RECOVERY IN MICROFINANCE INSTITUTIONS: A CASE STUDY OF KCI MANAGEMENT CONSULTANTS

BY: PRIMROSE CHIZENGA

REG NUMBER: B1850817

SUPERVISOR: MRS MAUCHI

A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING AND FINANCE

APPROVAL FORM

Title of the dissertation: An Analysis of the effectiveness of credit policies on loan recovery .A case study of KCI Management Consultants

1. To be completed by the student:

I certify that this dissertation is in conformity with the preparation guidelines as presented in the Faculty Guide and Instructions for Typing Dissertations.

____________________________ __________________________

(Signature of Student) (Date)

2. To be completed by the Supervisor:

This dissertation is suitable for submission to the Faculty. This dissertation should be checked for conformity with Faculty guidelines.

___________________________ ______________________

(Signature of Supervisor) (Date)

3. To be completed by the Chairman of the Department:

I certify, to the best of my knowledge that the required procedures have been followed and the preparation criteria have been met for this dissertation.

_______________________________ _______________________

(Signature of the Chairman) (Date)

RELEASE FORM

NAME OF THE STUDENT	B1850817
DISSERTATION TITLE	An analysis of the effectiveness of credit policies on loan recovery. A case study of KCI Management Consultants
DEGREE TITLE	Bachelor of Commerce Honours Degree in Banking and Finance
YEAR OF COMPLETION	2022

Permission is hereby granted to Bindura University of Science Education to produce single copies of this dissertation and to lend or sell such copies for private, scholarly or scientific purposes only. The author reserves any publication rights and neither the dissertation nor extensive extracts from it be granted or otherwise be reproduced without the author's consent.

SIGNED……………………Date………. /……. /………….

PERMANENT ADDRESS 16935 Northley Park Norton

DEDICATIONS

This dissertation is dedicated to my parents who sacrificed a lot for me to get this opportunity. I also dedicate this project to my God parents' Mr and Mrs Tsopotsa and my entire family for their love and support.

ACKNOWLEDGEMENTS

This research project could not have been possible without the valuable input of a number of groups whom I wish to acknowledge. First and foremost, great thanks to God for His grace and the gift of life during the period of the study. Special appreciation goes to my supervisor Mrs Mauchi, I sincerely acknowledge her professional advice and guidance in the research project. I also thank the management of KCI Management consultants, for accepting my request to conduct the study in their organizations and for the great cooperation; they gave me their information during data collection in their organization and special thanks to my parents' lm forever grateful to them.

ABSTRACT

This study was aimed at evaluating the effectiveness of credit policies on loan recovery and KCI Management Consultants was used as a case study for research. The study was focused on four specific objectives; to examine the existing credit policies used by KCI, to determine the effectiveness of credit policies in reducing loan default, to establish the effectiveness of credit policies in ensuring reduction of turnaround time in loan repayments and to recommend ways on how to improve the credit policies. A review of existing literature showed that most of the studies were not carried out in Zimbabwe and they focused much on credit management and loan performance generally which created a gap between literature and this study. The study employed a descriptive research design and judgmental sampling method was used in the selection of respondents. The selected respondents comprised of loan officers, monitoring and evaluation officers as well as top management .A total of 15 respondents were selected from the Institution. The researcher only used primary data to gather information from the respondents and questionnaire were distributed to the respondents via emails. From the analysis, the study revealed that KCI has well defined credit policies which consist of credit terms, credit standards as well as collection efforts. The study revealed that credit policies are effective in reducing loan default and reducing the turnaround time of loan repayment. However, the results of the study also showed that some clients still default even with the existing stringent policies and high interest rates charged by the Institution is one of the reasons. It was therefore concluded that credit policies are effective on loan recovery. With respect to these findings and conclusions, MFIs were recommended to consider their interest charges as they have an effect on loan performance, involving relevant stakeholders in the formulation of credit policies, continuous client assessment as well as reviewing policies from time to time.

Table of Contents

1.0 INTRODUCTION 1
1.1 BACKGROUND OF THE STUDY 1
1.2 STATEMENT OF THE PROBLEM 2
1.3 RESEARCH OBJECTIVE 2
1.4 RESEARCH QUESTIONS 3
1.5.0 SIGNIFICANCE OF THE STUDY 3
1.5.1To the researcher 3
1.5.2To KCI Management Consultants 3
1.5.3To the Microfinance Sector 3
1.5.4To the University 4
1.6Assumptions of the study 4
1.7 DELIMITATIONS OF THE STUDY 4
1.8LIMITATIONS OF THE STUDY 4
CHAPTER TWO 5
2.0 INTRODUCTION 6
2.1 CONCEPTUAL FRAMEWORK 6
2.2 Theoretical Framework 10
2.2.1 Asymmetry Theory 10
2.2.2 The Adverse Selection Theory 11
2.3 Empirical Review 11
2.4 Conceptual Framework 14
2.4.1Credit Standards and Loan recovery 14
2.4.2Credit terms and loan recovery 14
2.4.3 Collection efforts and loan recovery 15
2.5 GAP ANALYSIS 15
2.6 CHAPTER SUMMMARY 15
CHAPTER THREE 16
RESEARCH METHODOLOGY 16
3.0 Introduction 16
3.1Research Design and Approach 16
3.2 Targeted Population 16
3.3 Sample Size 16
3.3.1 Sampling Method 16
3.4 Sources of Data 17

3.4.1 Primary Data 17
3.4.2 Justifications for using primary data 17
3.5 Research Instruments 17
3.5.1 Questionnaires 17
3.5.2 Justifications for using questionnaires 17
3.5.3 Weaknesses of using a Questionnaire and how they were addressed 18
3.6 Validity and Reliability of Data 18
3.7 Data Collection Procedure 18
3.8 Data Presentation and analysis 19
3.9 Ethical Considerations 19
3.10 Chapter Summary 19
CHAPTER 4 20
DATA PRESENTATION, ANALYSIS, PRESENTATION AND DISCUSSION OF FINDINGS. 20
4.0 Introduction. 20
4.2 Demographics Characteristics 20
4.2.1 Gender of Respondents 20
4.2.2 Term of service in the Institution 21
4.2.3 Qualifications Attained 22
4.3 Data relating to the Credit Policies employed by KCI 22
4.3.1Credit Standards 22
4.3.3. Collection Efforts 28
4.4.1. Involvement of a guarantor to secure the loan granted 32
4.4.2 Effectiveness of Stringent policies in reducing loan default 33
4.4.3 Client Assessment 33
4.4.4 Aggressive follow-ups and collection efforts 34
4.4.5 Effectiveness of interest charges in ensuring reduced loan default. 35
4.5 Findings on whether credit policies are effective in ensuring reduction of turnaround time in loan repayments. 36
4.5.1 Imposition of charges or penalties for late payment 37
4.5.2 Lenght of grace period before commencement of repayment 37
4.5.3 Notifying Clients severally when their repayments are due 38
4.6 Chapter Summary 39
CHAPTER FIVE 40
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS 40

5.0 Introduction 40
5.1 Summary of the Study 40
5.2 Conclusions 41
5.3 Recommendations 41
5.4 Recommendations for future Research 42

LIST OF TABLES

Table 4. 1 Response Rate of Questionnaires 20

Table 4. 2 Gender Distribution 20

Table 4. 3 Academic Qualifications 22

Table 4. 4 Loan Repayment Schedules 26

Table 4. 5 Involvement of a guarantor 26

Table 4. 6 Grace period given to clients 27

Table 4. 7 Interest Charges 27

Table 4. 8 Penalties for late repayment 28

Table 4. 9 Notifying Clients 29

Table 4. 10 Effectiveness of stringent policies 33

LIST OF FIGURES

Figure 4. 1 Employment Duration n=13 21
Figure 4. 2 Credit Standards employed by KCI n=13 23
Figure 4. 3 Period of loan approval n=13 25
Figure 4. 4 Collection Methods n=13 28
Figure 4. 5 Follow up strategies n=13 30
Figure 4. 6 Risk based collection strategies n =13 31
Figure 4. 7 Guarantor ship n =13 32
Figure 4. 8 Client Assessment n=13 34
Figure 4. 9 Follow ups and collection efforts n=13 35
Figure 4. 10 Effectiveness of interest charges n=13 36
Figure 4. 11 Penalties for late repayment n =13 37
Figure 4. 12 Length of grace period n=13 38
Figure 4. 13 Effectiveness of client notification n :13 39

CHAPTER ONE

1.0 INTRODUCTION

This chapter creates the foundation of the study which focused on the effectiveness of credit policies on loan recovery in Microfinance institutions specifically KCI Management Consultants. This chapter of research concentrates more on the background which forms the base of this research, sstatement of the problem, objectives of the research, research questions, justification of the study, limitations of the study as well as delimitations of the study and definition of terms.

1.1 BACKGROUND OF THE STUDY

According to Anderson (2015), microfinance is an effective tool which is used in alleviating poverty by financial institutions. Microfinance is a term normally used interchangeably with the term microcredit and it propose a financial undertaking with interest in rendering services to the poor though with profit making in vision. The above financial facilities typically include small amounts of money (small loans), small savings hence, the term “microfinance” assists in distinguishing these services from the services rendered by formal banks. It is perceived that demand for loans has increased due to the availability of fast lending rates, which are enriched through the use of credit management policies which guarantee that information given by a customer is assessed properly in order to reduce the number of defaulters as postulated by Chimkono, Muturi & Njeri, (2016). In the lending procedures, MFIs have policies and guidelines that they follow so as to reduce loan defaults.

According to Akinselure and Akinola (2019) the default by borrowers in repayment of loan undesirably affect the performance of financial institutions financially .This implies that when MFIs are operating well, credit policy management acts as an excellent tool for the microfinance institution to maintain financial stability .Above the urge offer credit and generate revenue, MFIs have the obligation of recovering both the principal and interest which is the main reason for their existence. This is because there is need to ensure that business is repeated and capital is not eroded. It is because of the above reasons that MFIs established credit policies which govern the lending business.

In Zimbabwe, the financial sector has been on the rise as it is witnessed by the increase in the number of Microfinance Institutions that have opened. This has increased the level of competition that giant MFIs like KCI Management Consultants face .In a bid to fight competition KCI has moved a step further in terms of credit extension by disbursing instant cash loans in form of United States Dollar (USD). Now the question is on the criteria of credit

policy that are used and their extent of effectiveness on the recovery of borrowed funds (loans). It has been noticed that loans disbursed to clients are usually paid late or defaulted completely which leaves these financial Institutions exposed to credit risk. According to Zimbabwe Microfinance Fund as at 30 June 2021, loan losses reserve for the Microfinance sector that time was approximately 15.35 million whist non-performing loans were approximately 46.05 million which led to a risk coverage ratio of approximately 33.25% and this was far below the international benchmark of 80%-100% on risk coverage.The Microfinance sector has been facing higher levels of credit risk of 20%- 30%. The level of loan losses reserve is therefore cause for alarm which generally affects players that exist in the financial sector.

Regardless of the rigorous screening that is done during process of credit assessmentt, customers' income remains unsustainable, inability to pay and bad debts keep rising as witnessed by the high rate of Non –Performing Loans (NPL). An upsurge in the rate of bad debts affect both the ability of the institution to recycle its financial resources as well as threatening their survival thereby depriving the economy of unceasing flow of capital.

1.2 STATEMENT OF THE PROBLEM

KCI Management Consultants is amongst the major Microfinance Institutions in Zimbabwe which has engaged its activities in providing capital to the poor entrepreneurs in Zimbabwe. Like any other MFI institution, KCI Management Consultants has credit policies used in granting loans .These policies have objectives of maximising profits by reducing the rate of default which may also benefit shareholders as well as maintaining the stability of the organisation. Since 2010 when KCI commenced its operations, it has faced challenges in recovering loans regardless of all the efforts of attaching assets to secure loans and maintaining the rate of default risk at minimum.

This has turn into the chief drive of this research project which try unveil how effective credit policies are on loan recovery in Microfinance Institutions with reference to KCI Management Consultants.

1.3 RESEARCH OBJECTIVE

Analysing the effectiveness of credit policies on loan recovery in Microfinance Institutions is the main purpose of the study.

Specific Objectives

To examine the existing credit policies used by KCI Management Consultants.

To determine the effectiveness of the credit policies in reducing loan default.

To establish the effectiveness of credit policies in ensuring reduction of turnaround time in loan repayments.

To recommend ways on how credit policies and repayment of loans can be improved in the Microfinance sector.

1.4 RESEARCH QUESTIONS

What are the existing credit policies used by KCI Management Consultants?

How effective are the credit policies in reducing loan default within KCI?

Are the credit policies effective in ensuring reduction of turnaround time in loan repayments?

What strategies can be recommended to improve the credit policies on repayment of loans in the microfinance sector?

1.5.0 SIGNIFICANCE OF THE STUDY

1.5.1To the researcher

The study was done in partial completion of the necessities of the bachelor of Commerce Honours Degree in Banking and Finance. At the end of this research, the researcher was able to acquire knowledge on how to carry out detailed research which will serve as an important base for future studies.The researcher had an opportunity to understand deeply the various credit policies used by MFIs in recovering their loans. The researcher had the chance to apply the academic concepts and relate them to practical situations.

1.5.2To KCI Management Consultants

The development of credit policies is of of paramount significance to KCI. The reason being that the study created awareness of the problems related to the maintenance of those policies. Therefore, this research highlights the areas of credit policy that needs attention by KCI which will lead to an upgraded credit policy if fully accounted for.

1.5.3To the Microfinance Sector

The recommendations that were developed in the research will help other participants in the Microfinance sector in building best strategies to recover their loans thereby reducing the default rate and maintain profitability.

1.5.4To the University

The research may be used as future reference and material for the University library. This will pave a way for other researchers who are interested in this field to learn from it and go an extra mile in their own researches.

1.6Assumptions of the study

It was assumed that each MFI has its own credit policy manual.

It is assumed that the economic factors that affect KCI will also affect other MFIs nationwide.

It was assumed that the respondents were able to understand and appreciate the questions in the similar manner and context that the researcher had put them and not infer meanings other than those expressly required by the researcher.

It was assumed that the sample represented the population of the MFIs in Zimbabwe.

1.7 DELIMITATIONS OF THE STUDY

The sample used for the study was from a Microfinance Institution only. The MFI under study was KCI, because it is among the largest Microfinance Institutions in Zimbabwe. Therefore the information given was more useful to the study as the clientele base is also observed to be large.

The Head Quarters of KCI is located in Harare so this is where the research data collected. The reason being that important strategic decisions such as credit policy formulation are crafted at the central branch.

Only areas that have to do with credit policy and loan recovery were elaborated in the study.

1.8LIMITATIONS OF THE STUDY

Time constraints – As a student, time was limited because of lectures and assignments .However, the researcher created time for the research as it is also part of the academic requirements of Bindura University of Science Education.

Financial Constraints- The need for internet connection, printing costs and other expenses constrained the researcher during research. However, when there was need; the researcher got assistance from family and friends.

DEFINITION OF TERMS

Microfinance Institution

These are organizations responsible for providing credit services to micro and small scale enterprises. In other words MFIs provide financial services to poor people who have experienced difficulties in obtaining these services from most formal financial institutions because their businesses, savings levels and credit needs are small.

Credit Policy

Is a set of guidelines which are followed in extending credit to customers including the procedures of recovering loans in arrears.

Credit

Credit is money borrowed that you can use to purchase things you need when you need them and then repay the funds back at an agreed on time, Services can also be paid for on credit.

Loan Recovery

Is defined as the process in which institutions follow in order to collect past due accounts from debtors.

Loan recovery refers to the pay back of the physical loan amount together with interest.

List of Abbreviations

MFIs - Micro Finance Institutions

KCI – Kenneth Consultants International

1.9 Chapter Summary

Under this first chapter of research, background of the study, a statement of the problem, purpose of the study and research questions where clearly defined. Significance of the study, assumptions, delimitations and limitations of the study were also elaborated .In order to clarify certain areas of the research, key terms were defined and abbreviations were also depicted. The following chapter concentrate much literature review related to this study.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The paramount goal of this particular chapter was to give context and be able to combine all the relevant information. Additionally it offered a foundation for recommendations which were given in the last chapter of this research. The main objective of the is meant to produce a structure that can support the financial sector in managing of credit polices effectively. This chapter offered an impression of the context for the research. The chapter was divided into three key sections that is; conceptual framework, theoretical framework as well as the empirical review.

2.1 CONCEPTUAL FRAMEWORK

Microfinance Defined

According to Pandey (1995), micro finance institutions are responsible for rendering financial facilities to people whose income is low. Loans, savings and payment services are some of the facilities or services offered by MFIs and they are highly meant to promote enterprises who operate at a small scale. Microfinance Institutions are in existence so that they reach out those people that are rejected or disregarded by traditional lenders such as banks. Nigussie and Mutiku (2012), also strengthened the idea whereby the scholars observed that microfinance is an instrument which facilitates the fast growth of the economy through its affordable and accessible financial services to the poor and the disregarded.

In a study carried out by Matovu and Okumu (1996), microfinance was defined as an economic growth method focused on benefiting those groups with earnings which are low by means of rendering financial services that maybe difficult to access from other traditional or commonly recognised financial institutions.

Concept of credit policy

Maysami (2014), defines credit policy as engagements by an organisation to disburse, control, and bring together the cash for unsettled debts. Usually this policy of an institution should embrace the common elements or variables which are: credit terms, credit standards as well as collection efforts. Antony (2006) asserts that credit policy offers a setting to the entire management run-throughs. Credit policies that are written creates a foundation for rigorous management of credit , this reason being that they establish aims, principles and limits to direct

loan officers who are responsible for granting loans and management of loan portfolio. The major goal of a credit policy is safeguarding constant operation and observance to unvarying sound practises. A credit policy which is considered to be good includes effective commencement analysis, credit monitoring and evaluation.

The credit policy comes in two different forms which may either be tight or libel which depends on the regulations of credit polices elements by management. A credit policy which is lenient is the one which have a tendency to disburse credit to present or prospective clients on conditions which are very charitable or tolerant. In this regard, credit may be advanced for long term periods even to clients with unknown credit worth and the credit is often granted at discount rates which are high.

A credit policy which is stringent gives credit on an extremely discriminative to clients with known credit worthiness and have proved beyond doubt that they are financially strong. The credit policy alternatives explained above indicates the two excesses in credit policies. In reality, organisations apply credit policies that lie between the two extremes. Therefore, for a firm to take full advantage of its operations it has to come up with a credit policy which is optimum.

Need for credit policy

The main purpose of having a well-defined credit policy system within an institution is to capitalize on the firm's value. To reach a credit policy which is optimal, there ought to be suitable adjustments of the variables which makes up the credit policy.

Rao (1994) states that credit policy is directed at having an investment which is optimal, this is the investment level where there is a compromise between the benefits and costs which are related to it.

Elements of credit policy

Credit policy is made up of three variables which are

(i)Credit Standards

Kakuru (2000), defines credit standards as the principles followed by firms in customer selection for credit extension. Sound lending institutions evaluate their clients basing on the traditional 5Cs of lending which comprises of character, capacity, condition, collateral as well

as capital. The 5Cs of lending helps MFIs on improving the performance of loans as they familiarise with their clients better.

Components of Credit Standards

a) Character

Character was defined by Kakuru (2000), as the willingness of a customer to honour his obligations when they are due. This basically includes the assessment of the moral factors which includes; saving habits as well the availability of other sources of income. These factors allow MFIs to disburse short term loans as well as long term

b) Capacity

The capacity of the client to repay was regarded by Bougie and Sekaran (2009) as one of the most essential element making up the 5Cs.The reason being that loan officers will want to know precisely the way in which the potential client intend to pay back the loan .

c) Condition

This refers to the common economic trends and developments in certain geographical region or sector of the economy that may undesirably impact the ability of the customer to meet their commitment. Therefore condition is the sensitivity of the borrower given the peripheral factors that include rates of interest, inflation and other cycles of the business.

d) Collateral Security

Collateral security is what borrowers offer in the event of failure to honour their obligation when they are due, thus the creditor can sell the pledged asset so that the loan can be recovered. Yunus (2010), stipulated that the Collateral always have the highest value compared to the loan taken so as to make sure that the loan is repaid in full.

However, according to Miller (2008), other Financial Institutions may require a guarantor on top of the pledged assets or securities for a loan. A guarantor refers to another person who signs a document of guarantee making a promise to reimburse the loan in the event of failure to pay by the original borrower. This is done to reduce the default risk exposure of the lending institution.

e) Capital

It is measured by the financial status and cash flow position of the client and it is done through financial statement analysis. It may also be defined as the invested funds by the borrower which indicates available funds in case of any default or other uncertainties which may hinder repayment.

(ii)Credit Terms

Credit term is a condition which is contractual whereby an Institution advance loans or credit to clients and the terms gives the period of credit and the limit as well. Riach (2010), considered credit terms as the period of credit, discounting terms and the credit amount. Credit terms may include;

Length of time to approve loans

Is the time from loan application to the time the loan is finally disbursed to the client Miller (2008).

Cost of loan

Is the interest on loans and these rates differs from one micro finance institution to the other based on what their rivals are charging. According to Brigham (1997), a debtor assesses all the charges before deciding to take a loan and these costs include interest rates and expected returns.

Disbursement

It safeguards that necessary documents are acquired and all vital information is revealed to the client before disbursement of funds Riach (2010).

(iii) Collection Efforts

When conditions have been met, the credit client is mandated to repay the instalment according to the agreement. Every MFI has its specific repayment ways which it follows. Instalments are paid depending with the agreement and these may either be on weekly bases or monthly.

To ensure active repayment, MFIs have to make sure that there is good monitoring and follow up actions on loans since they are clients with a habit of not repaying as expected unless they

are constantly convinced to do so. This consequently demands an institution to implement a stringent collection policy that aims at shrinking amount outstanding and bad debts.

Loan Recovery

It is the collection of amount due by which is achieved by convincing debtors to make efforts to settle up their outstanding credits. In addition to that, generally loan amount will be recovered on instalment basis. These instalments maybe daily, weekly or monthly depending on the stipulated credit policy of the organisation. Loan officers are responsible for making follow ups on loans before they become delinquent and make efforts to recover the loans

Timely Repayments

Bessis (2012) defines timely payments as a situation in which clients in various financial institutions reimburse the loan granted to them together with the interest rate within the time frame stipulated in the agreement, Bessis (2012).

Reduced Loan Default

Reduced loan default is the capacity of a financial institution to recover back the loans disbursed to their clients. Loan defaults are reduced when the institution gives out loans to honest clients who have the ability to pay back the loans.

2.2 Theoretical Framework

2.2.1 Asymmetry Theory

According to Auronen (2003), differentiating between good and bad borrowers can be challenging according to the asymmetric data theory which results in adverse selection and moral hazards. The emphasis of the theory is that a one with extra data on a certain market is able to make better negotiations for the business deal than the other party with less data as reinforced by Auronen (2003). This will lead a group with less information to make right or wrong payment choices. In this situation, it is feasible that the microfinance, the borrower, would have had better appreciation of the threats to a project it raises funds than the lender. This deepens adverse selection and moral hazard issued as suggested by Matthews and Thompson (2008). Moral hazard is the probability that a party to an agreement could supply unreliable information about its financial standing and other accounts as a desperate measure to obtain proceeds before settlement of the contract and have a chance to take uncommon risks.

2.2.2 The Adverse Selection Theory

Adverse selection theory was advocated by Stiglitz and Weiss (1981). It happens when clients of an Institution possess hidden characters that are not noticed by the lender when granting credit and these features are capable of exposing the lending Institution in credit risk which affects profitability in a negative way. The adverse selection theory defines the state of an Institution failing to separate safe borrowers from risky borrowers. Dealing with information asymmetry problems can be helpful in reducing adverse selection issues in the lending business and altering borrowers' inducements to repay. Information asymmetries are the major limitations for Microfinance Institutions to offer loans to clients.

According to Silwal (2003), in order to diminish likelihoods of default, financial institutions normally necessitates business proposal, past credit information of the borrower and collateral security before approving the loan. MFIs also offer credit through group-based lending method to mitigate adverse selection and to replace the collateral requirement. If MFIs exchange information on the credit worthiness of their clients, they can also evaluate the value of credit seekers who are non-local, and be able to advance loans to them securely as they do with well-known clients. In addition, sharing of information build motivations for borrowers to act in line with the interest of the MFI. In order to alleviate adverse selection difficulties, providers of credit embarks on vigorous selection process before granting a loan, this has ensured reduction of loan default in many financial institutions. The theory is relevant to this study since financial institutions need to do a review on their customers to differentiate between creditworthy and non-creditworthy borrowers.

2.3 Empirical Review

Related Literature

Effectiveness of credit management system on loan performance of Microfinance Institutions: a study done by Moti, Masinde, Mugenda and Sindani (2012)

Moti et.al (2012), conducted a study and the chief purpose of their research was to evaluate credit management effectiveness on the performance of loans specifically to microfinance institutions. The precise objective focused on the effect of credit terms, client appraisal, collection efforts as well as credit risk control measures on the performance of a loan. For the purpose of this study, the researchers made use of descriptive research design and loan officers in Meru town were used as respondents in the study. Moti et.al (2012) recognised that

Institutions such as microfinances must focus their scrutiny of credit on the elementary lending cannons which are known as the 5Cs of lending and they comprise of Character, Capacity, Capital, Collateral and Condition. In determining the association concerning interest rates charged and loan performance the investigation revealed that interest charges and loan performance are inversely related. Therefore, the researchers concluded that the loan performance is affected by interest charges. This implies that when the rate of interest is high, loan performance will be low and the opposite is said to be true. In determining the impact of borrower's character on loan performance, Moti et.al (2012), evaluated the responses and a five point scale of importance was used. Research findings revealed that a character and loan performance are related as the success of an individual is centred on his or her character. In order to establish whether loan conditions and loan performance have a relationship, the analysis was done using chi-square test was. Based on the results, there was no momentous between the two variables which proposes that condition does not have recognised influence. The scrutiny on the effect collateral required showed a correlation that is positive to loan performance. The researcher came to the conclusion that microfinance institutions must assess the collateral, the reason behind is that in the event of default, MFIs will use the collateral which was pledged in order to finance loan.

Nyawera (2013) studies the effects of credit policies on the financial performance of Micro finance institutions.

In order to determine the effects of credit policies on financial performance, Nyawera (2013), used regression analysis which displayed that credit standard policy, credit terms and collection effort considerably affect financial performance. Moreover, the study has proven that credit policy can similarly be measured with the use of secondary data which contradicts with the results from other studies whereby credit policy is commonly measured using primary data, it thereby acknowledged that the measurements of credit policy are credit standard policy, credit terms and collection efforts which have significant effect on financial performance of microfinance banks in Kenya. This will serve as an eye opener to this study as it focuses on the effectiveness of credit policies mentioned above specifically on loan recovery.

Njeru, Mohhamed and Wachira (2017) studies the effectiveness of credit management system on loan performance of Commercial Banks in Kenya.

In carrying out this study, the researchers employed the descriptive research design. A population of 86 respondents was used in this research and this population comprised of credit managers and credit officers. Self-administered questionnaires were used in data collection through the method of drop and pick. The questionnaire used under this study was made up of open ended questions and close ended questions. In order to ensure validity, test retest method was used while piloting was used to ensure validity of the r instrument used in under this research.

Therefore, the study concluded that credit terms has an effect on performance, just like credit appraisal was congruently found to be very important in influencing commercial banks' performance. Similarly, a stringent policy was said to have significant influence to performance as compared to a libel policy. Hence Njeru et.al (2017), recommended that the borrower's character, the current capacity as well as collateral attached should bring in more weight in the appraisal. Adding up, credit officers and clients have a duty in formulation of credit terms and interest rates on loans as they have an effect on loan repayment which overly impact performance of commercial banks.

Makorere (2014): Factors affecting Loan Repayment Behaviour

Makorere (2014), scrutinised the factors affecting loan repayment behaviour. Under this study, Grace period was defined as the period given to borrowers by the financial institution before date of the first instalment is due. Makorere (2014), carried out a study in Tanzania where he established that usually most of the financial institutions have a tendency of giving a grace period of one month only, which was however, considered to be insufficient for the small business enterprise owners to start earning enough for them to start paying their loans back. Makorere (2014), furthermore discovered that businesses which have adequate grace period as part of their credit policy have never defaulted. The researcher also stresses that collection policy is a guide that guarantee quick payment and collections which are regular. The logic is that not all clients honour their obligations since some of them just take it for granted, others merely forget while others just don't have a tendency of paying until they are convinced to do so by loan officers.

Ifeanyi, Idowu and Ogbukwa (2014): Determinants of Loan Repayment Behaviour of Small Holder Cooperative Farmers in Yewa North: Nigeria

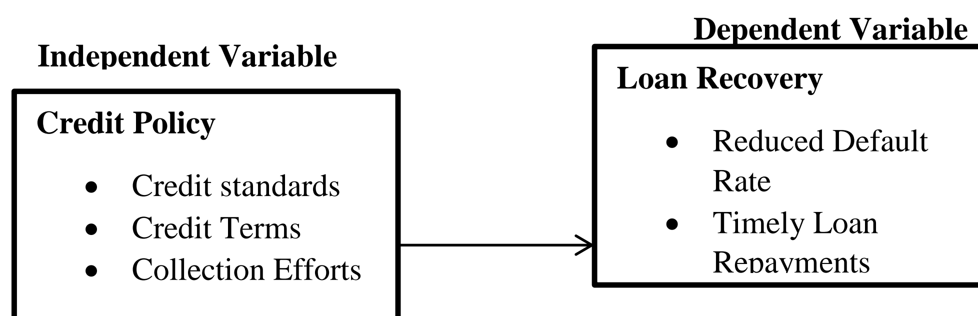
Ifeanyi et.al (2014) acknowledges the impact of credit policies which include credit terms, credit standards and collection efforts in loan repayment. The researchers advocated that loan

repayment and the overall performance of the business is affected by interest rate charges. This entails that, whenever the interest rate charged is high, borrowers will want to keep part of the borrowed money to pay the interest or to use the business capital in paying the interest. Also, Ifeanyi et al. (2014) postulated that various micro finance institutions may send letters to borrowers when the payment period elapse or phone calls and in the event that payment is not received with in thirty days, the institution may turn over the account to a collection agency. This consequently calls for vigorous collection efforts. Ifeanyi et al. (2014) also postulated that prompt payments is aimed at increasing turn over keeping low bad debts. The aims of the collection efforts according to the authors are directed at quickening recovery from slow payers and decreases bad debts losses which will increase profitability of the Financial Institution. In terms of the collection efforts, Ifeanyi et al (2014) recognised the approaches used by Micro finance institutions which comprise letters of demand, telephone calls, and visits by loan officers for face to face reminders to clients pay and legal enforcements.

2.4 Conceptual Framework

The conceptual framework indicates the relationship that exists between the two variables where loan recovery is the dependent variable of credit policy (independent

Variable).



Source: Developed by the researcher through the use of several literature reviews.

2.4.1Credit Standards and Loan recovery

Decent credit management offers sufficient yield on loans and this is achieved through the effective and efficient and Pandey (2000), stipulated that it produces enough internal resources that can finance the growth of the MFI. The institution may employ credit standards which are tight as they enhance repayment and reduce bad debts and administration costs too.

2.4.2Credit terms and loan recovery

The small amount of money given to borrowers may not be sufficient for business operations however, if it is given in excess, it may be used in financing activities which are not productive

which then causes high rates of default. The credit manager should be able to verify whether the amount demanded by a client is enough or not.

2.4.3 Collection efforts and loan recovery

The policy focuses on the ways used by an institution to obtain loan instalments from clients. It include personal visits to clients when they are due for payment and failure to comply by clients, the loan may start to attract charges and other penalties. Collection procedures are needed due to the reason that some clients do not owner their obligations in time. Therefore, this policy must aim at quickening payments from reluctant clients, the policy influence prompt repayments and reduce the rate of default.

2.5 GAP ANALYSIS

Having been acknowledged that a relationship exists between credit policy and loan recovery, the question now is on how effective credit policies are especially on loan default and timely payments as the studies above were mainly focusing the effects of credit policies on financial performance in general. Also most of the studies used as empirical in this study were carried in Kenya not Zimbabwe and they focused on credit management and loan performance in general which leaves a very huge gap for the researcher as the topic is specifically directed at KCI which gives more concentration on that Institution unlike other studies which were too broad. Recommendations have only been made on MFIs to implement stringent policies as their loan collection methods as compared to libel policies because stringent policies yields high loan performance, however the need to focus on other ways of improving loan recovery apart from credit policies was overlooked. Therefore, this study seeks to fill the hole on credit policy improvement, reviewing the credit policies implemented by MFIs with KCI Management as a case study for research in relation to the recovery of loans.

2.6 CHAPTER SUMMMARY

The chapter focused on theoretical framework, conceptual framework together with empirical evidence related to this study on the effectiveness of credit policies on loan recovery. This literature review helped the researcher in coming up with a gap analysis that needed further research. The succeeding chapter concentrated on the research methodology used during the study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the way in which research was carried out and focused on the research strategy employed by the researcher to carry out project effectively. This chapter also highlights research instruments employed and also focus on how data was collected, target population and validity and reliability of the instrument used by the researcher.

3.1Research Design and Approach

A research design refers to a plan or road map used in order to obtain answers to research question (Kothari 2004).In this study, the researcher employed descriptive design which assisted in obtaining information which is valuable in answering to the research objectives. The research was based on a case study of KCI Management Consultants. The researcher made use of the quantitative approach thus collected data was interpreted using graphs, pie charts and tables.

3.2 Targeted Population

According to Makrygiannakis and Jack (2018), population is a set of analogous items or events which are of interest for study and have characteristics which makes them common. In this research, the population targeted consisted of 30 staff members which were made up of loan officers, monitoring and evaluation officers and top management of KCI. This population was targeted basing on the possession of appropriate knowledge, flexibility, experience as well as convenience. This was done to ensure that the collected data was more reliable and served the purpose of this study.

3.3 Sample Size

It is part of the targeted population selected to address the research problem which the researcher is interested in. The sample was made up of 15 people who constituted 50% of the population composed of 10 Loan officers, 3 Monitoring and evaluations officers and 2 top management staff.

3.3.1 Sampling Method

Methods which are used for sampling purposes can either be probability or non-probability. However, the researcher used judgemental sampling method to collect information from respondents. Judgmental sampling involves approaching only those people who are likely to

have the needed information and are willing to share the information according to the opinion of the researcher Malhotra (2011), defines judgmental sampling as a technique which involves the use of the researcher's personal judgement instead of using chance selection. The reason why the researcher chose this technique was because information on credit policy and loan recovery is specific and thus those responsible for the monitoring and governing of the variables possessed the essential knowledge that the researcher desired during her study.

3.4 Sources of Data

3.4.1 Primary Data

Kothari (2004) defines primary data as first-hand information collected by the researcher and the data is regarded as original. The same was also clarified by Wenger (2010), also reinforced the idea by advocating that primary is data taken at the origin after carrying out research on a particular problem for the first time and for this study, the researcher employed primary data.

3.4.2 Justifications for using primary data

-It enabled the researcher to access first-hand information from the respondents

-Primary data also enabled the researcher to draw own conclusions and to have human judgment to areas not fully answered by respondents.

- Data collected was specific to the problem under research.

However

It was costly and time consuming to gather primary data but however this did not entirely disqualify the relevance of primary data.

3.5 Research Instruments

These are tools used by the researcher in gathering information from the respondents.

3.5.1 Questionnaires

Questionnaires refers to a set of questions which are presented in written form to the respondents' in order to get opinions of the participants in relation to the research problem Cooper and Schindler(2003). Questionnaires used under this study was made up of both open and close ended questions. This enabled respondents to further give explanations and when there was no need to explain, the close ended questions were used.

3.5.2 Justifications for using questionnaires

Due to Covid 19 pandemic, the researcher only made use of questionnaires to gather primary data as it proved too difficult to conduct face to face interviews.

In addition, the use of questionnaires tend to be impersonal and participants were able to give honest answers. Thus confidentiality of the respondents' information was maintained which encouraged them to give honest responses. The researcher was able to guide participants with regards to the analysis of the effectiveness of credit policies employed by KCI.

3.5.3 Weaknesses of using a Questionnaire and how they were addressed

The researcher faced some challenges that are associated with the use of questionnaires. The rate of respondents was a bit low since they are people at work so they had a lot do so the researcher had to follow-up and remind respondents which helped to increase response rate. The technique which the researcher used in asking questions influenced the responses that were given therefore; there was need to use simple and straight forward questions which can easily be understood.

3.6 Validity and Reliability of Data

According to Mugenda and Mugenda (2003), validity is refers to the extent to which a tool is capable of measuring what it is supposed measure. Under this study, the questionnaire was developed based on the research objectives. Validity was confirmed by having a discussion about the instrument with a professional in the area of credit policy. From the discussion, the researcher managed to identify areas that required adjustments and those questions that were not so clear. The final questionnaire was then ddistributed to actual respondents for the purpose of collection data. Moreover, in order to come up with a good report on the findings, the reliability of this study was defined using pilot test of the research tool through a sample group which looked the same to the actual sample, at KCI microfinance in Harare. The results from the pilot test were used by the researcher in the evaluation of the compatibility and the dependability of the instrument with the study necessities, and editing was done in the areas requiring improvement in order to come up with a consistent instrument. The participants selected for the pilot test were taken from another organisation which was JHM Microfinance but with similar characteristics to the ones selected from KCI.

3.7 Data Collection Procedure

Before gathering data, the researcher acquired a letter of reference from the Banking and Finance Department at Bindura University which she presented to the authorities of KCI.

Unlike the drop and pick method of collecting data, the researcher made use of emails and whatsapp to distribute questionnaires to respondents. Follow ups were done using phone calls. This was done to ensure that the data from the questionnaires was gathered in a short space of time to ensure that all the questions were answered.

3.8 Data Presentation and analysis

Data analysis refers to the procedure of systematically applying statistical or logical method to define and demonstrate, recap and assess data. Descriptive statistics was used to analyse the parameters of the generated data; the findings were presented through tables, pie charts, and graphs aaccompanied by relevant descriptions.

The justification for the use of above ways is that they are easy to understand and interpret. Tables help to present the opinions of respondents in clear categories. Pie charts were used in displaying data in form of percentage. To come up with meaningful graphs and pie charts, Microsoft excel was used.

3.9 Ethical Considerations

To address ethical issues, the researcher first acquired knowledgeable consent of the participants selected for the study before distribution of the research instruments which were questionnaires. Additionally the researcher briefed the participants with regards to the details required for the study, the reason why the information is needed, the rationale, as well the way in which they were required to participate.

Moreover, the researcher guaranteed confidentiality during research since the information related to the study was regarded to be of strategic significance. Due to the reasons mentioned above, the names of the participants' were held in confidence, the provided information was also treated with utmost confidence.

3.10 Chapter Summary

The chapter focused on the research methodology engaged in carrying out this study. The research design, population, sampling, data sources, research tools, procedure for collecting data procedures, reliability and validity were elaborated in full detail under this chapter. The following chapter concentrate on the findings of research whereby the primary data gathered is critically analysed.

CHAPTER 4

DATA PRESENTATION, ANALYSIS, PRESENTATION AND DISCUSSION OF FINDINGS.

4.0 Introduction.

This chapter presents the findings about the effectiveness of credit policies on loan recovery being used by KCI Management Consultants. In order to verify consistency and completeness, all questionnaires answered by respondents were cross-checked to ensure that they were done well. The gathered data was analysed using descriptive statistics and data was presented by way of pie charts, graphs and tables.

Table 4. 1 Response Rate of Questionnaires

Position	Distributed	Responded	% Response rate
Loan Officers	10	10	67%
Credit Evaluation and Monitoring	3	2	13%
Top Management	2	1	7%
Total	15	13	87%

The researcher used a sample of 15 respondents but however from the table 4.1 above from the 15 questionnaires distributed, only13 responded which gives a percentage response rate of 87%.This conforms to the study done by Cooper and Schindler's (2007), who stipulates that 75% response rate and above is adequate to significantly give an explanation on the parameters of the study the same way it is with complete response rate. Only 13% of the respondents were unable to return questionnaires due to the workloads that they had during the time of research.

4.2 Demographics Characteristics

4.2.1 Gender of Respondents

The respondents were asked to specify their gender so as to make the study sensitive in terms of gender. Their response is indicated in table 4.2 below

Table 4. 2 Gender Distribution

	Frequency	Percentage

Male	8	62%
Female	5	38%
Total	13	100%

n=13

Table 4.2 above shows that males constitute a larger percentage which is represented by 62% of them occupying positions within the credit department whilst only 38% females are part of the sample under study.

4.2.2 Term of service in the Institution

As a prerequisitee to measure the dependability of collected data, respondents were requested to show the period they have served KCI. Fig 4.1 below fully presents the responses that were given.

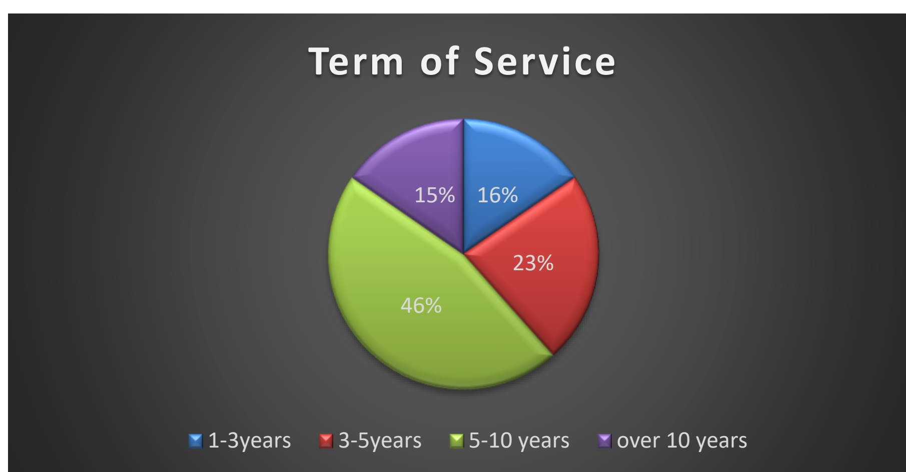


Figure 4. 1 Employment Duration **n=13**

Fig 4.1 above shows that 15% have served the institution for over 10 years, 46% between 5 to 10 years, 23% have served KCI for 3-5 years and only16 % have served for 1-3 years. Basing on the above results, it can be concluded that majority of the respondents have been in the credit department for a satisfactory period which is long enough to understand the credit policies within their institution.

4.2.3 Qualifications Attained

In order to guarantee the worthiness of the given information, respondents were requested to provide their academic qualifications and the responses are depicted in table 4.3 that follows.

Table 4. 3 Academic Qualifications

	Frequency	Percentage
Diploma	4	31%
Degree	7	54%
Masters	2	15%
PhD	_	_
Total	13	100%

n=13

Table 4.3 unveils the qualifications attained by the respondents engaged by the researcher. The results shows that a large percentage of the respondents constituting 54% are holders of an honours degree were as 31% are diploma holders and only 15% are holders of a master's degree. No respondents hold a PhD. By virtue of their educational structures the researcher might assumed that they understand the organization's credit policies and how effective they are in ensuring loan recovery.

4.3 Data relating to the Credit Policies employed by KCI

To examine the various credit policies in KCI Management Consultants was the first objective of the study. In order to answer that objective, respondents were asked to give confirmation on whether credit policies existed in KCI Microfinance. Below are the illustrations of the responses given.

4.3.1Credit Standards

Credit standards so that the Institution can be able to identify clients with credit worthiness in order to mmaximizes the revenue and lower default rate. Loan application by a client is assessed with more focus on the client's ccharacter, capacity, collateral security, capital and condition. Credit standards were the yardstick for measuring the risk level of a client. The results for each element of credit standard were as follows.

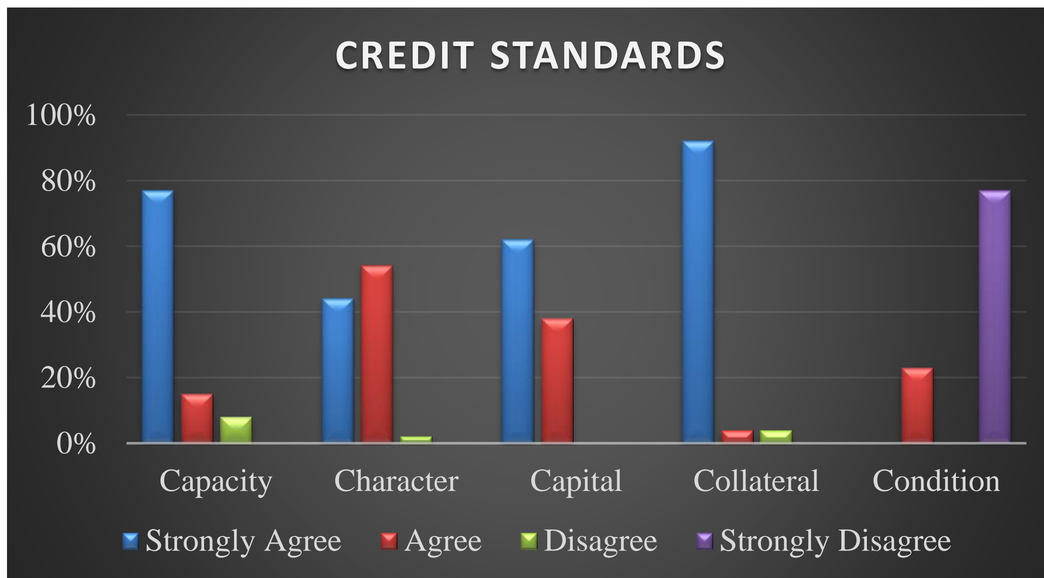


Figure 4. 2 Credit Standards employed by KCI n=13

Capacity

Fig 4.2 above shows that 77% of the respondents strongly agree and 15% agreed that KCI considers the capacity of the client before issuing the loan whilst only 8% disagreed Therefore the researcher concluded that KCI considers the capacity of the client when issuing loans .This is because it is a key element of the credit standard policy which determines the ability of the client to pay back the borrowed amount plus interest charges. These results are strengthened by Njeru et.al (2017), whose study recommended the need to scrutinise the current capacity of the client as it carries a lot of weight in client appraisal. Loan officers evaluate client's capacity based on client's age, source of income as well as the value of business stock if the client is an entrepreneur but if the client is a salaried, hence the payslip is the most suitable source of evidence. However, the findings showed that they are borrowers who do not pay back the loan in time and in that case the client's guarantor is held liable for the debt or the physical collateral can be sold to recover the debt.

Character

Myers and Forgy (2005), defines character as an element that gives weighting values for different features of a credit applicant and the total weighted score of the applicant is used to give an estimate of his credit worthiness. It is difficult to determine the character of a client the first time but due to repeat business or an increase in the borrowing times of a client, loan

officers become familiarised with the behaviour of their clients when given loans. Therefore 44% of the respondents strongly agree to the consideration of this element and 54% agree whilst only 2% disagree hence based on this analysis, the researcher made a conclusion that KCI considers the client's character.

Capital

Capital is also considered highly by KCI as this is shown by 62% respondents who strongly agree and 38% who generally agree. This is because capital is regarded as the financial status of the client used to determine the worth of his business which will allow him to dispose other assets in case of failure to make repayments. This is reinforced by the idea that Nyawera (2013)) has, when he says capital is the money personally invested by the borrower has in the business and it indicates the amount available for the borrower in the event of business failure.

Collateral

The research revealed that 92% of the respondents strongly agreed and 4% agreed whilst the other 4% disagrees that KCI asks for collateral before issuing the loans. Management of KCI revealed that they do this in order to limit the losses due to default and late payments. It was further found out that the collateral used mainly include; client guarantor, physical pledges as well as title deeds and vehicle registration books. However, there are times when the collateral is not enough to cover up the loan, the institution may choose to reduce the loan size to avoid inconveniences. Therefore based on the responses given, KCI highly considers collateral especially guarantor ship as a credit standard and the need to evaluate collateral was stressed in the study carried out by Moti et.al (2012), were it was concluded that collateral is important in the event of default by the client as it serves as substitute for recovering the borrowed amount.

Condition

From fig 4.2 above, it can be concluded that KCI does not consider economic conditions when issuing loans. This is justified by 77% of respondents who strongly disagree with the consideration of economic condition. Those who agree that KCI considers economic condition only constitute 23% of the respondents which made the researcher to conclude that KCI ignored the prevailing economic conditions such as inflationary rates and other political factor although they affect loan performance.

The above findings on credit standards are echoed to the study by Moti et.al (2012) who asserted that Lending l Institutions must rely teir credit analysis on the common principles of lending which are the 5Cs. However the results shows that KCI ignores the basic principle of condition which is justified by a 77% of respondents who disagree.

4.3.2Credit Terms

This section comprises of responses given in relation to loan approval period, loan repayment schedules ,guarantor ship , grace period and interest charges as part of the credit terms used by KCI.

(a)Loan Approval period

Figure 4. 3 Period of loan approval n=13

85% of the respondents claimed that approval of loans is done within one day of application. As long one succeed to be part of the selected clients and is able to provide the necessities for the loan application, the applied loan is certain to be approved and disbursed on that day. On the other hand, the remaining 15% of respondents claimed that sometimes it takes 2 to 5 days to get a loan approved as this is in relation to clients who fail to provide the needed ddocuments during the application which then delays disbursement hence the situation forces them to receive their loans after they have presented required documents to loan officers and this may be within a period of 2 to 5 days.

(b) Loan Repayment Schedules

Table 4.4 below shows the responses given by respondents with regards to repayment intervals by clients at KCI.

Table 4. 4 Loan Repayment Schedules

Loan Repayment Intervals	Responses	Total Respondents	Responses as a Percentage
Weekly	11	13	85%
Fortnightly	0	13	0%
Monthly	2	13	15%
Total Percentage	_	_	100%

Since KCI mainly focuses on business loans to uplift Entrepreneurs, the loans are repaid on weekly intervals after giving clients a grace period of 14 days as this is supported by the response rate of 85% .However the 15% of the respondents said monthly as this is done to cater for the salaried clients who only receive their salaries at the end of the month and those are the ones that do not pay in instalments but they make a once off payment.

(c) Guarantor ship

Respondents were asked whether KCI considers guarantor ship before granting loans to potential clients or not. Table 4.5 below fully illustrates the responses that were given. However, the issue of guarantor ship was overlooked by many researchers used in this study which created a gap between empirical and this research.

Table 4. 5 Involvement of a guarantor

Guarantor ship	Responses	Total Respondents	Response Rate as a percentage
Yes	13	-	100%
No	-	-	-

n =13

Based on the results in table 4, KCI requires a client to have a guarantor in order to get a loan. This is a prerequisite for the Institution because in the event that the client fails to pay, the guarantor is held liable for the debt.

(d)Grace Period

Table 4.6 below shows the responses given in relation to the grace period offered to clients before they start paying their instalments.

Table 4. 6 Grace period given to clients

Grace period	Responses	Total Respondents	Response rate as a percentage
7 days	-		
14 days	13	13	100%
21 days	-	-	-

n =13

It is clear that KCI offers 14 days as grace period to its clients before they start their repayments as 100% of the respondents agreed to that credit term.

(e)Interest Rate Charges

Table 4.7 below shows the responses given in regards to the range of interest charged by KCI upon loan issuance.

Table 4. 7 Interest Charges

Interest Charges	Responses	Total Respondents	Responses as a Percentage
10% to20%	_	_	_
20% to 30%	_	_	_
30% to 40%	13	13	100%

n =13

From table 4.7 above KCI charges interest rates which ranges from 30% to 40 % per loan disbursed as this is represented by a responds rate which is 100%. However, this range of

interest charges is perceived to be relatively high compared to other MFIs even though it is justified by the need to accommodate for administrative expenditures and other overheads.

(f) Charges or penalties for late repayment

Respondents were asked if the Institution have a policy which requires clients to pay a fee as penalty for late repayments and the responses given are shown below in table 4.8.

Table 4. 8 Penalties for late repayment

Penalties for late repayments	Responses	Total number of respondents	Response rate as a percentage
Yes	13	13	100%
No	-	-	-

n =13

There was 100% response rate which implies that there are penalties for late repayments .This is clearly shown in table 4.8 above.

4.3.3. Collection Efforts

Collection efforts relates to the various ways in which KCI uses to get the principal plus interest from their clients.Thus ,methods of loan collection are highlighted in this section.

(a)Collection Methods

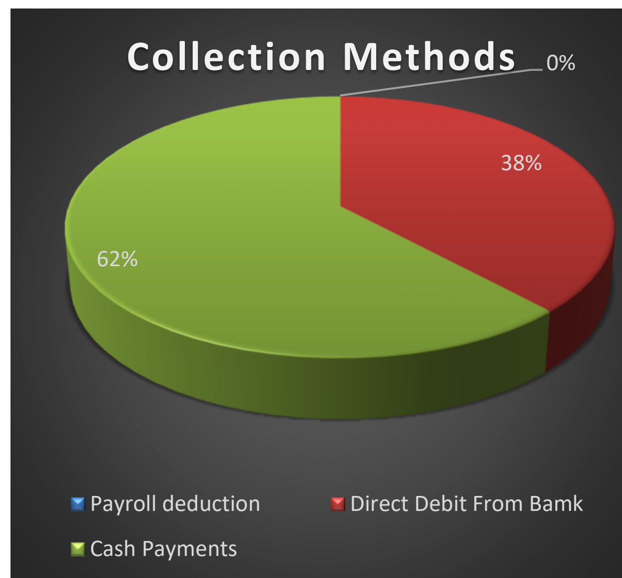


Figure 4. 4 Collection Methods n=13

Fig 4.4 above indicates that cash payment is the highly used collection method by KCI as represented by the highest response rate of 62%. The remaining 38% is for direct debit from bank using what is known as SSB. This is usually applicable to civil servants whereby the loan is deducted by direct debit through SSB.

(b) Client Notification

In order to determine whether clients were aware of their payment dates, respondents were asked if KCI notify clients when their payments are due and the responses given are shown in table 4.9 below.

Table 4. 9 Notifying Clients

Client Notification	Responses	Total Respondents	Response Rate as a percentage
Yes	13	13	100%
No	-	-	-

n =13

Results from table 4.9 shows that KCI notifies its clients severally for them to make payments when they are due.

(c) Follow up Strategy

Results in fig 4.5 below suggests that text messages are being used more often as a way of following up on client's missed instalments .This is clearly shown by the majority response rate of 56 % . These messages are commonly used in the event of failure to repay by the client.

Moreover, the results shows that phone calls are also used as a way to remind clients that a certain instalment has not been paid and is indicated by the 36% response rate. It has been observed that this method is often used on clients who fail to give positive response to text messages which create the need to use verbal communication and obtain ffeedback on the real position of each client. These results are strengthen by Makorere (2014), who observed the need to convince clients to honour their obligations and this is achieved through follow up strategies. The results are fully depicted in Fig 4.5 below.

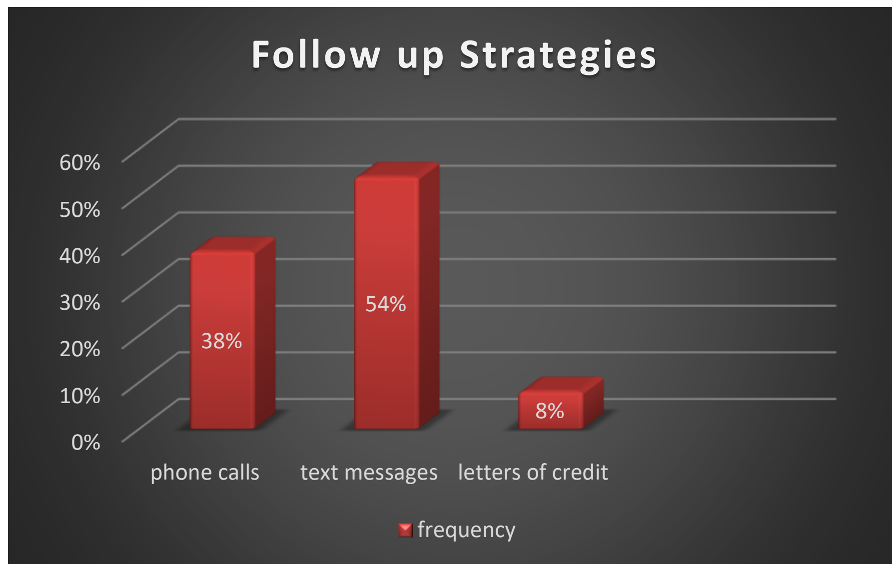


Figure 4. 5 Follow up strategies n=13

However the research has shown that letters of credit seems to be the least follow up strategy which is indicated by a response rate of 8%. The reasons Implies that KCI has a tendency of ignoring the use of letters of demand or summons due to the reason that most of the loans are secured by a guarantor so in the event that the client fails to repay ,the guarantor is held responsible so the frequency of using letters of demand are very slim. However, these findings contradicts to the results of the research done by Ifeanyi et.al (2014) who emphasised the need to use letters of demand as a follow up strategy especially when the payment period elapse.

(d) Risk based collection strategies

In the event that the above follow up strategies fail, KCI uses the following risk based strategies and the responses which were given are indicated in fig 4.6 below.

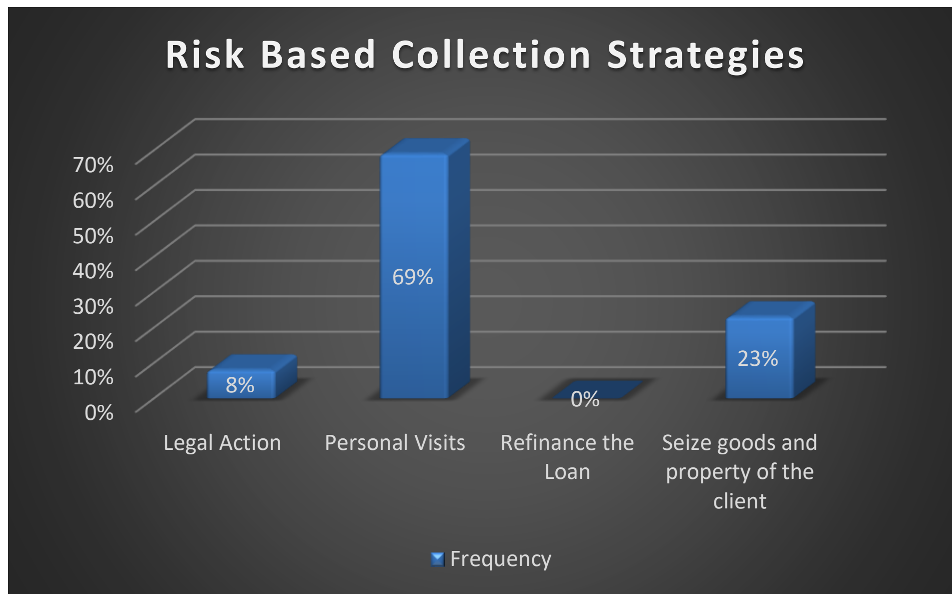


Figure 4. 6 Risk based collection strategies n =13

Fig 4.6 above illustrates that personal visits is the commonly used strategy in situations where they are uncomplying clients.This is justified by the response rate of 69% which is a representation of the majority of respondents. However, some problems faced include failure to get hold of the owing client due to the reason that the client may have relocated or lied about their physical address.23% of the respondents indicated that KCI seize goods and property of the client in case they fail to repay the loan. This is this reason why collateral security is highly considered within the institution. Only 8% of the respondents agreed to legal action as it is the last port of call when all other strategies fail. The researcher concluded that refinancing is not an option for this Institution as there was 0% response. These findings contradicts with the empirical findings of Ifeanyi et.al (2014) who advocates that many Lending Iinstitutions' may send a letter to those kind of borrowers when for instance fourteen days s elapse or phone calls and if payment is not received with in the stipulated days ,the Institution may approach debt collection agencies.

4.4Findings on whether credit policies are effective in reducing loan default

Analysing the effectiveness of credit policies on loan recovery was the main focus of the study and loan default is one of the ways used by the researcher to measure the effectiveness and the responses given in the questionnaires by respondents are analysed below.

4.4.1. Involvement of a guarantor to secure the loan granted

Respondents were asked to give the level of default as a result of the introduction of guarantor ship as a credit standard policy and the graph below shows the level of responses given.

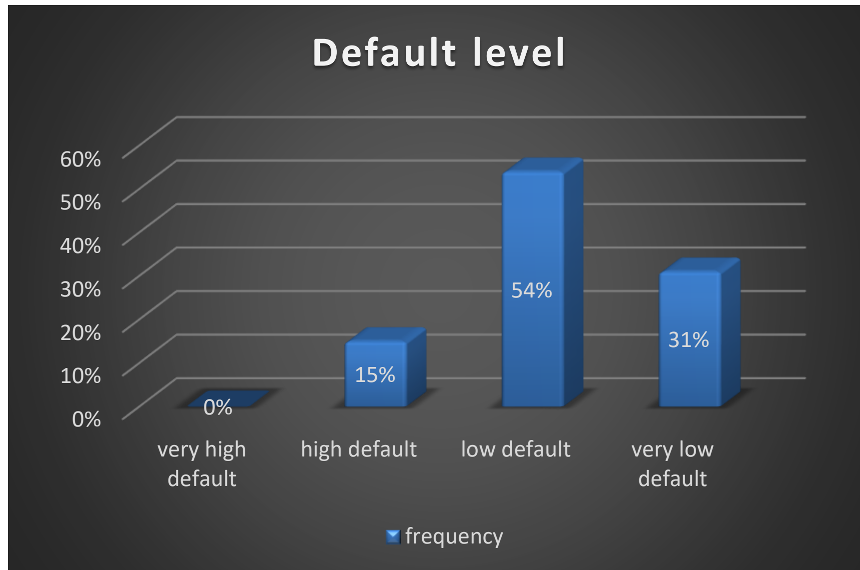


Figure 4. 7 Guarantor ship **n =13**

Fig 4.7 above shows that the introduction of guarantor ship as a policy has resulted in low default and this is justified by the 54% response rate. 31% of the respondents' agrees that guarantor ship results into a very low level of default. This is due to the reason that the guarantor will push the client to repay the loan because in the event that the client fails to make repayments ,the guarantor is held responsible so to avoid such scenarios, guarantors are of great importance as they influence loan recovery. Therefore the researcher concluded that guarantor ship as a credit standard policy is effective in reducing loan default. However, there is still high default rate by clients even with the use of this credit standard and this is justified by the 15% response rate given by the respondents especially the loan officers who are in full control of loan performance .Moti et.al(2012), Nyawera (2013) and Njeru et.al (2017) disregarded or overlooked the issue of guarantor ship in their studies as they only focused on physical collateral as guarantee for loan repayment and this created a gap between empirical evidence and this research study.

4.4.2 Effectiveness of Stringent policies in reducing loan default

The Institution employs stringent policies in other words it means strictness unlike the libel policies which are more relaxed. Respondents were asked whether the stringent policies are effective in ensuring that the level of default is reduced and the responses given are shown in table 4.7 below.

Table 4. 10 Effectiveness of stringent policies

	Frequency	Percent
Strongly Agree	3	23%
Agree	7	54%
Disagree	3	23%
Strongly Disagree	0	0%
Total		**100%**

n =13

Table 4.10 above reveals that 23 %of the respondents strongly agree that stringent policies are effective in reducing loan default and 54 % also agrees to that notion whilst only 23% disagree. With those results, the researcher arrived to the conclusion that stringent policies are effective than libel policies although loans are still defaulted as indicated by the 23% response rate that disagrees. The results above are reinforced by Njeru et.al (2017) who observed that stringent policies have a greater imperative influence on loan performance than libel polices. However, due to continued default it is necessary for KCI to revise its policies especially where they are loopholes.

4.4.3 Client Assessment

As part of the credit policies being used by KCI, client assessment is one of the prerequisites for this Institution as it helps in determining whether the client is able to meet the necessary requirements before issuing a loan to them and making sure that the qualifying client will not default and it involves a thorough scrutiny of the 5Cs of lending which makes up the credit standards. With this, respondents were therefore asked to determine whether this rigorous assessment of the client's financial status is effective in ensuring reduced loan default and the responses given are presented in Fig 4.8 below.

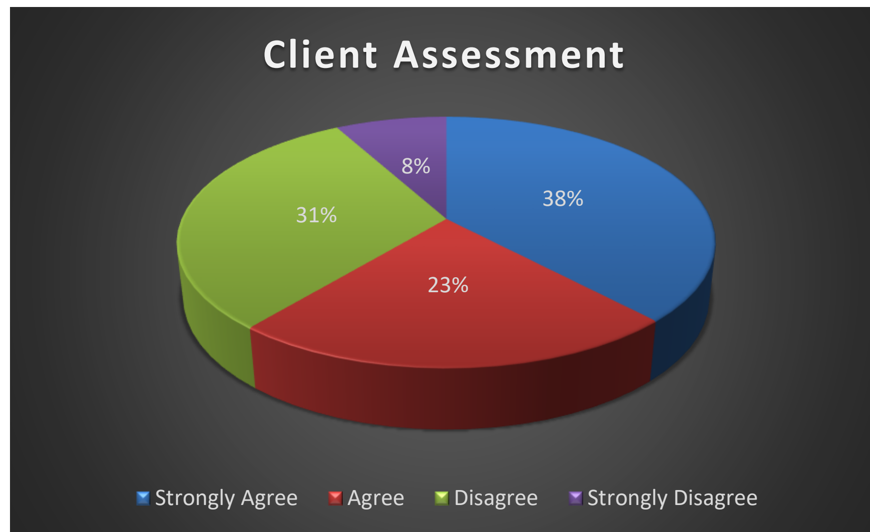


Figure 4. 8 Client Assessment n=13

Using the results drawn from fig 4.8 above it shows that client assessment is fairly effective in loan recovery as indicated by 38% response rate of those who strongly agree to that credit policy whilst 23% of the respondents generally agree. These findings are reinforced by Njeru et al (2017) who postulated thatat the appraisal of clients l has imperative influence on loan performance. However, 31% of the respondents disagree that client assessment is effective in reducing loan default and the remaining 8% strongly disagree. This implies that even with this policy, clients still default and this may be due to the unwillingness to pay and also the character of clients' changes as the borrowing times in the Institution increases and this results in loan defaults. Another cause for the defaults maybe due to window dressed financial statements by clients which when assessed may not truly reflect the exact financial status thereby exposing the Institutions to default risk.

4.4.4 Aggressive follow-ups and collection efforts

As highlighted earlier on, KCI uses text messages to remind clients when their instalments mature, telephone calls as well as personal visits as part of their collection policy. Therefore, respondents were asked to rate the effectiveness of those strategies in reducing loan default and the responses are clearly illustrated in fig 4.9 below

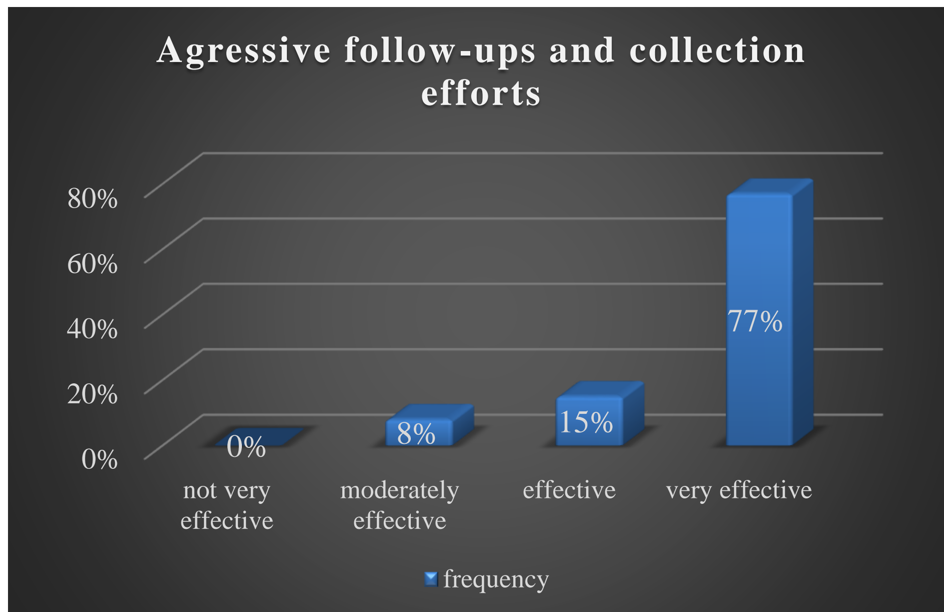


Figure 4. 9 Follow ups and collection efforts n=13

Fig 4.9 above shows that aggressive follow-ups and collections efforts are very effective in reducing loan default, this is supported by 77% response rate, 15% on effective and 8% on moderately effective. These findings are strengthened by Ifeanyi et al (2014), who established that rapid repayments are intended at keeping rate of bad debts at their lowest level. The findings are also supported by Nyawera (2013) who emphasised on the impact of collection efforts on financial performance of Lending Institutions thus, KCI is not an exception. In addition collection efforts are channelled at quickening repayments from reluctant clients and reduce bad debts losses thereby increasing profitability of the Institutions.

4.4.5 Effectiveness of interest charges in ensuring reduced loan default.

In all the 13 questionnaires distributed, all the respondents (100%) highlighted the interest bracket for the Institution as ranging from 30%-40% including administration costs. Given the interest charges, respondents were asked if the interest charges are flexible enough to ensure that clients honour their obligations and the responses given are presented in the graph below.

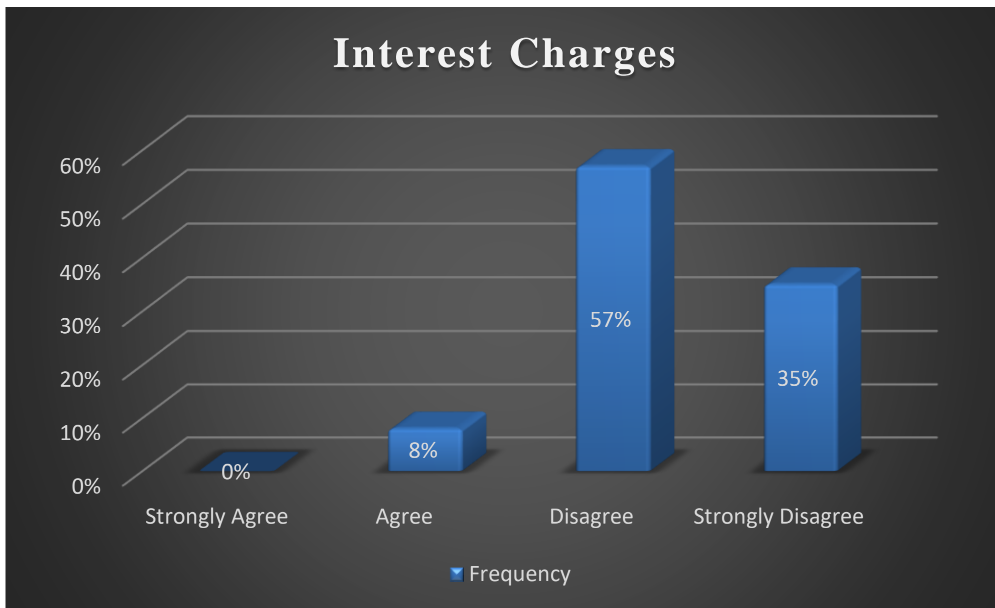


Figure 4. 10 Effectiveness of interest charges n=13

Fig 4.10 above shows that most of the respondents disagree that interest charges are flexible to encourage clients to honour their obligations and this is indicated by a 57% response rate and 35% response rate for those who strongly disagree. Only 8% agree that the interest charges are flexible enough considering that it includes administrative costs. Given these results it can be concluded that the interest rates charged are a bit high which leads to continued default by clients. These findings concur to the empirical findings of Nyawera (2013) who stipulated that the higher the interest rate the higher the chances of default on loan repayment as the charges of servicing the loan are bound to upsurge. Also, Ifeanyi et al (2014), proposed that the interest rates have an impact on the use, loan repayment and the performance of the business in general the reason being that when the interest rate charges are high, the borrowers tend to keep part of the borrowed money to pay the interest resulting in default. Therefore, it is necessary for KCI to revisit their interest charges because they have an effect on the performance of the loan.

4.5 Findings on whether credit policies are effective in ensuring reduction of turnaround time in loan repayments.

In order to establish the effectiveness of credit policies on loan recovery, the researcher also looked at loan repayments as a way to whether the policies are effective or not. The analysis of the various elements under this study are elaborated below.

4.5.1 Imposition of charges or penalties for late payment

Respondents were asked if the imposition of charges or penalties on late payment encourages clients to pay in time and the results of the findings are illustrated by means of a pie chart.

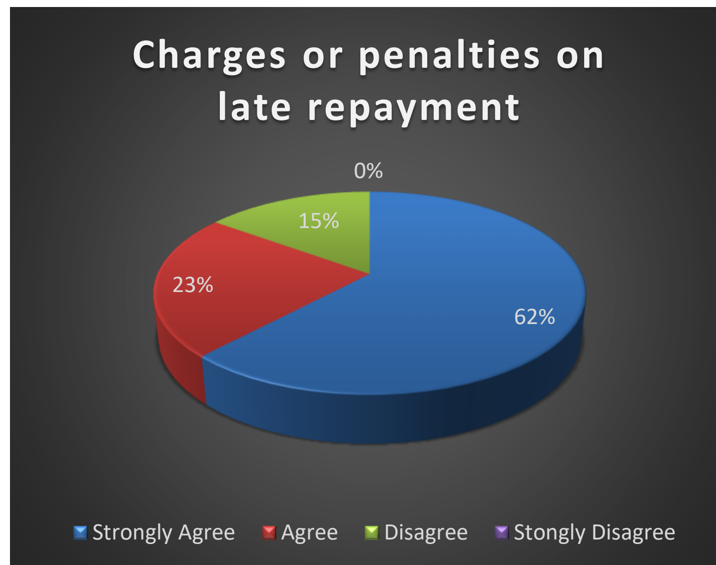


Figure 4. 11 Penalties for late repayment n =13

The findings indicates that 62% agree that the imposition of charges or penalties on late repayment encourages clients to pay in time, 23%of the respondents similarly agree to the positive influence of charges where 15% of the respondents disagree .Based on these results it can be concluded that penalties are effective in ensuring reduction of turnaround time in loan repayments.The above findings are supported by Njeru et.al (2017) who emphasised the need to embrace stringent credit terms compared to libel terms and the imposition of charges or penalties is part of the stringent credit terms elaborated by Njeru.

4.5.2 Lenght of grace period before commencement of repayment

KCI gives its clients a grace period of 2 weeks before they can start their repayments. Given this information , the respondents were asked if the length of grace period before commencement of repayment influences quick repayment and the responses given are shown below.

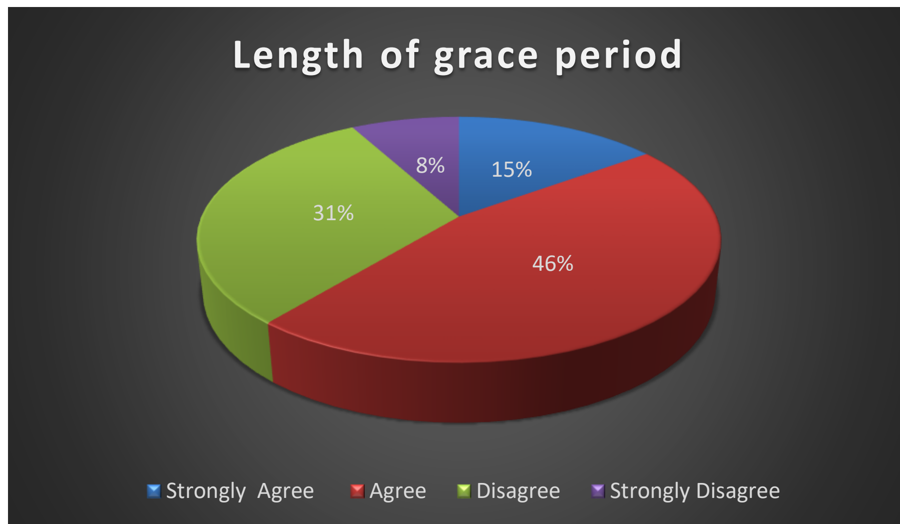


Figure 4. 12 Length of grace period n=13

Fig 4.12 above indicates that 15% of the respondents strongly agree that the length of grace period which is given to clients boost their willingness to make quick repayments whilsts 46% also agree generally.This implies that the 2 weeks grace period allows clients to fully utilise the borrowed funds in a productive manner in order for it to make yields especially if it's a business loan before they start making repayments.Therefore it can be concluded that this credit term is effective in ensuring reduction of turnaround time in loan repayments. These results agrees to the empirical findings of Makorere (2014) ,who asserts that grace period is the time frame given to borrowers by the financial institution before the date of the first instalment. Makorere (2014), furthermore observed that businesses that offer enough grace period have less rate or level of default. However this policy is not fully effective as 31% of the respondents disagree to that notion and 8% of them strongly disagree. This implies that even with the grace period , some clients still fail to repay their loans in time . This maybe due to inappropriate use of borrowed funds by the client or change in character due to familiarity with the Institution's policies.

4.5.3 Notifying Clients severally when their repayments are due

From the findings of the first objective of this research , it was found that KCI uses text messages and telephone calls frequently to remind its client to make payments . Basing on that information, respondents were further asked if notifying clients when their repayments are due is effective in reducing the turnaround time in loan repayment . Below is a graph showing the computation of the responses given by the respondents.

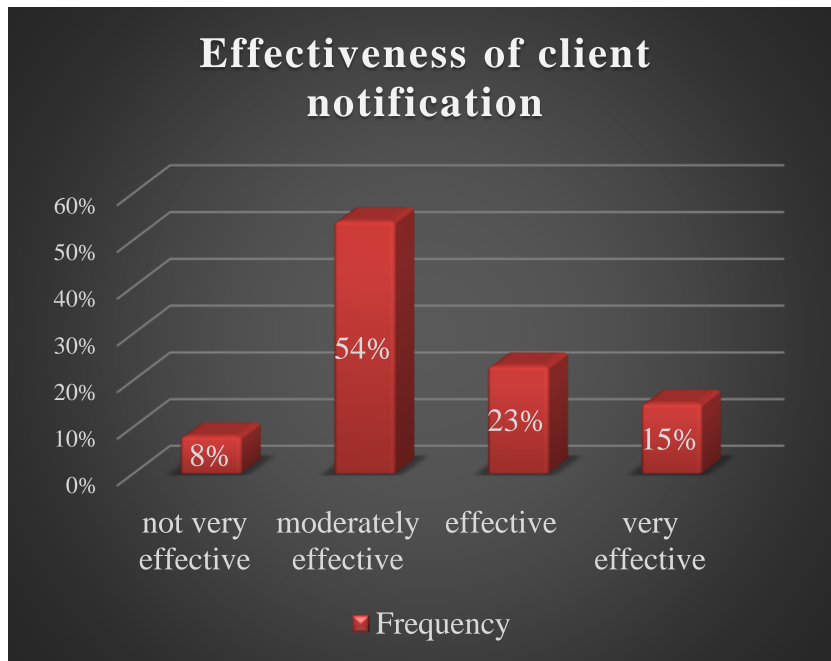


Figure 4. 13 Effectiveness of client notification n :13

The findings indicates that 15% of the respondents agrees that notifying clients severally when their payments are due is very effective in reducing turnaround time in loan repayments. In line with the Makorere (2014), the collection policy guarantees quick payment and systematic collections. 23% of the respondents indicated that client notification is effective whilst the majority of respondents (54%) said that client notification is moderately effective. The findings of this research are also strengthened by Ifeanyi et.al (2014), who recognised the need to inform clients of their repayment dates through telephone calls as well as text messages so as to encourage prompt payments. However only 8% of the respondents are of the view that client notification is not very effective in reducing turnaround time in loan repayment. Given these results it can be concluded that notifying clients severally when their payments are due is fairly effective. This is because it serves as a reminder to those clients who might have forgot their repayment dates.

4.6 Chapter Summary

This research chapter concentrated on the presentation and analysis of data gathered from the research findings with the use of tables, graphs, charts as well as descriptive summaries. The findings of this research were discussed linking with the related literature used in this study so as to make comparisons and identifying findings that were analogous. The next chapter delivers a summary of the main findings of this research, conclusions drawn, and recommendations to be made and proposed areas for further researches.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter offers a summary of the research, emphasising on the fundamental findings acquired from the analysis of data. In addition, it delivers conclusions to the study and recommendations are made thereon. The chapter will also highlight areas which require further studies in relation to credit policies.

5.1 Summary of the Study

The general objective of this research was to analyse the effectiveness of credit policies on loan recovery with specific reference to KCI as a case study. Consequently this moulded the basis of the study by the researcher. The study was motivated by the continued default of clients in MFIs which negatively affect the sector and the economy at large. The first objective of the research was to establish the existing credit policies used in KCI followed by a key objective which was to determine the effectiveness of credit policies in reducing loan default. The other key objective was to establish the effectiveness of credit policies in ensuring reduction of turnaround time in loan repayments and lastly to make recommendations on how to improve credit policies. The research study employed descriptive research design so as to accomplish the objectives of the study. Quantitatively data was gathered using questionnaires and only primary data was used for the purpose of this research .The researcher made use of a sample of 13 respondents which consisted of loan officers, monitoring and evaluation officers as well as the top management. The sample was gathered using judgemental sampling method.

A deep investigation of the study reveals that KCI has well defined credit policies which the Institution sticks to when issuing out loans. The credit policies used are made up of credit standards, credit terms and collection efforts. As such respondents have indicated that KCI's credit standards comprise of collateral, capacity, character, capital with little consideration on the economic conditions .In terms of credit terms respondents revealed that the loans are approved in 1 day expect in situations where the necessary requirements are not met. Additionally the research findings shows that the interest charges ranges from 30%-40% which is perceived to be high compared to other institutions. The research also revealed that sending reminders to clients through calls and telephone calls as well as personal visits is part of the collections efforts for the Microfinance. Furthermore the study reveals that KCI uses stringent policies more than the libel policies.

In relation to default rate the involvement of guarantor ship, client assessment as well as aggressive follow ups were found to be effective in reducing loan default. Consequently most of the respondents were of the opinion that the high interest charges affects the repayment behaviour of clients negatively.

Lastly penalties for loan payment, grace period and client notification were found to be effective in ensuring reduction of turnaround time in loan repayments.

5.2 Conclusions

In relation to the findings of this research, the researcher came to the conclusion that KCI considers the commonly known credit policies which are credit standards, credit terms and collection efforts. The researcher moreover concludes that credit policies are effective in reducing loan default. Lastly drawing from the research findings the researcher also concludes that credit policies are effective in ensuring reduction of turnaround time in loan repayments.

5.3 Recommendations

Based on the findings of the study analysed chapter four and the conclusions drawn the researcher came up with several recommendations, which in her opinion, if well considered, have the ability to enhance the effectiveness of credit policies and thereby improve loan recovery in Microfinance Institutions. The recommendations are as follows:

Participation of credit officers and clients in the construction of credit policies must always be practical. This is because these stakeholders are at the heart of the lending business hence they are better laced to know and understand the most applicable terms.

The MFIs should consider the interest rates they charge on loans as these have an effect on loan repayment thereby affecting performance of the Institution at large.

To lessen the continued loan default, top management should safeguard that regular review of terms and conditions is carried out.

Separately from credit policies, lending Institutions should come up with other strategies to ensure loan recovery.

There should be prior customer evaluation before loans are granted, and a continuous process of assessment before and during the course of loan repayment. In this manner, the institution will be in place to precisely determine the borrower’s performance trajectory in terms of repayment. This should be cemented by effective customer relationship management, where the MFI does not only acts as a source of credit, but also as a source of vital information in

order to improve the business performance of the borrowers, which will therefore improve loan performance.

Top Management should prioritise the motivation of its staff especially the loan officers who have the direct usage of credit policies so that they carry their collection duties effectively.

5.4 Recommendations for future Research

The study concluded that credit policies are effective on loan recovery. The researcher would therefore recommend further studies on the following:

The influence of economic conditions on loan behaviour

Credit Management and customer satisfaction in Microfinance Institutions

The role played by government in supporting lower income class citizens when offsetting their loans at delinquency

LIST OF REFERENCES

Achou, T. and Tenguh, L. (2016). Emerging Manufacturing Industry: A Financial Perspective‟, Management Review.105-112

Antony, B. (2006). Banking Initiative, Kenyatta University, Nairobi

Akinselure, O.P. and Akinola, T. A. (2019). Impact of credit risk management on profitability of selected deposit money banks in Nigeria. International Journal of Economics, Commerce and Management.Vol. VII, Issue 9, pp254 – 268

Armendariz, B. and Morduch, J. (2010). The Economics of Microfinance. 2nd Edition: The MIT Press Cambridge

Auronen, L. (2003). Asymmetric Information: Theory and Applications. Paper presented in the Seminar of strategy and International Business as Helsinki University of Technology: Helsinki

Bessis, J. (2012). Risk Management in Banking (2nd edition). John Wiley & Sons, Chichester,New York

Bester, H. (1994), "The role of collateral in a model of debt renegotiation", Journal of Money, Credit and Banking, Vol. 26 No.1, pp.72-86

Brigham. E,F.(1997). Introduction of Financial Management. New Delhi: Dryden Press

Cooper, D.R and Schindler, P.S. (2003).Business Research Methods 8th Edition: New Delhi McGraw-Hill Publishing Company

Cornett, M.M., Saunders, A. (1999). Fundamentals of Financial Institutions Management: McGraw-Hill, Boston, MA

Chimkomo, E. (2016). Effects of Nonperforming loans and other factors on performance of commercial banks in Malawi. International Journal of Economics, Commerce and Management, 15(2), p.549-564

Gitman, L. (2017). Principles of management finance 12th Edition

Ifeanyi, A. O., Idowu, A. O., & Ogbukwa, B. C. (2014). Determinants of Loan Repayment Behaviour of Smallholder Cooperative Farmers in Yewa North Local Government Area of Ogun State, Nigeria: an Application of Tobit Model, J. Econ. Sust. Dev. 5(16), pp. 144-153

Kakuru, J. (2000). Financial Decision and Management. First Edition. Kampala: The Business Publishing group

Kothari, C. (2004). Research Methodology; Methods and Techniques. New Delhi: New Age International Publishers

Krueger, F. (2015). The influence of working capital management components on corporate profitability: a survey on Kenyan listed firms. Research Journal of Business Management, 3, 1-11

Makorere, R. F. (2014). Factors affecting loan repayment behaviour in Tanzania: Empirical evidence from Dar es Salaam and Marogoro regions. Int. J. Dev. Sustain, 3(3), pp. 481-492.

Matthews, K. and J. Thompson. (2008).The Economics of Banking. Chichester: Wiley

Matovu, J & Okumu, L. (1996), Credit Accessibility to the Rural Poor in Uganda; Economic Policy Research Bulletin, 2 :(1)1-22

Matunda, J. B. (2016). The effect of credit policy on the financial performance of microfinance institutions in Nairobi County. Unpublished Thesis submitted at University of Nairobi

Makrygiannakis, G., & Jack, L. (2018). Designing a conceptual methodology for structuration research. Meditari Accountancy Research, 26(1), 56-120

Maysami, R. (2014). "Understanding and Controlling Cash flow" Financial Management series. Retrieved From: www.sciencedirct.com November12, 2019

McDonald, S. and Headlam, N. (2006). Research Methods Handbook: Introductory guide to research methods for social research. Manchester: CLEs

Mercy, K., J. & Gichure, J. (2019). Influence of Credit Principles on Debt Recovery among Microfinance Institutions in Eldoret Town, Kenya. Journal of Finance and Accounting, 3(3), 213 - 227

Miller, C. (2016). "Is it time to review your credit policy". Retrieved November 29, 2015 from www.creditresearchfoundationonline.com

Miller, C. (2008). It is time to review your Credit Policy. Retrieved from http.//www.credit-researchfoundationonline

Moti, H., Masinde, J., Mugenda, N., and Sindani, M. (2012). Effectiveness of credit management system on loan performance: Empirical evidence from micro finance sector in Kenya. International Journal of Business, Humanities and Technology, 2(1), pp. 99-108.

Mwithi, S. (2012). Relationship between Credit Risk Management Practices and the Level of Non-Performing Loans of Microfinance Institutions in Nyeri County (Master's thesis): University of Nairobi

Myers, J., H., and Forgy, E., W., 2005. „Development of numerical Credit Evaluation Systems": Journal of American Statistical Association, Vol 50: 797-806

Mugenda, O.M & Mugenda, A.G. (2003),"Research Methods" Acts Press, Nairobi

Nyawera, K. N. (2013). The effect of credit policy on the financial performance of deposit taking microfinance institutions in Kenya. Unpublished Thesis submitted to the University of Nairobi

Pandey, I. M. (2000). financial management; 8th Edition, New Delhi publishers Report: Oxford University press

Pandey, M (1 995). Financial Management and policy; 7th Edition London

Riach, M. (2010). Credit risk management and policy implications for microfinance Institutions, Research Paper: 1-4

Rao, P.K. (2001). Sustainable Development: Economics and policy. Malden, Massachusetts, USA: Blackwell Publishers Inc.

Ringtho, S. (2009). Financial Management. 6th Edition. Prentice Hall: London

Sekaran, U., and Bougie, R., 2009. Research Methods for Business, 5th Edition, John Wiley and Sons, United Kingdom

Sollenberg and Anderson (2015). The Impact of Effective Management of Credit Sales on Profitability and Liquidity of Food and Beverage Induso9tries in Nigeria. Global Journal of Management and Business Research 13(2)

Stiglitz J.E., Weiss A. (1981) Credit Rationing in Markets with Imperfect Information: The American Economic Review, 71 :(3)

Stiglitz, J. (2001). Principles of Financial Regulation: A Dynamic Portfolio Approach. The World Bank Research Observer, 16(1), 1-18

Teskiewicz, A. (2007). Predictive Modeling for Collections and Refinancing. Beunos Aires, Argentina

Yunus, M. (2010). Microfinance Sustainability: Empowering Women using group, Prentice Hall: London

Warue, B. N. (2012). Factors affecting loan delinquency in Microfinance in Kenya. International Journal of Management Sciences and Business Research, 1(12), 1-15

Primrose

ORIGINALITY REPORT

16%	14%	1%	9%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

#	Source	Type	%
1	liboasis.buse.ac.zw:8080	Internet Source	3%
2	ir.kiu.ac.ug	Internet Source	3%
3	elibrary.buse.ac.zw:8080	Internet Source	1%
4	www.iprjb.org	Internet Source	1%
5	Submitted to Kenya College of Accountancy University	Student Paper	1%
6	erepository.uonbi.ac.ke	Internet Source	1%
7	Submitted to Rajarambapu Institute of Technology	Student Paper	1%
8	Submitted to Midlands State University	Student Paper	<1%
9	docshare.tips	Internet Source	<1%
10	www.iajournals.org	Internet Source	<1%
11	Submitted to Kampala International University	Student Paper	<1%

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

Dear Respondent

I am a fourth year student at Bindura University of science Education studying towards the bachelor of commerce (honours) in Banking and Finance. I am carrying out a study on the analysis of the effectiveness of credit policies on loan recover, case study of KCI Management Consultants.

I am therefore asking for your assistance in carrying out this study by the way of completing the following questionnaire. Take note that your response will be used strictly for academic purposes only and will be treated with the strictest of confidentiality. I would appreciate it very much if the questionnaire could be returned at your earliest convenience. Counting on your kind cooperation

Yours sincerely Primrose Chizenga

Email: primrosechizenga327@gmail.com

Cell: +2630782585630

INSTRUCTIONS

- Do not write your name on the questionnaire
- Show response by ticking the respective answer box where applicable and or filling in the spaces provided.
- Kindly answer all questions

SECTION A

DEMOGRAPHICS

1. Gender
   Male [ ]   Female [ ]

2. Position in the organization

   Management [ ]   Monitoring and Evaluation [ ]   Loan Officers [ ]

3. How long have you been in the credit department

   1-3 years [ ]   3-5 years [ ]   5-10 years [ ]   over 10 years [ ]

4. Qualifications Attained
   Diploma [ ]   Degree [ ]   Masters [ ]   Doctorate [ ]

SECTION B

DATA RELATING TO THE CREDIT POLICIES BEING USED BY KCI

a) CREDIT STANDARDS

5. Does KCI consider the following credit standards; fill in the table below using "Agree or Disagree"

CREDIT STANDARD	RESPONSE
Character	
Capacity	
Collateral	

Capital	
Condition	

b) CREDIT TERMS

6. How long does it take for a client to receive his or her loan

   1day [ ]   2-5 days [ ]   1week [ ]   2 weeks [ ]

7. How are the loans repaid

   Weekly [ ]   Fortnightly [ ]   Monthly [ ]

8. Does KCI considers guarantor ship before granting loans to potential clients?

   Yes [ ]   No [ ]

9. How long is the grace period per loan disbursed

   7 days [ ]   14 days [ ]   1 month [ ]

10. What are the interest charges per loan disbursed

    10- 20 % [ ]   20- 30 % [ ]   30- 40 % [ ]

11. In the event that clients fail to make payments on time, are there penalties or charges for the late payments?
    Yes [ ]   No [ ]

c) COLLECTION EFFORTS

12. From the collection methods below , which one does KCI use the most

Payroll Deduction	
Direct Debit from bank	
Cash Payment	

13. Does KCI notify clients when their payments are due?

    Yes [ ]   No [ ]

14. In case of default, how does KCI communicate with its clients?

Phone call [ ] Letters of demand [ ] text messages [ ]

15. In case that the above strategies fail, from the strategies listed below, which one(s) does KCI normally go for?

Legal Action	
Personal Visits	
Refinance the loan	
Seize goods and property of the client	

SECTION C

EFFECTIVENESS OF CREDIT POLICIES IN REDUCING LOAN DEFAULT

16. What is the level of default as a result of the introduction of guarantor ship to secure loans as a credit standard policy?

Very high default [ ] high default [ ] low default [ ] very low default [ ]

17. Stringent credit standards are effective in reducing loan default

Strongly agree [ ] Agree [ ] Disagree [ ] strongly disagree [ ]

18. Rigorous assessment of client's financial status before disbursement is effective in reducing loan default

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

19. How would you rate the effectiveness of aggressive follow ups and collection efforts in reducing loan default

Not very effective [ ] moderately effective [ ] effective [ ] very effective [ ]

20. The interest charges are flexible enough to ensure that clients honour their obligations

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

SECTION D

CREDIT POLICIES AND TURNAROUND TIME IN LOAN REPAYMENTS

21. The imposition of charges / penalties for late repayment encourages clients to pay in time.

    Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

22. Length of grace period before commencement of repayment influences quick repayment

    Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

23. How do you rate the effectiveness of notifying clients severally when their repayments are due in reducing turnaround time in loan repayments

Not very effective [ ] moderately effective [ ] effective [ ] very effective [ ]

SECTION E

RECOMMENDATIONS

24. In your opinion are there measures you can recommend for KCI to increase effectiveness of credit policies in ensuring reduced loan default as well as encouraging timely payments?

....

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

25. Apart from credit policies what other strategies can be used by MFIs to ensure recovery of loans?

……………………………………………………………………………………………..

……………………………………………………………………………………………..

……………………………………………………………………………………………..

…………………………………………………………………………………………………..