Borrowers' characteristics, credit terms and loan repayment among clients of MFI's

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Abstract
Purpose – The purpose of this study was to establish the relationship between borrowers' characteristics, credit terms and loan repayment amount clients of MFIs in Luwero District Kampala
Design/methodology/approach – Simple random sampling was used to select a sample of 24 SACCOs from Luwero district of which a sample of 266 respondents were purposively selected from these SACCOs. A cross sectional research design was adopted which involved descriptive, correlation, factor analysis and regression approaches. Data were analyzed through SPSS
Findings – Results indicated that there was no significant relationship between borrowers' characteristics and loan repayment while the relationship between credit terms and loan repayment was significant. Results from the regression analysis showed that borrowers' characteristics and credit terms significantly predicted 16.2% of loan repayment.
Practical implications – The study is relevant in that various business owners who borrow money, will help them revisit the loan taking decision and also to evaluate the loans before taking up the loan. The results will help them to use the loans more effectively.it will also help the MFI loan officers to analyze their borrowers, supervise the loans and repayment that would make them maintain their customers as well as the business sustain ability and the sustainability of the MFI.

Originality/value – this is one of the few studies that focus on borrowers' characteristics, credit terms and loan repayment among MFIs in Uganda

Keywords MFI, Borrower characteristics, credit terms, loan repayment

Paper type Research paper

Introduction

Micro Finance Institutions play a vital role in supporting the business sector as well as in national development through issuing loans to their clients. Microfinance is defined as the provision of financial services to low-income clients, including consumers and the self- employed, who

traditionally lack access to banking and related services (Gonzalez-Vega, 2008). In Uganda, these MFIs include Savings, Credit and Cooperatives (SACCOS) initiated under the Uganda cooperative alliance (UCA) with the aim of providing quality financial services on the basis of self-reliance through mobilization and management of their own financial activities. (Mpiira et al 2014). One of the major roles of SACCOS is to provide loans to the poor either individually or in group that are neglected by the commercial banks especially those in rural areas (Mohammed 2008).

When MFI disburse funds to the clients, they are expected repay the loans in a specified period of time as agreed upon in the loan agreement. Repayment usually takes the form of periodic payments that includes part principal plus interest in each installment payment. (Ifeanyi and Ojiako 2014). Before disbursing the loan sums to clients, MFIs through their loan officers screen their clients (borrowers) characteristics in terms of their demographics, ability to pay and assets owned. In addition, they explain to these clients about the terms and conditions governing the loan in terms of interest rate, collateral and loan period (credit terms). This is done to ensure that only clients who qualify for the loan receive it after understanding their obligations to ensure timely repayment. Whereas microfinance institutions put in place measures to ensure that loans are repaid on time, loan default has continued to increase. (Makolore 2014; Morduch, 2006; Robinson 2001). For example, in Luwero District of Uganda, studies carried out by Uganda Radio Network revealed a high default rate among clients in most of the SACCOS located in the district (URN report 2014). In Luwero SACCO, loan officers disbursed shillings 36 million to the borrowers but they only recovered 9 million instead of the expected 22 million shillings in interest. The report indicated that borrowers are playing hide and seek with the SACCO officials, adding that some of them have never returned a single cent, which has affected their revolving funds. In Butuntumula SACCO, the borrowers were asked to return only 63 percent of the borrowed sum after a period of two years to the SACCOS to be used for further developments. However, empirical evidence indicated that out of the 160 million shillings disbursed, only 50 percent of the funds were recovered. Loan officers in such SACCOS have now resorted to arresting the borrowers due to increasing loan arrears. This has constrained MFIs' capacity to lend to other clients and if unchecked will deter the MFIs from achieving their intended objectives and lead to their eventual collapse. The challenge is for MFIs to find ways of screening their clients before lending to them and set credit terms that will enhance loan repayment by their clients which the current study aims at addressing.

Literature review

Micro finance industry in Uganda

According to (Gonzalez-Vega, 2008), Microfinance is defined as the provision of financial services to low-income clients, including consumers and the self- employed, who traditionally lack access to banking and related services. Otero (1999), defined micro finance as the provision of financial services to low income poor and very self-employed people. These financial services according to Ledger wood (1999) not only include savings and credit, but can also include financial services such as insurance and payment services. The microfinance sector has evolved to provide a savings facility that is convenient for rural financial intermediation in terms of accessibility and nature of services offered (micro save Africa report 2000). Due to the rationing behaviour of traditional formal banks, MFIs have cropped up in Uganda that provides savings and or credit facilities to micro small scale business people whose financial needs are small. These MFIs include SACCOs initiated by the Uganda cooperative alliance (UCA) with the aim of providing quality financial services on the basis of self-reliance through mobilization and management of their own financial activities. This was a response to government's call for services to economically poor people in the rural areas of Luwero District.

Borrowers' characteristics

Borrowers' characteristics are attributes borrowers should have if they are to benefit from or access micro credit institution services easily (Sayma et al. (2009). Accessibility to credit by the borrowers will depend on the seriousness MFIs attach to the borrowers' characteristics before giving credit out (Wali, 2009). For instance borrowers who have enough assets owned will easily access credit since it reduces the risk of the institution losing its funds. These characteristics include demographic characteristics (age, gender, education, marital status, experience, training and number of time(s) one has ever borrowed a loan from the MFI), ability to pay and assets owned of the borrower.

Credit terms

Credit terms have been understood to mean collateral, repayment periods and interest rate (Atieno, 2001). Kakuru (2007), defines Credit terms as standards or negotiated terms (offered by a seller to a buyer) that control the monthly and total credit amount, maximum time allowed for repayment, discount for cash or early payment, and the amount or rate of late payment penalty. These are in form of interest rate, loan period and collateral that must be agreed upon before extending credit facilities. Collateral is the security given by a borrower to a lender as a pledge for the repayment of a loan (Atieno, 2001) and operates as broad insurance against uninsurable risk or intentional default leading to non-payment of the loan (Ayyagari et al., 2003). Loan repayment period is the time in which the borrower should repay the loan (Atieno, 2001; Yehuala, 2008, Nkundabanyanga 2014). Interest rate is the rate which is charged or paid for the use of money (Cowling and Westhead, 1996) and is used as a means of compensating banks for taking risk (Smith and Smith, 2000).Credit terms are considered as an important part of Microfinance lending programme. The loan terms affect the repayment schedule, the revenue to the MFIs, and the financing costs for the client and the ultimate suitability for the use of the loan. The closer an organization matches the loan terms to its clients' needs, the easier it is for the client to carry the loan and more likely that the repayment will be made on time and in full, (George, 2008).In a study by Chowdhury (2002), it was argued that local market competition among MFIs in Bangladesh is driven by credit terms especially in terms of loan amounts, interest rates and repayment time and that some borrowers and MFIs opt for a package of low interest rates tied with low amount of loan disbursed and some other borrowers and MFIs settle for a package of high interest rates tied with high amount of loan disbursed.

Loan repayment

Loan repayment performance of MFIs is a measure of whether the loans are repaid in full according to the loan contract. The higher the loan repayment performance, the higher the probability of the MFI collecting interest revenues and lower the loan losses (through negligible write-off of bad debts), both of which enhance sustainability. High repayment rates are indeed largely associated with benefits both for the financial institution and the borrower. They enable the financial institution to cut the interest rate it charges to the borrowers, thus reducing the financial cost of credit and allowing more borrowers to have access to it (Kon and Storey, 2003). Improving repayment rates also help reduce the dependence on subsidies of the financial institution which would improve sustainability. It is also argued that high repayment rates reflect the adequacy of financial institutions services to client's needs. They limit the incidence of cross subvention across the borrowers. Related also, repayment performance is a key variable for donors and international funding agencies on which many financial institutions still depend for their access to funds. The first-best level of repayment performance is a perfect (100%) on-time repayment rate (Ongena and

David, 2001). If the maximum repayment rate the financial institution can reach given its lending methodology is lower than the targeted 100%, the financial institution will use second-level strategies to increase its repayment performance. Such strategies include the allocation of larger loans to borrowers with lower default probability and attempts to reduce the delay in repayment.

Credit terms and loan repayment

Anderson (2002), contends that credit terms are a set of policy actions designed to minimize costs associated with credit while maximizing the benefits from it. The objective of these terms is to have optimal recovery from debtors as a firm may follow a lenient or stringent credit policy. It is in the terms of MFIs that in order for the surplus funds to be invested, credit-issuing procedure must be adhered to, to achieve efficiency in institution's management. According to Stiglitz and Weiss (2007), credit terms are part of a general exercise to help determine the extent of risk for each borrower (that is, the screening problem). It is designed on the part to ensure that borrowers take actions, and facilitate repayment/make repayment likely (incentive problem). According to Malimba (2009), grace period collateral, interest rate charges and number of official visits to the credit societies, have a strong effect on loan repayment. Cohen (2002), found out that the higher interest rates induce firms to undertake projects with lower probability of success but higher pay offs when they succeed. He further indicated that since the financial institution is not able to control all actions of borrowers due to imperfect and costly information, it will formulate terms of the loan contract to induce borrowers to take actions in the interest of the financial institution and to attract low risk borrowers. According to Ejiako etal, (2014), the interest rate has an effect on the use, repayment of the loan and the overall performance of the business. When the interest rate charged is high, there is a tendency for the borrowers to keep part of the borrowed money to pay the interest or to use the business capital to pay the interest.

According to (Malimba 2009), Interest on borrowing is one of the costs of production. The higher the interest rate the higher the likelihood of loan repayment default as the costs of servicing the loan increase. (Anderson, 2002), Besley (2002), indicated that an increase in interest rates negatively affects the borrowers by reducing their incentive to take actions conducive to loan repayment.

According to Makorere (2014), Grace period is the period given by the financial institution to the borrower before the first installment is due. In other words, it is considered to be the time between when the loan was disbursed to the loan applicant and when the first installment is paid. While conducting out a study in Tanzania, Makorere (2014) found out that most of the financial institutions tend to provide a grace period of one month only, which was seen not to be sufficient for the small business enterprise owners to start realizing enough revenue for them to start paying their loans. The study found that businesses that get enough grace period and have never experienced problem of default. Woolcock (2002), observed that if the loan term is too short, the borrower fails to generate revenue to enable him/her make repayments while a longer loan term may make the client extravagant and the client may in the end fail to pay back. For successful results, the loan terms should match the cash patterns to help the client budget cash flows (Stiglitz and Weiss, 2007).

The findings made by Atieno, (2001), indicates that stringent lending terms discourage borrowers to apply for bank debt even when they are searching for finance to execute valuable investment projects. For example, pledging business collateral limits the firms' ability to obtain future loans

from other lenders which creates a position of power for the lending bank (Mann, 1997). According to Zeller (1994) collateral value requirements deter SME borrowers from seeking credit. Stiglitz and Weiss (1981) found out that SMEs hesitate to seek credit when they do not understand why requirements like collateral are imposed on them. Banks, however, prefer borrowers with collateral. For example, Safavian et al. (2006) observed that commercial banks usually provide larger loans, longer repayment periods and lower interest rates when borrowers offer collateral. This means that a borrower who cannot provide the type of assets lenders require as collateral often gets worse loan terms than otherwise. Indeed Lehmann and Neuberger (2001) notes that borrowers who provide more collateral receive a better rating. Access to finance is particularly difficult for SMEs with insufficient collateral that do not have any established track record or credit history. But other findings (Chan and Kanatas, 1985; Bester, 1987; Besanko and Thakor, 1987) show that low-risk borrowers pledge more collateral than high-risk borrowers. Nevertheless, some studies (Shen, 2002; Atanasova and Wilson, 2004) indicate that higher availability of collateral is expected to increase the supply of bank debt as collateral can mitigate the informational asymmetries between the borrower and lender. This foregoing paragraph concludes that commercial banks' requirement for collateral positively affects access to formal credit where collateral is readily available. Contrarily, where collateral is not readily available, the demand for it will negatively affect access to formal credit. In the majority of studies, this distinction has not always been made explicit.

Borrowers' characteristics and credit terms

According to Harms (2007), Gunnana (2003) accessibility to credit by the poor people in rural areas is related to the borrowers' characteristic above**.** Lilltlefield (2003) observed that, poor people in developing countries have no access to formal financial institution services due to lack of collateral. The emerging credit institutions have since reduced this gap through availing credit on the bases of trust and group based lending strategy. According to Ajay (2006) accessibility to and usage of credit depends on the borrowers' level of education. For instance people who earn a salary normally access credit easily, since salary acts as collateral.

Chaudhary and Ishafiq (2003) examined the credit worthiness of 224 rural borrowers in Pakistan. Using logistic regression, they found that borrowers with higher educational levels, involved in a non-farm business activity, who were using the loans for investment and were female had a higher probability of repaying their loan. The study found that the subsidized interest rate level did not have a significant effect on repayment behaviour among rural borrowers in Pakistan. They concluded that a subsidized interest rate was not the best way to ensure good repayment by borrowers. According to Kuzirwa (2012), for the borrowers to effect the financial institutions' loans, there must be a conducive and predictable business environment in terms of profit generated, less business risks, business training given to the loan borrowers, competitive and reasonable interest rates charged by the financial institutions, well regulated taxes, and a fair grace period and constant power supply. Kohansal et al (2009) studied the factors influencing on repayment performance of farmers in Khorasan-Razavi province showed that farmer's experience, income, received loan size and collateral value have positive effect while loan interest rate, and total application costs and number of installment implies a negative effect on repayment performance of recipients.

Borrowers' characteristics, credit terms and loan repayment

The borrowers' characteristics in regard to repayment of the borrowed funds plays a big role in ensuring change occurs in the household's incomes. According to Jain et al. (2005) for any credit scheme to operate effectively; it is important to know the character of borrowers' in relation to payment. This calls for investing in information gathering by MFIs on their potential borrowers' and always be mindful when setting performance targets against giving of credit to borrowers'. The pay period and method of paying back should be determined early and understood by both parties (lender & borrower) since the payback period can be used as decision criterion to accept or reject the investment proposals Mohammad (2008).

Bhatt and Tang (2011) looked at the borrower's socio economic variables for their influence on loan repayment. The borrower's socioeconomic variables included gender, educational level, household income and characteristics of the business (type of business, years in business, etc.). In their study, they found that a higher education level was significant and positively related to better repayment performance. Conversely, female borrowers, level of household income, type of business and borrower's experience had no significant effect on repayment performance. While Pasha and Negese (2014), carried out research in Ethiopia to determine the factors affecting loan repayment among MFIs and found out that the education level was positively and significantly influencing loan repayment at 1% significance level. An increase in one year schooling increases the probability of the loan repayment rate by 4.939%. This figure revels that the borrowers whose educational level increased have the probability of increasing the loan repayment four times more than the borrowers who have lesser education level/ illiterates. This suggests that more educated borrower may have access to business information.

Sulaya et al (2012) indicated that the probability of a loan repayment Problem was higher for males than for females. They hypothesized that, male borrowers were less responsible and disciplined in repaying their microcredit loans than female borrowers since male borrowers have a higher problem in repaying their loan. Whereas Roslan and Abdul Karim (2009) investigated microcredit loan repayment in Malaysia and in their research, they found that male borrowers who had a longer duration for repayments had a higher probability of defaulting. Borrowers involved in non-production oriented business activities such as in the service or the support sectors, who had training in their particular business and who borrowed higher loans had lower probabilities of defaulting. Sulaya, (2012) studied the repayment performance in one agricultural corporation in Nigeria and the author's results from interviews with borrowers showed that the nature of the loan, either cash or in kind (seeds, fertilizer and equipment) can influence the borrowers' repayment . He found that borrowers who received a loan in kind had higher repayment rates than borrowers who received a cash loan. This was because many borrowers misused the cash, diverting it into personal consumption instead of investing in making their business productive. Regular visits by the loan officer to the borrowers' business site and higher profits generated by the borrowers also contributed to higher repayments by borrowers. Ajiako et al (2014), studied Loan repayment of Smallholder Cooperative Farmers in Nigeria and a negative association was found between age and repayment ability of respondents, implying that younger farmers were more likely to repay credit than older ones. Also, gender decomposition revealed that less than 9% of respondents were women.

Methodology

The study population comprised of all registered SACCO members in Luwero district Kampala. According to district annual report (2014), Luwero district has a total of 26 registered SACCOS

and 19,781 members. The study thus focused on only SACCO members. The unit of analysis as well as the unit of inquiry were the borrowers from the SACCOs. The sample size was 377 SACCO members that was determined basing on the Krejcie and Morgan (1970)' sample size determination table. Simple random sampling method was used to select the different SACCOs. In order to give every SACCO a chance to be selected, the SACCOs were listed in excel spreadsheets and random selection was used. The unit of inquiry comprised of the SACCO members and from the selected SACCOs, members were purposively selected on the basis that the SACCO member had ever taken a loan. Loan officers were used to locate the actual respondents. Therefore SACCO members were sampled basing on their accessibility and willingness to participate in the study. Of the 377 SACCO members the researcher was able to obtain useable questionnaires from 264 members which accounts for 70% response rate.

Data source, Data collection instrument, measurement of variables, validity and reliability

Primary Data was collected directly from the field by use of questionnaires which were self-administered by the researcher since most of the SACCO members were of low education level and not comfortable filling the questionnaires by themselves. Data was collected through administering a structured questionnaire survey.

Borrowers' characteristics were measured in terms of demographic characteristics, ability to pay and assets owned of the borrowers basing on the item scale adapted from Malimba (2009) who conducted a study about the factors influencing loan repayment behaviour of members of savings and cooperative societies in rural Rwanda. The items in the domain were anchored on the 5 point Likert scale ranging from strongly disagree (1) to strongly agree (5) will be adapted. Credit Terms were measured in terms of interest rates, loan period and collateral requirements as adopted from Lehmann *et al* (2004) who conducted a study about the lending terms to small and medium sized firms in East and West German and modified them to suit the local context. The items were tagged to a five point Likert scale in order to obtain the level of agreement to the scales. Loan payment was measured in terms of willingness to pay, timeliness and ease of payment basing on the item scale adapted from Nguyen, (2007). The items in the domain score on the 5 point Likert scale ranging from strongly disagree (1) to strongly agree (5). To ensure validity an expert opinion was sought from experts in the field of the study to assure relevance of the items or to establish if the item reflect the real meaning of the concept under consideration (Babbie, 2007). Reliability of instruments was ensured by estimating Cronbach alpha statistics for the scales as summarized in table 1.0 below.

Table 1.: Reliability analysis

Variable	Cronbach's Alpha	Number of Items
Borrowers' Characteristics	0.733	14
Credit terms	0.704	13
Loan repayment	0.742	6

Findings in table 1 revealed that all variables under study did not guarantee reliability originally but further reliability analysis was done to identify the items that made the scales non-reliable and were consequently deleted until Nunnally (1978)' threshold of the cronbach's alpha statistic of

0.70 and above for all the variables was achieved. The items that were retained are the ones that were used in further statistical analyses.

Data Analysis and presentation

Data collected from the primary source was compiled, sorted, edited for accuracy and clarity, classified, coded into a coding sheet and analyzed using a Statistical Package for Social Science (SPSS) version 20. During data analysis, cross tabulations, and frequency tabulations, Pearson's correlation analysis and regression analysis were used to present the results of the study. The cross tabulations and frequency tabulations were used to present the results for the sample characteristics, the Pearson's correlation analysis was used to present the relationships between the study variables and a regression analysis was used to study the variance in loan repayment caused by a combined effect of borrowers' characteristics and relationship credit terms.

Results

The findings in the table 4.1 above showed that the majority of the respondents (77.3%) were female. This is consistent with the fact on the ground since most clients of the MFIs are female. It could also indicate that most female do not have the size of collateral required to access credit from banks.

Considering the level of education, the majority of the respondents, (36.4%) had no education followed by certificate holders (30.7%), diploma 28.4%, degree holders were 3.4% while master's degree holders were 1.1%.This education profile is not surprising because generally economic endowment is directly relate with education level and this determines whether one will have collateral to access money from banks, absence of which leaves him/her no other option but to seek for credit from MFIs. The results revealed that the majority of the respondents (44.3%) were aged between 25 and 29 years, followed by the 30 – 34 year age group (18.2%) and the 35 – 39 year age group (15.9%). This age distribution reveals that the most the economically productive persons are in their youth age. When the potential borrowers' access credits they always try and put it to better use for example by engaging in different businesses. This will lead to increased productivity, ownership of assets and the end result will be improved household incomes of the poor people. According to Mugerwa (2000) micro credit institutions always give funds to active people who clearly know why they want the funds. The marital status of the respondents as per the findings in table 4.3 is such that most of them (53.4%) were married 23.9% were single, 13.6% were divorced and 9.1 were widowed. This profile is probably because it is the married that have a heavier financial burden since they have families to support and therefore in need to have credit to engage in economic activities from which they can earn a living. Married people also borrow in order to get startup capital. This enables them to engage in businesses which will increase their productivity and eventually their household incomes. Credit institutions also find it easy to give credit to married person then single persons since most of the time they give security to one other (Olijude, 2008).

The time respondents had spent in business was such that majority (37.5%) it was between 5 – 8 years which is long enough for them to have learnt enough lessons regarding access to credit in MFIs and loan repayment experiences and therefore appropriate respondents. Findings regarding the number of times the clients had borrowed revealed that most of the respondents (58.0%) had borrowed for 2 – 5 times. This was frequent enough for the clients to have experienced circumstances that enable them to provide appropriate responses to the study variables.

Factor analysis was employed to identify structure of each of credit terms. Using principal components method specifically the varimax, only those factors with an Eigen value greater than one were retained according to Guttman-Kaiser rule.

Table 2: Factor structure of borrowers' characteristics

	Demographic characteristics	Ability to pay	Assets owned
Marital status of borrowers	.715		
Age level of the borrower	.702		
Age level of borrower's children	.638		
Income levels of the borrower		.761	
Repayment character of borrowers		.639	
Level of savings with the SACCO			.606
Borrowers' assets owned			.585
Eigen value	1.952	1.551	1.332
Variance (%)	20.145	17.913	16.634
Cumulative variance (%)	20.145	38.058	54.692

The factor analysis of the borrowers' characteristics from table 2 revealed three factors, the first factor being demographic characteristics, ability to pay and borrowers' assets which explained 20.2%, 17.9% and 16.9% respectively. Demographic characteristics was underscored by marital status of the borrowers (.715), age level of the borrower (.702) and age level of the borrower's children (.638). Ability to pay was best represented by Income levels of the borrower (.761) and repayment character of the borrowers (.639). Lastly borrowers' characteristics was represented by Level of savings with the SACCO and Borrowers' assets owned.

	Loan period	Collateral	Interest rate
The waiting time until I receive the loan is short	.766		
I negotiate with my SACCO on the number of months to be considered to repay the loan	.696		
The value of collateral used for borrowing is reasonable with the loan size		.777	
I always have the necessary collateral to secure the loan amount I need		.775	

The interest rate charged to me is adjusted frequently			.778	**Table 3:**
The favorable interest rates enhance my willingness to repay			.682	
Eigen value	3.023	1.564	1.401	
Variance (%)	27.48	14.216	12.736	
Cummulative variance	27.48	41.696	54.432	
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 5 iterations.				

Factor structure of Credit terms

Results in table 3 revealed the factor structure for credit terms to consist of three factors. In their order of significance they include; loan period (Eigen value = 3.023, Variance = *27.48*%), collateral (Eigen value = *1564*, Variance = *14.216*%) and interest rate (Eigen value = *1.401*, Variance = *12.74*%), each explaining 27.48%, 14.22% and 12.72% variance respectively. Loan period was underscored by; the waiting time before a borrower receives the loan being short (.766) and the liberty to negotiate the length of the loan period (.696) The salient items regarding collateral requirement include; the value of collateral used for borrowing being reasonable with the loan size (0.777) and the necessary collateral to secure the loan amount one needs (0.775). The pertinent issues with respect to the interest rate were; the frequent adjustment of the interest rate charged to the borrowers (.778) and the favorable interest rates having the ability to enhance the borrowers' willingness to repay (.696).

Table 4: Factor structure of Loan repayment

	Willingness to pay	Timeliness	Ease of payment
I willingly pay my loans without any inducement	.826		
I sometimes pay my loans with the help of my group members	.757		
The process/mode of paying the loan is appropriate	.726		
I pay my loans on due dates		.759	
My SACCO reminds me to pay back the loan		.586	
I am comfortable to pay my loan weekly			.824
My business generate enough cash flows to repay my loan well			.668

Eigen value	1.865	1.199	1.148
Variance (%)	26.641	17.132	16.396
Cumulative variance	26.641	43.773	60.169
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 4 iterations.			

The factor analysis of loan repayment from table 4 showed that of the three factors; willingness to pay was the most significant, followed by timeliness and lastly ease of payment each explaining 26.6%, 17.1% and 16.2% respectively.

The aspect of willingness to pay was underlined by; paying ones loans with the help of his/her group members or with or without inducement and the appropriateness of the mode of payment. Timeliness of payment was underscored by; the ability to pay the loans on due dates and the reminders from SACCOs about paying back. Ease of payment consisted of the ability of the borrowers' businesses to generate enough cash flows to repay their loan well and their ability to pay the loans regularly.

Pearson's Correlation analysis

Correlation analysis was conducted to establish the relationships between the study variables. This Pearson product moment correlation method was used to generate the measure of the magnitude and direction of the relationship between the study variables.

Table 5: Pearson's Correlation analysis

Variables	**1**	**2**	**3**
Borrowers characteristics (1)	1.000		
Credit terms (2)	.220**	1.000	
Loan repayment (3)	0.097	.411**	1.000

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

The relationship between Borrower's characteristics and Loan repayment

Findings in table 4.10 revealed that there was no significant relationship between Borrower's characteristics and Loan repayment ($r = .097$, $P>.05$). This is an indication that the Borrower's characteristics were not necessarily associated with Loan repayment. In other words ones marital status, age, income level, education level, work experience and occupation could not indicate the loan repayment performance of the clients of the MFIs.

The relationship between Credit terms and Loan repayment

Findings in table 4.10 also indicated that there was significant positive relationship between Credit terms and Loan repayment. This implies that the level of flexibility of the credit terms was directly associated with the level of loan repayment. In other words, when the credit terms in terms of

collateral requirement, loan period and interest rate are flexible and not too much straining, the clients also find it easy to repay their loans.

Regression model of Entrepreneurial intentions

In order to establish the relationship between Borrower's characteristics, Credit terms and Loan repayment the regression of loan repayment was conducted.

Table 6: Regression analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F Statistic	Sig.
1	.411[a]	.169	.162	.596	26.499	.000

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.534	.349		7.258	.000
	Borrowers characteristics	.008	.073	.006	.112	.911
	Credit terms	.298	.042	.409	7.076	.000

a. Dependent Variable: Loan repayment

The effect of Borrowers' characteristics and Credit terms on Loan repayment

The regression model summarized in table 6 indicates that of the two independent variables, only credit terms (beta = .298, $p<.01$) had a significant positive effect on Loan repayment. This implies that the more flexible the credit terms get, the more the easier it gets for clients of the MFIs to pay their loans. For instance if clients are at liberty to negotiate the length of loan period or if collateral requirements are within the means of the clients then they would comfortably pay back the loans extended to them on time.

The regression model was also found to be well specified ($F=26.499$, $p<.01$), implying that both Borrower's characteristics and Credit terms were appropriate predictors of loan repayment and the variation in both of the independent variables predicted up to 16.2% variation loan repayment.

Conclusion

From the results of current study, it can be concluded that; given the importance of credit terms as determinants of loan repayment among clients of MFIs at Luwero district, it is imperative for

all the policy makers of the MFIs in Luwero district to give it the weight it deserves. The managers and policy makers need to pay particular attention to the collateral required of the borrowers before extending loans to them, which should be valuable enough to motivate borrowers to make good their loan obligations. The length of the loan period should be set as to encourage loan repayment by striking a good middle ground between lenience and stringency since both extremes would not yield successful results. Lastly the interest rate should be set in such a way that the average interest paid on a loan of average size does not constitute a very big part of the cost of production.

Recommendations

Micro finance is an important part of the growth strategy in Uganda and has in the recent years gained increasing recognition. This is evidenced by initiatives and strong commitment by government, donors and practitioners towards supporting microfinance activities in Uganda. Given the objectives of the research study, the findings, discussion and conclusions, the following recommendations have been made by the researcher:-
From the finding that there is a relationship between credit terms and loan repayment and that collateral requirement weighs heavy in the perspective of clients then the managers of the MFIs should set the credit terms especially collateral security in such a way that enhances their capacity to repay their loans.

The MFIs in Luwero should conduct sensitization workshops for their clients so to increase their financial literacy which would enable them to take sound financial decisions such as proportionate loan sizes they can comfortably pay back.

Group screening, mentoring and routine monitoring should be undertaken by lenders to induce desired financial behavior of customers before, during and after extending loans to groups. This minimizes instances of defaulting, write offs/cancellations, penalties that would effect on the returns expected from the loans.

Limitations and suggestions for future research

The data was collected by self-administering the questionnaires with close ended questions and this is likely to have limited the amount of data collected. Some respondents developed fear and became unwilling to answer the different questions thinking that the information would be used to disclose what actually is happening in different SACCOS.

Following the findings from this research study, the following area are suggested for further research:-

i. Perform a qualitative analysis of the factors that affect loan repayment in Luwero district.
ii. Investigate the relationship between the level of supervision and Loan repayment among clients of MFIs in Luwero district.
iii. Find out other variables that are predictive potential on loan repayment other than borrowers' characteristics and credit terms. The current study accounts for 16.2% of variance in loan repayment which leaves 83.8% unaccounted for making it an area for further research.

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