DETERMINANTS OF LOAN DEFAULTS IN COMMERCIAL BANKS IN UGANDA

A CASE STUDY OF ECOBANK (U) LTD

BY

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2012/HD06/4313U

A dissertation submitted to the College of Business and Management Sciences, Makerere University in partial fulfillment of the requirements for the Master's degree in Business Administration.

DECLARATION

I, **Ronald Ssebuwufu** hereby admit that this work is my original work and has never in any way been presented to any institution of learning.

Sign______________________________ Date __________________________________

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REG. NO. 2012/HD06/4313U

APPROVAL

I hereby declare that the content of this report have been done through my supervision and have never been submitted to any institution of higher learning and is now ready for submission to the board of examiners

Signature ___________________________________ Date_____________________________

Dr. NDANDIKO CHARLES

Supervisor

DEDICATION

This work is a tribute to my family for their patience, understanding and love to cause possibilities

ACKNOWLEDGEMENT

I would like to acknowledge the following persons whose contributions facilitated the completion of this project. First and foremost, I thank the Almighty God for the gift of life and for giving me the skills, knowledge and energy to be able to complete this paper. Great thanks go to family members for their continuous support financially towards the completion of this report with out forgetting my academic supervisors. I also recognize the valuable work done by the organizations who participated in providing the right information that was used in this study. May God bless you all

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ABBREVIATIONS

BOU	Bank of Uganda
BOUA	Bank of Uganda Act
BOUASR	Bank of Uganda Annual Supervision Report
BOUS	Bank of Uganda Statute
CB	Central Bank
EBDIT	Earnings Before Depreciation, Interest and Taxes
ETI	Ecobank Transnational Inc.
EUL	Ecobank Uganda Limited
FCPG	Financial Consumer Protection Guidelines
FIA	Financial Institutions Act
MFDTIA	Micro-Finance Deposit-Taking Institutions Act
MFS	Mobile Financial Services
NPL	Non-Performing Loans
SME	Small and Medium Enterprise
US	United States

ABSTRACT

Introduction

This study was conducted in Ecobank Uganda and it was based on investigating the determinants of loan defaults in commercial banks in Uganda using Ecobank as a case study. The study included a study sample of 99 respondents from a sample population of 130 as stated by Krejcie and Morgan tables of sample size determination. This study population was selected randomly from the clients and the management of Ecobank form different branches in Uganda.

Methodology

This study employed descriptive survey design by use of questionnaires and interview guide as the major tools for data collection. Data was analyzed using Partial **Least Squares Structural Equation Modeling (PLS-SEM) Techniques using** multivariate, composite reliability, AVE, path co-efficience and total effects of the variable data analysis method that is often used in marketing research.

Findings

The coefficient of determination is 0.812 for credit repayment performance endogenous latent variable. This means that the variable (Borrower behavior, Customer commitment, Credit repayment performance and Credit administration) are significantly associated and they highly influence the credit repayment performance.

Conclusion

Borrowers' behaviour is rarely the result of a single motive. Common behaviour results mainly from an individual's interactions with the external environment, however, the personality of the borrowers always play an instrumental role in influencing the repayment of the loan.

Recommendations

Ecobank should ensure that their interests on the loan are not too high for the borrower in away that the interest rate should not take much of the borrowers' money which may lead to repayment avoidance.

The borrowers should first plan for the loan before they borrow to avoid diverting the borrowed money for other motives other than the intended. This will help them in meeting the loan repayment schedules and avoids bad debts.

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Financial institutions play a crucial role in facilitating the accumulation and allocation of capital by channeling individual savings into loans to governments, businesses and individuals. In Uganda, the role of the banking sector in capital concentration and distribution cannot be disputed. Traditionally, commercial banks have been thought of as firms which take deposits, give loans and make profit by the difference between the costs of the former and the earnings from the latter activities (Smith, Staikouras & Wood, 2003).

Lending is a risky enterprise because repayment of loans can seldom be fully guaranteed. According to Brown, Falk, & Fehr, (2004), implicit contracts between lenders and borrowers, thus, banking relationships can motivate high effort and timely repayments. Fehr &Zehnder, (2005) also confirm that long-term relationships are a powerful disciplinary device. They posit that in credit markets dominated by short-term interactions, borrowers may only be motivated to repay if they know that, due to credit reporting, their current behaviour is observable by other lenders.

The Ugandan banking problems have been complicated by poor borrower behaviour and credit repayment in the banking system, making it difficult to gauge the severity of the situation or propose timely solutions.

The work of Fehr & Zehnder (2005) indicates that the impact of credit reporting on repayment behaviour and credit market performance is highly dependent on the potential for relationship banking. Therefore, when bilateral relationships are not feasible, the credit market essentially collapses in the absence of acceptable borrower behaviour. As repayments are not third-party enforceable, many borrowers default and lenders cannot profitably offer credit contracts (Brown, Falk, & Fehr, 2004).

The availability of information on past repayment behaviour allows lenders to condition their offers on the borrowers' reputation. As borrowers with a good track record receive better credit offers, all borrowers have a strong incentive to sustain their reputation by repaying their debt

(Orebiyi, 2002). Therefore, by repeatedly interacting with the same borrower, lenders establish long-term relationships that enable them to condition their credit terms on the past repayments of their borrower. As only a good reputation leads to attractive credit offers from the incumbent lender, borrowers have strong incentives to repay.

1.1.1 Ecobank

Ecobank, whose official name is Ecobank Transnational Inc. (ETI), but is also known as Ecobank Transnational, is a pan-African banking conglomerate, with banking operations in 36 African countries. It is the leading independent regional banking group in West Africa and Central Africa, serving wholesale and retail customers. It also maintains subsidiaries in Eastern Africa, as well as in Southern Africa. ETI has representative offices in Angola, China, Dubai, France, South Africa and in the United Kingdom.

With more than 1,500 branches in 35 countries, the Ecobank-Nedbank Alliance is the largest banking network in Africa. The alliance was formed in 2008 between the Ecobank Group and the Nedbank Group, one of South Africa's four largest financial services providers, with a growing footprint of operations across the Southern African Development Community.

1.1.2 Ecobank (Uganda) Ltd

Ecobank (Uganda) is a commercial bank in Uganda. It is one of the commercial banks licensed by Bank of Uganda, the central bank and national banking regulator. The bank began operations in January 2009 as a full-service bank providing wholesale, retail, investment and transaction banking services and products to governments, financial institutions, multinationals, international organizations, medium, small and micro businesses and individuals. According to available financial reports, as of December 2012, the bank's total assets were valued at about US$66.1 million (UGX: 164.4 billion), with shareholders' equity of approximately US$6.3 million (UGX: 15.9 billion).[1]

1.2 PROBLEM STATEMENT

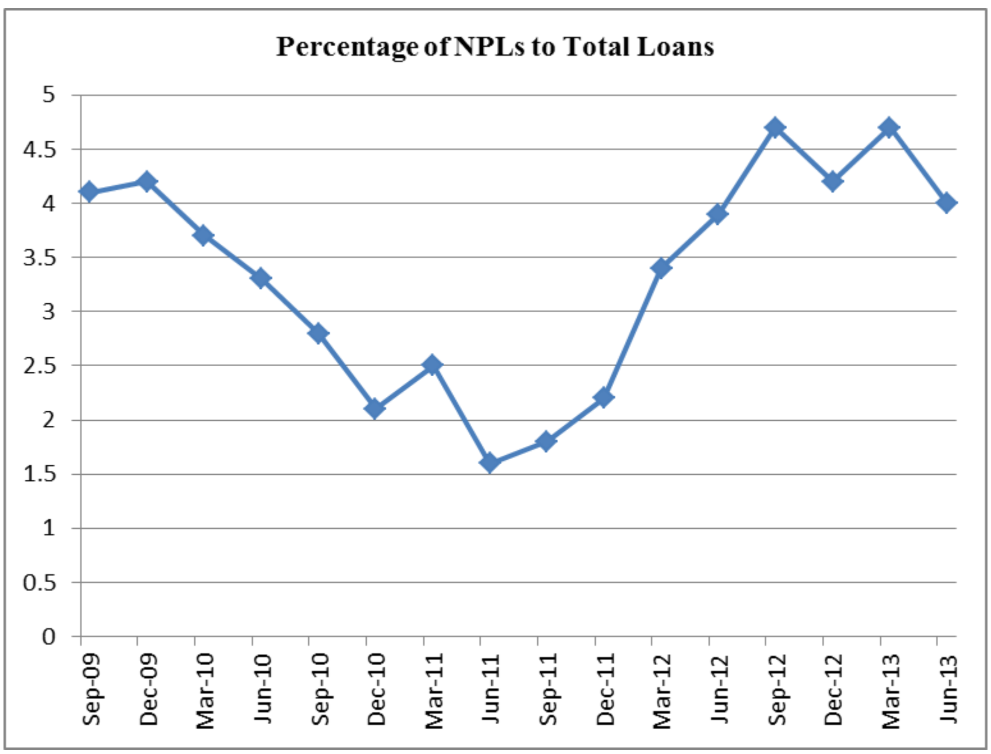
The issue of credit non-payment has been one of the topical issues in banking. The interest in the concept has risen mainly due to the alarming rate of non-performing credits in the books of

[1] Source: Audited 31 December 2012 Financial Report.

commercial banks which threaten financial sector stability. Commercial banks are reviewing their internal controls, credit appraisal and risk management policies to reduce the soaring rate of credit non-payment.

Of all the risks banks face, credit risk is considered as the most lethal as bad debts would impair banks profit. It has to be noted that credit risk arises from uncertainty in a given counterparty's ability to meet its obligations. Credit non-payment is detrimental to both the lender and the borrower due to the fact that the costs of loan delinquencies would be felt by both parties. The lender has costs in delinquency situations, including loss of interest, opportunity cost of principal, legal fees and related costs.

Figure 1: Percentages of NPLs to Total loans for Ugandan Banks



Source: Financial Sector Stability Reports June 2013

According to the Financial Sector stability reports of 2011 and 2013, the aggregated ratio of NPLs to total loans for Ugandan Commercial banks has of recent been on an increasing trend as shown in figure 1. As recently as a few months ago, Global Trust Bank was closed and one of the main factors that led to its closure was loan defaults which contributed to accumulated losses which meant the bank operations could not run smoothly anymore.

Financial defaulters nearly doubled in 2008 with an all-time single biggest defaulter by volume being Lehman Brothers who in September 2008 failed to pay $144 Billion of rated debt (Standard & Poor, 2009). Similarly, even financial institutions in Uganda continue to wriggle through a similar condition with many getting scathed. For example, in the late 90's, Uganda's financial system was grossly hit by mass credit default which culminated into insolvency and hence closure of four (4) local commercial banks—Greenland, Cooperative, International Credit and Trust Banks. This created a banking crisis and the remaining local commercial banks experienced loss of customer confidence leading to poor financial performance (Bank of Uganda, 2002).

It is in this regard that this study was designed to investigate the determinants of loan defaults in commercial banks in Uganda using Ecobank as a case study.

1.3 RESEARCH OBJECTIVES

The main objective of the study was to investigate the determinants of loan defaults in commercial banks in Uganda using Ecobank as a case study.

The specific objectives of the study are:

i. To examine the relationship between borrower behaviour and credit repayment performance in Ecobank.

ii. To establish the relationship between credit monitoring and loan defaults in Ecobank.

iii. To investigate the relationships between credit terms on loan performance in Ecobank.

iv. To examine the relationship between bank ownership structure and size and loan default in Ecobank.

1.4 RESEARCH QUESTIONS

Several research questions were used for the study and these included:

i. What is the relationship between borrower behaviour and credit repayment performance Ecobank (Uganda) Limited?
ii. What is the relationship between credit monitoring and loan defaults in Ecobank?
iii. What is the relationship between credit terms on loan performance in Ecobank?
iv. What is the relationship between bank ownership structure and size and loan default in Ecobank?

1.5 RESEARCH HYPOTHESIS

Hypothesis 1: There is a relationship between borrower behaviour and credit repayment performance Ecobank (Uganda) Limited.

Hypothesis 2: There is a relationship between credit monitoring and loan defaults in Ecobank.

Hypothesis 3: There is a relationship between credit terms on loan performance in Ecobank.

Hypothesis 4: There is a relationship between bank ownership structure and size and loan default in Ecobank.

1.6 SCOPE OF THE STUDY

The study focused on the determinants of loan defaults in Ecobank (Uganda) Limited. The study was carried out in all the branches of Ecobank (Uganda) Limited, Kampala District.

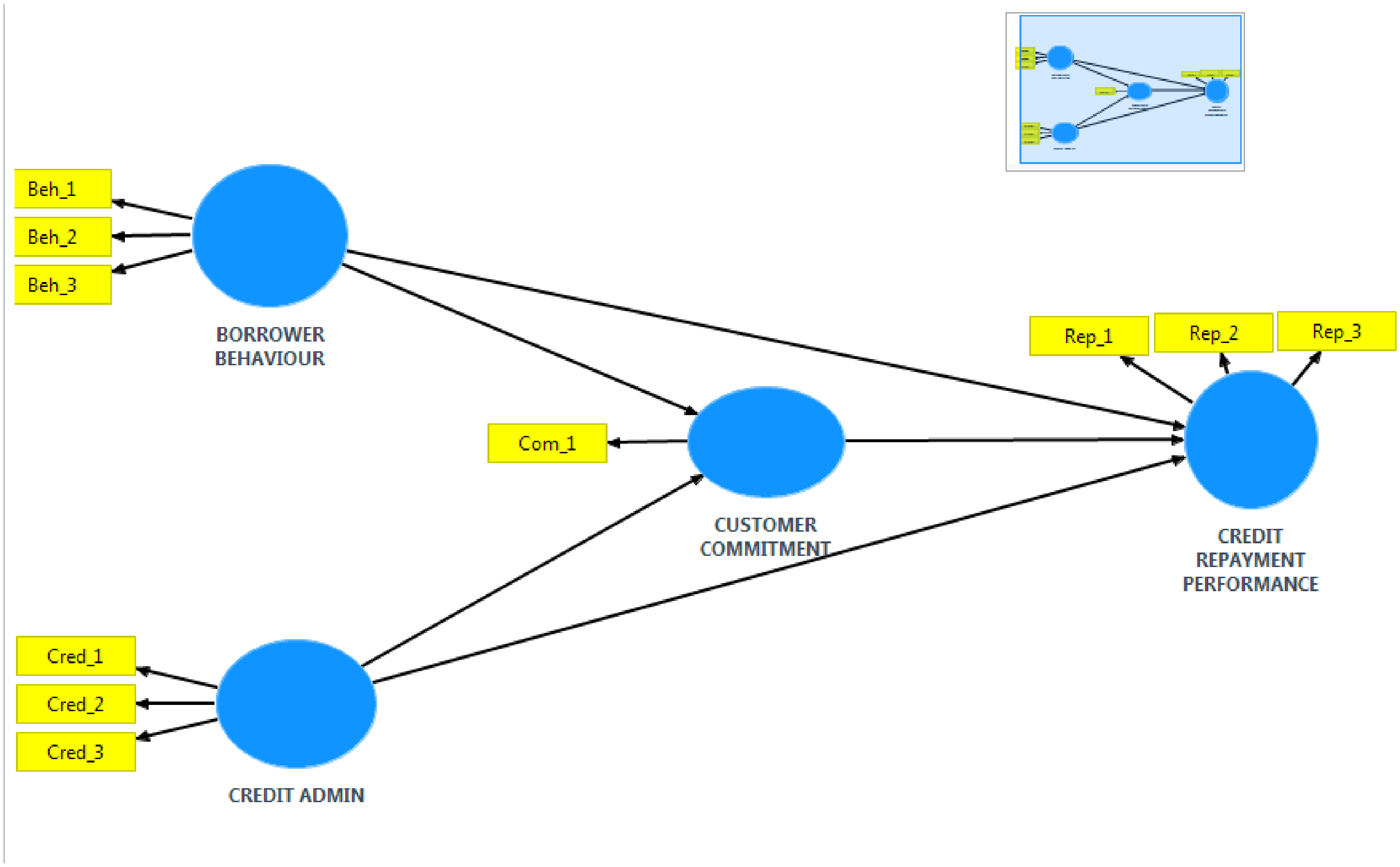
1.7 SIGNIFICANCE OR RATIONALE OF THE STUDY

In Uganda, there has been an increase in the number of credit facilities turning bad particularly in the banking industry. Controlling non-performing loans is very important for both the performance of an individual bank and the economy’s financial environment. The study findings will benefit banks and other institutions offering loan facilities in mitigating the non- performing loans. Academia and other researchers will also use the study as a point of reference for further research. The study will add to the already existing literature on determinants of credit repayment performance. The study is expected to also enable commercial banks identify the credit management policies that are critical in the lending business. The study is expected to provide guidance to the Central Bank and other regulators in the credit risk management policy formulation.

According to the conceptual framework, a number of factors (borrower behaviour, credit terms, credit monitoring and bank size) affect the relationship during the lending process between the borrowers and bank loan officers which in turn affect the credit repayment performance of the bank (recovery rate, portfolio growth and portfolio quality).

1.8 CONCEPTUAL FRAMEWORK

Figure 2: Conceptual Framework



Adapted from: ***Nguyen, 2007, Berger, Miller, Petersen, Rajan and Stein, 2005, Brown and Zehnder, 2006, Berger et. al., 2001, Orebiyi, 2002, and Ongena and Smith, 2000.***

According to Nguyen, (2007) Consumer behaviour is rarely the result of a single motive. Several factors combine to make one buy or consume a product or service; or a borrower to promptly repay or default repayment of a facility. Behaviour primacy theory holds that, common behaviour results mainly from an individual's interactions with the environment. As the environment changes, individuals tend to cope by changing their behaviour. Thus bank borrowers' behaviour is determined by economic, cultural, social, psychological, personal and political factors: Economics was the first discipline to construct a specific theory of buying behaviour.

Lending relationships are viewed as a form of lender-borrower interactions including partnerships, collaborative linkages and alliances. Further, establishment of these relationships is viewed as an indicator that markets are evolving from emphasis on mere transaction oriented marketing where firms carried out transactions without prior consideration of consumer desires, to emphasis on relation-oriented marketing involving aggressive, integrated, goal-oriented, and systematic pursuit of customers (Hendriske and Veerman, 2001). Lenders have an incentive to utilize greater relationships in the lending process to take advantage of the information generated in the process and the resultant reduction in monitoring. On the other hand, loyal borrowers are given the opportunity to establish the necessary reputation required for loan availability and accessibility (Orebiyi, 2002). Further, because it is not necessary to undertake explicit contracting in relationship lending, bureaucratic procedures associated with verification of documents and collateral requirements are reduced. As borrowers with a good track record receive better credit offers, all borrowers have a strong incentive to sustain their reputation by repaying their debt (Orebiyi, 2002). Therefore, by repeatedly interacting with the same borrower, lenders establish long-term relationships that enable them to condition their credit terms on the past repayments of their borrower hence providing a basis for quick repayment by the borrower in trying to maintain the relationship. As only a good reputation leads to attractive credit offers from the incumbent lender, borrowers have strong incentives to repay. Current financial literature points out that organizations that emphasize stronger and long-lasting relationships with consumers often perceive this to be a core element of the services they offer (Ongena and Smith, 2000).

CHAPTER TWO: LITERATURE REVIEW

2.0 INTRODUCTION

According to Adedoyin and Sobodun (1991), "lending is undoubtedly the heart of banking business. Therefore, its administration requires considerable skill and dexterity on the part of the bank management". While a bank is irrevocably committed to pay interest on deposits it mobilized from different sources, the ability to articulate loanable avenues where deposit funds could be placed to generate reasonable income; maintain liquidity and ensure safety requires a high degree of pragmatic policy formulation and application.

By far the biggest risk facing banks and financial intermediaries remains credit risk- the risk of customer or counterparty to default (Reserve Bank of Australia, 1997). In Uganda, the 1980s and 1990s saw the banking system coming under severe stress where many banks were riddled by high levels of non-performing assets (credit risk) with some banks going insolvent. By 1995 the non performing loans in the banking sector had accumulated to US$34million (Tumusiime, 2005).

The size of business relates to the amount of income obtained from it. Mpunga (2004) asserts that the level of business income is an important factor that would determine the credit worthiness of a client. At low levels of income, businesses have little money to save while at higher levels much can be saved and even used to purchase collaterals which can be used as loan securities. Such securities can be sold to repay loans.

Ojo (1999), in a study on roles and failure of financial intermediation by banks in Nigeria revealed that, "commercial banks can lend on medium and short term basis without necessarily jeopardizing their liquidity. If they must contribute meaningfully to the economic development, the maturity pattern of their loans should be on a long term nature rather than of short term period". However, Oloyede (1999) claimed that "it is generally acknowledged that commercial banking by its nature is highly prone to volatility and fragility – whether arising from exogenous shocks or endogenous policy measures – and therefore, amenable to regulations and supervision".

All banks need to have basic loan portfolio management principles in place in some form. This includes determining whether the risks associated with the bank's lending activities are accurately identified and appropriately communicated to senior management and the board of directors, and, when necessary, whether appropriate corrective action is taken (Comptroller's hand book, 1998:6).

There are various policies that lenders put in place to ensure that credit administration is done effectively. One of these policies is collection policy which is needed because all customers do not pay the firms bills in time. The collection effort should, therefore aim at accelerating collections from slow payers and hence reducing bad debt losses.

A collection policy ensures prompt and regular collection for fast turnover of working capital keeping collection costs and bad debts within limits and hence maintaining collection efficiency. The collection policy specifies clear-cut collection procedures and hence dissuades conflicts arising from loan repayment periods, amounts and loan structure (Pandey, 2004). The policy analyses business viability position and business management by appraising the financial strength of the applicant, the firm`s quality of management and nature of the customers businesses. The lender also conducts management audit to identify weakness of the customer's business management. If the nature of the customers' business is highly fluctuating or has financially weak buyers or the business depends on a few buyers, then it is risky to extend credit to such borrower.

A non- performing loan (NPL) may be defined as a loan that has been unpaid for ninety days or more (Greenidge and Grosvenor, 2010). Such unpaid loans affect the bank loan portfolio performance. For effective loan portfolio performance banks should pay attention to several factors when providing loans in order to curtail the level of impaired loans (Khemraj and Pasha, n.d: 23).According to Batar (2008), the lender can identify target clients' financial service's needs, evaluate their needs, assess their character and capacity for repayment and determine the appropriate loan amount using financial expertise. A firm may develop its own ad hoc approach of numerical credit scoring to determine the credit worthiness of customers. The attributes identified by the firm may be assigned weights depending on their importance and be combined to create an overall-score.

2.1 LOANS

Like all debt instruments according to Kellison (1970), a loan entails the redistribution of financial assets over time, between the lender and the borrower. In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time.

Donald (2003) notes that, typically, the money is paid back in regular installments, or partial repayments; in an annuity, each installment is the same amount. Acting as a provider of loans is one of the principal tasks for financial institutions. For other institutions, issuing of debt contracts such as bonds is a typical source of funding.

The three processes in assessment of loans in commercial banks include Loan Approval Process, Loan Monitoring Process, and Loan Termination Process. Understanding each of the mentioned processes in the assessment of credit is central to successful loan portfolio management. Because of the significance of a bank's lending activities, the influence of the assessment of credit culture frequently extends to other bank activities. Staff members throughout the bank should understand the bank's assessment credit culture. The knowledge should pass from the chief credit policy officer to account officers to administrative support. Directors and senior management should not only publicly endorse the credit standards that are an assessment of credit culture's backbone but should also employ them when formulating strategic plans and overseeing portfolio management (Milton 2000).

Analysis of loans varies from bank to bank. Some banks' analysis of loans is done using a very conservative approach, as a result of lending only to financially strong, well-established borrowers. Growth-oriented banks may approach lending more aggressively, lending to borrowers who pose a higher repayment risk which calls for a rather more sensitive analysis of loans. These differences are grounded in a bank's objectives for asset quality, growth, and earnings. Emphasizing one of these objectives over another does not, in and of itself, preclude achieving satisfactory performance in all three (Saunders 2003).

However, the emphasis on approach to analysis of loans will influence how lending activities are conducted and may prompt changes in credit policies and risk control systems. For example, a bank driven to achieve aggressive growth targets may require more detailed credit policies and more controlling administrative and monitoring systems to manage the analysis of loans. Consistently successful banks achieve a balance between asset quality, growth, and earnings. They have cultural values, credit policies, and processes that reinforce each other and that are clearly communicated, well understood, and carefully followed (Saunders 2003).

2.2 WHY LOANS

Any person who knows a lot about finances will inform you that it's critical to only spend money that you actually have. However, the truth is that there are some occasions when you might have an expenditure that will be worth more than the amount of money you have. You should be sure to talk to all the available experts for advice, but they may tell you that the purchase is still a good idea. You should make sure to talk to a bank or other lender to help secure a loan. The loan that you end up getting will usually be designed specifically for your purchase type.

More than anything else, people will sign up for loans in order to purchase real estate. The money from these loans typically is used in the purchase of a home for just the person and his family. Very few people in the world will be able to save enough money to actually purchase a house in cash. This is when a loan can be useful. Most loans for homes are designed to extend for either 15 or more years, and you'll slowly pay off the debt in time. Without a home loan, there are very few people who would actually be capable of buying a home in their lives. Home loans are the perfect thing for you to get whenever you must buy a place for you to call home.

You might also get a loan when you need a new car. It is the primary method of transportation in most of the world, and it is something you need to have if you want to get to your destinations in a reasonable amount of time. Whenever a person is ready to buy a car of their very own, a loan will be the only way to pay for it.

When you wish to begin a new business idea, you're probably going to have to get a loan of some sort. More than anything else, a business must have the right level of smarts and capital in order to become profitable. Although it is up to you to supply the smarts, the odds are quite good that you must rely on an outside source in order to fund the company. Loans allow you to do this as needed.

2.3 WHY DEFAULT

Evidence from many countries in recent years suggests that collateral values and recovery rates on corporate defaults can be volatile and, moreover, that they tend to go down just when the number of defaults goes up in economic downturns. This link between recovery rates and default rates has traditionally been neglected by credit risk models, as most of them focused on default risk and adopted static loss assumptions, treating the recovery rate either as a constant parameter or as a stochastic variable independent from the probability of default.

Hoque and Hossain (2008) successfully tested association of loan defaults and higher interest rates evidencing their view point using three regression models. They suggested rationalizing of interest rate policy to enhance the repayment capacity of borrowers for lowering the default rates. They found that loan "defaults were highly correlated with higher interest rates which increase the debt burden on borrowers and leads to defaults resulting in capital erosion of banks. Research conducted by Asari, et al. (2011) was also on the same lines and concluded that Non-performing loans and interest rates have significant relations. Their study suggested that increase in the Non-performing loans result in deterioration of bank assets and subsequently capital erosion.

Interest rates and their volatility are among the most critical and closely watched variables in the economy. A paper by Adela and Iulia (2010) demonstrated the connection between average interest rate and non-performing loans. Dash and Kabra (2010) found that commercial banks with aggressive lending strategies charging relatively higher rents on lending incur greater Non-performing loans. Study conducted by Kaplin, et al. (2009), empirically supported negative correlation between interest rate volatility and loan defaults using data of large non-financial US firms for the period 1982-2008.

Volatile and increasing interest rates with rising non-performing loans destruct private sector growth and increase losses that result attrition of banks' equity (Fofack, 2005) similar to self-cannibalism situation. Keeping in view the above fact, researchers attempted to empirically test the impacts of lending interest rates on the surging non-performing loan portfolio of banks with specific reference to Developing countries' crippling economy. Research conducted by Asari, et al. (2011) was also on the same lines and concluded that Non-performing loans and interest rates have significant relations.

Stiglitz and Weiss (1981) analyzed credit rationing and argued that higher interest rates increase riskiness of bank's investments and accordingly the probability of default contributing to NPL portfolio. They empirically justified their view point and explained that increase in the interest rates foster borrowing for relatively riskier projects with higher interest costs. Such increase in riskiness results in increased probability of defaults. Increase in non-performing loan portfolios of banks is common in all those economies where economic monitors including regulators and banking professionals lack understanding of systemic risks and macroeconomic effects pertaining to Developing countries.

2.4 WHY ONE SHOULD NOT DEFAULT

Loan default is closely related to corporate bankruptcy (Lízal, 2002). The causes of bankruptcy are problems in the fields of indebtedness, profitability, liquidity and solvency (Altman, 1968). Firms are more likely to default if they are highly indebted, less profitable, less liquid, and if the legal system does not create efficient incentives to repay the loans. Selected financial ratios related to these factors are commonly used to predict the probability of corporate bankruptcy in developed financial markets (Altman, 1968; Beaver, 1966), but less evidence is available for the new member states.

The borrower should be aware of what the consequences are if a loan is defaulted, no solution is being sought, or the customer is not willing to cooperate with the bank (the client, in the knowledge that problems may arise with loan repayment, is not coming to the bank, is not answering the bank's calls, letters, bank messages or text messages encouraging the client to approach for help).

Some of the consequences are:

- The debt case is handed over to a collection agency and collection is enforced against both the debtor and the guarantor.
- If the collection process does not lead to repayment of the debt, the claim is lodged with court. To fulfil the court's judgement, the case is handed over to a court bailiff.
- The court bailiff then enforces collection against the debtor's and/or guarantor's movable and immovable property or other income. The court bailiff makes the debtor's employer withhold money from the debtor's monthly pay and to transfer it to the court bailiff until discharge of the amount of debt in full.
- The court bailiff attaches any assets owned by the debtor and freezes any accounts with the banks until discharge of the debt obligations. If the customer has a number of loan (short-term and long-term) agreements with the bank, then collection may also be enforced against the mortgaged or pledged property for falling overdue with short-term loan payments.
- All expenses related to court bailiff services are borne by the debtor.
- Defaulting on loan obligations may result in not being able, or being less able, to borrow again in the future from other banks and other credit institutions.

2.5 CRITICAL SUCCESS FACTORS FOR LENDING

Kakuru (2001) states that in order to estimate the probability of default, the financial manager should consider the following aspects usually referred to as the 4C's:

Character: this relates to the willingness of the customer to settle his obligation. In making analysis about the customer's character the following aspects are considered, namely; bank reference, marital status, attachment to government agencies, level of education, stability of employment, and historical background (Kakuru, 2001).

Capacity: this is the ability of the customer to pay the credit advanced to him. When analysing the capacity, the manager should look at financial statements, previous experience with the client, trade references, and the amount and purpose of the credit (Willem, 2009).

Capital: this is the contribution or interest of the customer in his business and is shown by the formula; capital= assets-liabilities. It therefore refers to the financial resources that a company may have in order to deal with its own debt (Kyagulanyi, 2008).

Capacity: this includes the assessment of prevailing economic conditions and other factors like social and political, which may affect the customer's ability to pay. It therefore refers to the external conditions surrounding the business that you are analysing (Kakuru, 2001)

Collateral: this is security against failure to pay, the person seeking credit offers this security before credit is granted, and security should be safe and easily marketable.

In making analysis about the customer's character the following aspects are considered, namely; bank reference, marital status, attachment to government agencies, level of education, stability of employment, and historical background (Kakuru, 2001). All these requirements enable the bank to highly mitigate credit risk. However, due to the increasing level of competition, other factors not mentioned by the above authors have of recently been considered before credit is given. These may include; reference from the Credit reference bureau, duration of work and salary, reputation of the firm, and borrowing history.

2.6 CRITICAL SUCCESS FACTORS FOR BORROWING

Consumer behaviour is rarely the result of a single motive. Several factors combine to make one buy or consume a product or service; or a borrower to promptly repay or default repayment of a facility. Behaviour primacy theory holds that, common behaviour results mainly from an individual's interactions with the environment (Nguyen, 2007). As the environment changes, individuals tend to cope by changing their behaviour. Thus bank borrowers' behaviour is determined by economic, cultural, social, psychological, personal and political factors:

Economics was the first discipline to construct a specific theory of buying behaviour. The Marshallian Economic theory postulates that consumers strive to maximize their utilities and do this by consciously calculating the consequences of any (purchase) decision. The key economic factors that influence borrower behaviour are income, expenditure patterns, cost of investment project, and marketing success of the project (Kon and Storey, 2003). Expenditure pattern refers to the relative extravagance of the borrower in spending. The higher the extravagance, the higher the chances of borrowing and defaulting. The need for borrowing and the amount of loan needed depend on the cost of the project for which the credit is sought.

A person's culture arguably, exerts the broadest influence on his or her behaviour. Kon and Storey (2003) asserted that people live in a cultural milieu that embraces their history, values, morals, customs, art, and language. Kotler' also identified four types of sub-cultural influences on consumers as nationality groups, religious groups, racial groups, and geographical areas (Orebiyi, 2002).

Social psychologists view the social environment as the chief determinant of cognitive structure as well as of perceptual bias. Cognition is the process by which we make sense of the things we perceive. Man, as a social being, is often influenced by other persons and by a group he belongs or aspires to belong to (Nguyen, 2007). These may include family members, friends, neighbours, office colleagues, reference groups, social roles, statuses, etc. The fear of being ostracized by church or club members or reference groups could motivate a borrower to repay a facility. Conversely, bad friends and neighbours could influence one to default repayment of facility extended to him or her.

Such psychological factors in a certain way as motivation, perception, learning, beliefs and attitude have profound impact on consumer behaviour (Kon and Storey, 2003). A motive is a need that is sufficiently pressing to drive the person to act. Thus, needs give rise to drives which energize motives which then stimulate behaviour. Many psychologists have developed theories of human motivation. Abraham Maslow propounded the hierarchy of needs theory which sought to arrange human needs into physiological, safety, social, esteem and self-actualization and which shows that people are motivated at different times by these different needs.

Kotler is of the opinion that a motivated person is ready to act. How he eventually acts is influenced by his or her perception of the situation. He contends that different people in same environment can perceive a phenomenon in different ways due to the perceptual process of selective attention, selective distortion and selective retention. Gestalt psychology argues that our perception depends on patterns formed by various stimuli and on the order of our expressions (Orebiyi, 2002). We thus see an object in relation to its background or environment. Furthermore, when people act they learn. Learning refers to changes in people's behaviour arising from experience. Finally, beliefs and attitudes are acquired through acting and learning and influence consumer behaviour. A belief is a descriptive thought that a person holds about something (Kon and Storey, 2003). Attitude is a disposition to act. It comprises cognitive, evaluative and action tendencies. From the above analysis, the propensity to repay a facility depends inter-alia on the borrower’s belief and attitude which are learnt and which depend also on perception and motivation (Nguyen, 2007). Consumer behaviour is also influenced by the consumer's personal characteristics, notably his age, life-cycle stage, occupation, economic circumstances, life style, personality and self-concept. There is no gain saying the fact that older people are less prone to taking risks than youngsters. This means they are more likely to repay debts than the later people. Same argument goes for people at the mid and later stages of their life-cycle. Additionally, professionals with sound occupation, personality, self-concept and life-style will be higher in debt repayment rate than the others (Nguyen, 2007). Human beings are politica1animals. Additionally, political environment may make or mar a project financed by debt and consequently enhance or hinder the prompt repayment of such debt.

Relationship lending is regarded as a potentially vital instrument linking interests of borrowers with those of lenders through a screening mechanism that identifies reliable economic agents and selects the good from bad borrowers (Brown and Zehnder, 2006). Economic contracts involving relational issues have economic viability to the extent that all parties to a financial contract gain from the lending relationship (Berger et. al., 2001). Lenders have an incentive to utilize greater relationships in the lending process to take advantage of the information generated in the process and the resultant reduction in monitoring. On the other hand, loyal borrowers are given the opportunity to establish the necessary reputation required for loan availability and accessibility

(Orebiyi, 2002). Further, because it is not necessary to undertake explicit contracting in relationship lending, bureaucratic procedures associated with verification of documents and collateral requirements are reduced.

Current financial literature points out that organizations that emphasize stronger and long-lasting relationships with consumers often perceive this to be a core element of the services they offer (Ongena and Smith, 2000). Recent studies indicate that relational strategies seek to address closer and more cooperative relationships with customers (Nguyen, 2007). Lending relationships are viewed as a form of lender-borrower interactions including partnerships, collaborative linkages and alliances. Further, establishment of these relationships is viewed as an indicator that markets are evolving from emphasis on mere transaction oriented marketing where firms carried out transactions without prior consideration of consumer desires, to emphasis on relation-oriented marketing involving aggressive, integrated, goal-oriented, and systematic pursuit of customers (Hendriske and Veerman, 2001). The significant aspect of these relationships is that firms have a greater bargaining power, and so generate potential for greater competition by capturing a greater share of the market.

2.7 WHAT BANKS HAVE DONE TO AVOID DEFAULT

Relationship lending is regarded as a potentially vital instrument linking interests of borrowers with those of lenders through a screening mechanism that identifies reliable economic agents and selects the good from bad borrowers (Brown and Zehnder, 2006). Economic contracts involving relational issues have economic viability to the extent that all parties to a financial contract gain from the lending relationship (Berger et. al., 2001). Lenders have an incentive to utilize greater relationships in the lending process to take advantage of the information generated in the process and the resultant reduction in monitoring. On the other hand, loyal borrowers are given the opportunity to establish the necessary reputation required for loan availability and accessibility (Orebiyi, 2002).

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 might 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.

The theoretical foundations of relationship banking are found in the modern literature of financial intermediation that acknowledges the special role of banks in alleviating the informational asymmetries in the credit markets. Early works of Brown & Zehnder (2006) stress the information production function of banks. Screening and monitoring procedures give an information advantage to banks that allow them to overcome information and incentive problems between the bank and the borrower. Therefore, the main benefit attributed to bank financing with respect to other sources of finance is that banks help overcome problems of asymmetric information by producing and analysing information and by designing loan contracts that improve borrowers' incentives. Bank financing may also entail some costs.

Degryse & Cayseele (2000) developed a model of loan pricing in which firms bear search costs to find a new bank. They show that loan rates offered by the relationship bank are higher than those offered at competing banks, because the latter are willing to offer an interest lower than their funding cost in order to capture the firm. The critical assumption in that model is the existence of exogenous search costs. In the early nineties, two influential papers warned about the potential costs of bank lending even when there are no exogenous costs of starting a relationship. Elsas & Krahnen (2000) present a model in which relationships arise endogenously. A bank that lends to a firm learns more about that borrower's characteristics than do other banks.

Nguyen (2007) considers a model of repeated moral hazard, without learning and risk neutrality. In the optimal loan contract, the loan interest rate and collateral requirements decrease with the duration of the bank-borrower relationship, after the firm has demonstrated some project success. In a recent contribution, Freixas (2005) presents a model where relationships arise because there is an initial fixed cost of monitoring, that is, repeated lending from the same bank avoids duplication of monitoring costs. The consequence is that the loan interest rate in the second period is larger than in the initial one because incumbent banks are able to extract rents on the loan renewal. Summarizing, the optimal contract in the models of Ongena& Smith (2001) predict that interest rate increases with the duration of the relationship. In contrast, the models of Orebiyi (2002) show that interest rates should decline as relationships mature. Finally, some authors argue that loan rate smoothing arises as part of an optimal contract between borrowers and banks, that is, loan interest rates should be °at over the duration of the bank firm relationship.

Long-term ties between main banks and their clients generate value and increase economic efficiency. Little is known, though, on how this value is divided among the stakeholders involved in such relationships. In the course of building the relationship, the lender accumulates borrower specific information which gives him significant benefits (Dell, Ariccia and Marquez, 2006). To the extent that the lender passes these benefits to the borrower, relationships will also be valuable from the borrower's point of view. Lenders invest in generating information from their client and borrowers are more inclined to disclose information (Boot 2000). Consequently, the information asymmetries between the bank and the client are lessened as time goes by.

The impact of credit reporting on repayment behaviour should depend on the presence of alternative disciplining mechanisms. One alternative disciplining mechanism is relationship banking. Theoretical models suggest that implicit contracts between lenders and borrowers, i.e., banking relationships, can motivate high effort and timely repayments (Cole, Goldberg and White, 2004). Empirical studies confirm that some credit market segments (in particular, small business lending) are pervaded by relationship banking and that these relationships improve the access of potential borrowers to credit (Berger and Udell, 2006). Experimental studies also confirm that long-term relationships are a powerful disciplinary device. In credit markets dominated by repeated interactions (e.g., working capital loans), information sharing may therefore not be required to discipline borrowers. In contrast, in credit markets dominated by short-term interactions (Brown, Falk, and Fehr 2004, Fehr and Zehnder 2005), borrowers may only be motivated to repay if they know that, due to credit reporting, their current behaviour is observable by other lenders.

By and large, bank loans are expected to be the main source of revenue, and are expected to impact profits positively. During a strong economy, only a small percentage of the borrowers will default, and the bank’s profit will rise. On the other hand, the bank could be severely damaged during a weak economy, because several borrowers are likely to default on their loans. Ideally, banks should capitalize on favourable economic conditions and insulate themselves during adverse conditions.

2.8 WHAT BORROWERS HAVE DONE TO AVOID DEFAULT

After the credit assessment and disbursement is done, the credit customer is expected to payback the instalment as per agreed schedule. Each bank has a different repayment mechanism. Based on the specifics of the bank, customers can pay weekly, bi-weekly or monthly instalments (Odongo, 2004). In order to ensure good repayment, Banks have to ensure proper monitoring and follow up actions.

According to Robinson (1962) and Anjichi (1994), many of the agonies and frustrations of slow and distresses credits can be avoided by good loan supervision. Supervision helps keeping a good loan good. It may be visiting the borrowers' premises to investigate the general state of affairs and maintenance of plant and equipment. Inadequate maintenance is often an early sign of financial distress. Also to be observed is the state of employee morale and the physical stock of materials and finished goods.

Banks factor debtors, where the accounts are passed onto finance house (Kakuru, 2005). The finance house advances the value of these debtors to the bank after deducting a commission. The finance house then undertakes to collect losses if they incur. The debtors are notified of the transfer and are asked to make payment directly to the finance house. Since the factoring firm assumes that risk of default on bad accounts, it makes a credit check before it commits it.

Portfolio management is an important aspect of credit assessment process. It is relationship management process that focuses on measuring and containing individual credit risk within strategic guidelines. It involves the administration of the credit facility to ensure orderly and full payment, monitoring of the credit facilities as well as the workout strategies in situations when the credit actually deteriorates.

The success of Banks depends on its ability to adapt to changing circumstances (Kagwa, 2003). Institutions should have a culture of handling funds that must be repaid. They should be prepared to seize the client collateral if necessary (Garber, 1997). The organisation should have a system of tracking late payments or real losses, deploy staff or collection agencies to collect these loans in order to maximise return of resources.

The purpose of portfolio management is to assess the likelihood that the credit is repaid, as well as whether or not the classifications of the loan proposed by the bank is adequate. Other considerations are the quality of the collateral held and the ability of the borrower's business to generate necessary cash (Greuning et al, 1999)

Portfolio administration involves the aspects of asset classification. Asset classification is a process whereby an asset is assigned a credit risk grade that is determined by the likelihood that the debt obligation was serviced and the debt liquidated according to contract terms. In general, all assets for which a bank is taking risk should be classified. Assets are classified at the time of origination and then reviewed and reclassified as necessary (according to the degree of risk) a few times per year. The review should consider the loan service repayment, borrower's financial conditions, economic friends and changes in respective markets and the performance (Greuning et al, 1999).

Credit administration involves the management of the financial situations, covenants, collateral, and repayments as well as credit review. It focuses on ensuring that creditworthiness of the clients earlier on established is maintained. Once a loan is on the books, it must be managed actively to ensure that it does not deteriorates and that it is repaid.

Good loan management can rarely overcome poor judgment, but many good credits become problem loans because lending officials did not heed the warning that arose over life of the loan. The credit administration process involves on- site visit, regular contact as well as checking for compliance with covenants in the loan agreements.

Borrowers who change their behaviours and those who do not, supply timely and accurate information (asymmetric information), presents the most difficult monitoring challenge (Sinkey, 1998). During administration, the credit officer can detect early warning signals of non-compliance or deterioration. These signals help to maximize the effects of corrective actions and to minimize the potential loss of the bank. Some of the signals may include lower deposits, persistent failure to keep appointments, persistent rolling over credits, and requests for short term facilities on top of current facilities as well as requests for increments without retiring the previous facility.

2.9 WHAT GOVERNMENT HAS DONE TO AVOID DEFAULT

The government of Uganda has set up a regulatory framework to avoid default. According to the Bank of Uganda Annual Supervision report (2011:7) in the year 2011, the banking sector continued to show a significant growth, and within the time new innovative products were introduced. In response to these developments, the Bank of Uganda initiated changes to the financial sector regulatory framework and anticipated in the strengthening of coordination between regulators at the regional level. The overview of regulatory framework:

a) The regulatory framework of the banking sector in Uganda is fully governed by the Bank of Uganda. The Bank of Uganda is solely responsible for supervising, regulating, controlling and disciplining all financial institutions (Section 5 (2) (j) Bank of Uganda Statute (BOUS), 1993).
b) The Financial Institutions Act (FIA) 2004 governs the regulations and supervision of financial institutions (banks and credit institutions) whereas the Micro-Finance Deposit-Taking Institutions Act (MFDTIA) 2003 governs the regulation of micro-finance institutions.
c) The implementing departments are in the Supervision Function of the Bank of Uganda whose mission is aimed at creating a sound, safe and stable financial system/sector.

The regulatory framework for financial institutions is underpinned by 9 implementing regulations that is to say; Licensing, capital Adequacy Requirements, Credit Classification and Provisioning, Limits on Credit Concentration and Large Exposure, Insider-Lending Limits, Liquidity, Corporate Governance, Ownership and Control and Credit Reference Bureaus gazette in 2005 (Chapter 51, Section 39 (1) The Bank of Uganda Act).

In order to control credit and interest rates, the Bank of Uganda may, in consultation with the minister responsible, by statutory instrument, prescribe the following:

i. The maximum amounts of investments, loans, advances and bills and promissory notes discounted, whether applied in total or to any specified class or classes which each financial;
ii. The purpose for which loans and advances may be granted and the class of business underlying investments and bills and promissory notes discounted;
iii. The maximum period of loans and advances and the type and the minimum amount of security which shall be required and the maximum tenor of bills and promissory notes discounted;
iv. The maximum or minimum rates and other charges which in the transaction of their business financial institutions may pay on any type of deposit or other liability and impose on credit extended in any form;
v. The maximum charges which in the transaction of their business may impose on any banking transaction.

The Bank of Uganda Act (BOUA) further states that any prescription made under Section 39 (1), shall have regard to commitments which the financial institutions may have entered into with their customers at the time of coming into force of the statutory instrument and that the instrument will not have discrimination of any kind to any financial institution. However, if a financial institution contravenes any prescription made, it shall be liable to pay on being called to do so by the bank, a fine not exceeding one million shillings.

Financial Consumer Protection Guidelines (FCPG) were issued and circulated to commercial banks and credit institutions. The guidelines aim to promote fair and equitable financial services practices, and apply to all financial service providers regulated by Bank of Uganda as well as their agents in respect of business conducted in Uganda. There are plans to draft other implementing regulations to cover reporting requirements from banks to the Central Bank (CB), internal audit, mergers and acquisitions, and prompt corrective actions (Bank of Uganda Annual Supervision Report (BOUASR), 2011:7).

CHAPTER THREE: RESEARCH METHODOLOGY OR DESIGN

This dealt with collection of data (the various sources of data for the study), analysis and presentation of data. It outlines the methodology used in the study and it included; research design that was employed, the survey population, sampling design, sampling size, data collection methods, instruments that were used in the data processing and analysis and the possible limitation of the study.

3.1 RESEARCH DESIGN

Research design is a plan showing how the problem under investigation that was studied. This study employed descriptive survey design by use of questionnaires. The study aimed at collecting information from the respondents in relation to the determinants of loan defaults in Ecobank. The purpose of descriptive research was to report the way things are (Mugenda and Mugenda 1999). According to Kothari (2005) the major purpose of descriptive research was description of the state of affairs as it exists at present.

According to Kothari (2004) a questionnaire is the most popular method of data collection since it can be posted to the targeted people no matter how far they are and has minimal or no cases of interviewer bias as the respondents use their own words. Kothari (2004) also gives out the limitations of this method as being too slow since the respondents might take too long to give answers, is difficult to know whether the respondents are true representatives of the information given and was only used where the respondents were literate and co-operative.

The research included the use of both quantitative and qualitative methods of data collection with the use of a descriptive and correlation survey involving an ex-post facto design consisting of the use of interviews, questionnaires which were distributed to various individuals at Ecobank (Uganda).This kind of survey (descriptive survey) is appropriate when a study is collecting first hand data using either interviews or questionnaires and from respondents.

3.2 STUDY POPULATION

130 respondents were targeted by Simple Random Sampling comprising of staff and customers of Ecobank (Uganda) from selected branches around Kampala. The study was carried out in Kampala town. The choice of the town was influenced by the presence of branches of Ecobank within the town hence respondents were easily reached. This included business people, personal account holders, and corporate customers among others.

3.3 SAMPLE SIZE AND SAMPLING PROCEDURE

From different selected branches of Ecobank (Uganda), 130 respondents were interviewed and were categorized accordingly. According to Kombo and Tromp (2006) sampling design refers to how cases are selected for observation. The sample size of the respondents was determined by use of a table designed by Krejcie and Morgan (1970).According to Krejcie and Morgan (1970) a sample size of 99 was selected from a population of 130 people. This research used probability sampling design. Stratified simple random sampling was used to take a sample from the target population. This was done to ensure a good representation of the population in the sample.

3.4 DATA SOURCE

The study used both primary and secondary data.

- **Primary data source**; questionnaires and interviews were the main source of data. These questionnaires were distributed to customers of Ecobank (Uganda) in different branches in Kampala. Primary data is regarded as the first hand information collected from respondents.
- **Secondary data source**; this was obtained from the banks records, financial reports, and auditors' letters to the management, previous research reports, journals, newspapers, newsletters and internet.

3.5 COLLECTION METHODS AND INSTRUMENTS

In ordered to exhaustively obtain and compile the collected data, it was necessary to combine questionnaires and interview methods.

- ✓ **Questionnaire;** During the study, one set of questionnaires were used both with closed and open ended questions for customers of Ecobank (Uganda). The closed questions were used to assist the researcher to check whether the information given is correct and consistent. It easies data collection from respondents who are literate enough to read and write.

- ✓ **Interview;** This involved face to face discussions with specific respondents such as employees and customers in a relaxed and conversational atmosphere. This method of interview permits collection of first hand detailed information about the themes of the study. In addition it gives respondents a chance to answer questions unlimitedly and flexibly and therefore is the appropriate method to use to collect data from key informants.
- ✓ **Documentary Analysis**; this method was used to help retrieve data from the secondary sources which includes archives of records containing financial reports and auditors' letters to the management.

3.6 DATA COLLECTION INSTRUMENTS

A structured interview schedule was used in accordance with the main themes of the study. It is observed that structured interviews schedules gives respondents chance to answer all or some questions in an unlimited manner. Therefore a structured interviews schedule was developed in accordance with the main themes of the study. Semi-structure questionnaires was preferred because as it can permit either open or close ended or both types of questions, thereby giving respondents freedom to answer all or some questions in details. It was also designed according to the main themes of the study.

3.7 ETHICAL CONSIDERATIONS

The study will observe ethics in research. This included treating identities of bank customers with confidentiality. The researcher seek permission from the respondents and explain to them how the information gathered would be important in mobile banking practices in Uganda to foster development.

3.8 DELIMITATIONS AND LIMITATIONS OF THE STUDY

This study seeks views of the determinants of loan defaults in Ecobank. The findings of the study can only be duplicated in other parts of the country with caution and cannot be generalized. The study was constrained by resources of finances and time.

This study assumed that all the information given by the respondents is true to the best of their knowledge and that it will assist the research. The study took into consideration the assumption that variables that were used in the study have not changed in the research period and that the respondents gave correct and valid information so as to get valid data.

CHAPTER FOUR: PRESENTATION AND INTERPRETATION OF THE FINDINGS

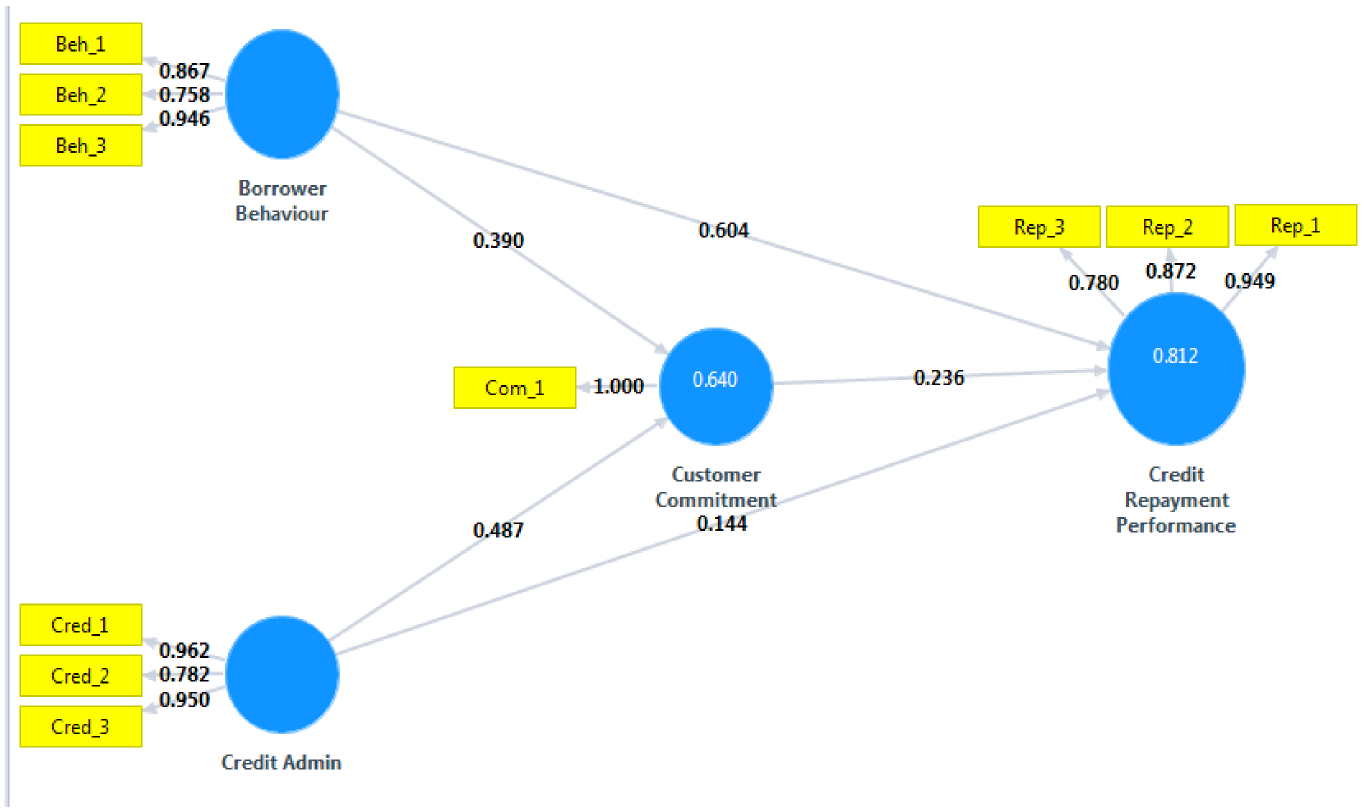
4.1 Introduction

This chapter presents, analysises and interpretes the findings of the study in relation to the study objectives. This study results were analysed using smart PLS Partial Least Squares Structural Equation Modeling using composite reliability, AVE, path co-efficience and total effects of the variable.

4.2 RESULTS

The results are based on the latent variables in relation to the study objectives as earlier stated in cahpter one of this paper.

FIGURE 1



Source: primary data

The coefficient of determination is 0.812 for credit repayment performance endogenous latent variable. This means that the variable (**Borrower behavior, Customer commitment, Credit repayment performance and Credit administration) are related.** However, the loadings have been presented in table 4.1 below;

TABLE 4.1: REFLECTIVE OUTER MODELS

Latent variable	Indicators	Loadings	Sample Mean (M)	Standard Error (STERR)	T-Statistics	P-Values
BORROWER BEHAVIOR	Beh_1	0.867	0.866	0.021	41.422	0.000
	Beh_2	0.758	0.761	0.033	22.687	0.000
	Beh_3	0.946	0.945	0.011	89.004	0.000
CUSTOMER COMMITMENT	Com_1	1.000	1.000	0.000		
CREDIT ADMINISTRATION	Cred_1	0.962	0.962	0.003	317.844	0.000
	Cred_2	0.782	0.782	0.038	20.533	0.000
	Cred_3	0.950	0.950	0.005	193.525	0.000
CREDIT **REPAYMENT PERFORMANCE**	Rep_1	0.949	0.948	0.010	93.851	0.000
	Rep_2	0.872	0.872	0.025	35.575	0.000
	Rep_3	0.780	0.872	0.035	21.982	0.000

Source: primary data

At reflective outer model, Table 4.1 above revealed that the indicators of borrower behavior such as; attitude, belief and experience as indicated by the loadings 0.867, 0.758 and 0.946 respectively has got significant association with credit repayment performance in Ecobank. The table shows significant association between borrower behavior and credit repayment performance in Ecobank at a standardized path coefficient of 0.604 which is much higher than 0.20. The P-value of 0.000>0.5 confidence level means that there is a significant association between be variables.

Table 4.1 also indicates that there is a significant association between customer commitment and credit repayment performance. The results in the table generally revealed that, there is significant association between customer commitments on loan performance in Ecobank as indicated by the indicator loadings 1.000 at a standardized path coefficient of 0.236 which is much higher than 0.20 meaning that there exists a strong relationship between customer commitments and loan performance in Ecobank.

The results in the above table also indicated that the indicators of credit administration like customer Inspections, default penalties and interest rates and Loan collateral with indicator loadings 0.962, 0.782 and 0.950 respectively influence loan repayment performance in Ecobank.

Finally, the results in table 4.1 above revealed that there is a correlation between credit repayment performance indicators with the indicator loadings of 0.780, 0.872, and 0.949 respectively and they indicated significant association with credit repayment performance in Ecobank with a standardized path coefficient of 0.144 which is much higher than 0.20 and therefore P- value of 0.000>0.5.

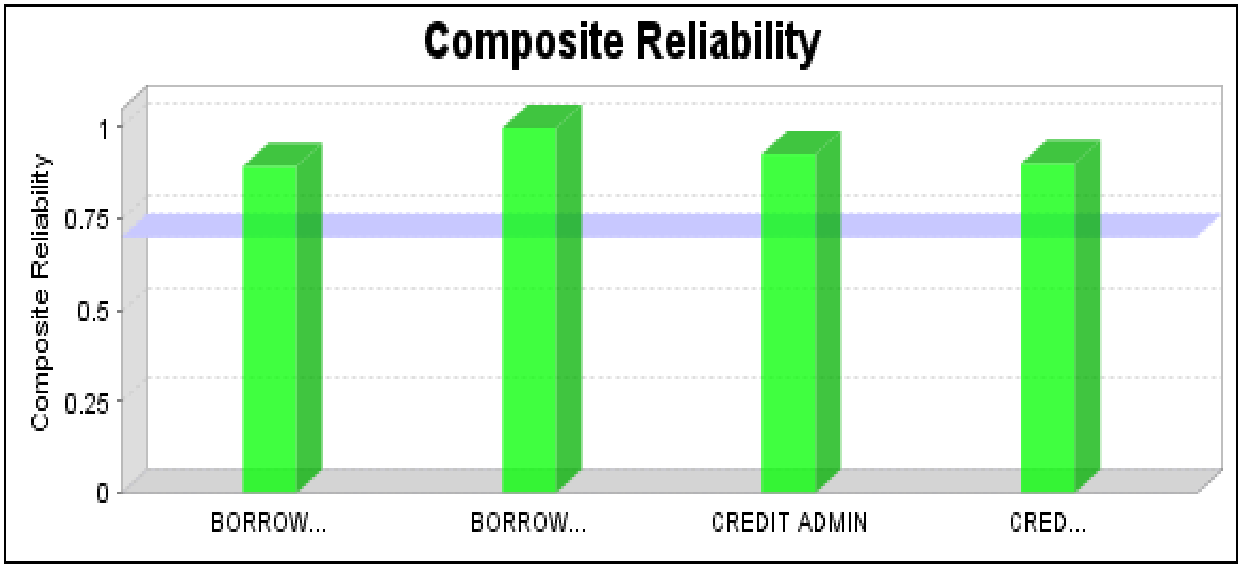
TABLE 4.2: COMPOSITE RELIABILITY

Latent variable	Original sample (O)	Sample Mean (M)	Standard Error (STERR)	T-Statistics	P - Values
BORROWER BEHAVIOR	0.894	0.894	0.015	59.236	0.000
BORROWER COMMITMENT	1.000	1.000	0.000		
CREDIT ADMINISTRATION	0.928	0.928	0.010	97.350	0.000
CREDIT REPAYMENT PERFORMANCE	0.903	0.903	0.017	53.351	0.000

Source: primary data

Results in table 4.2 above indicate that all of the indicators (Borrower behavior with 0.894, Customer commitment with 1.000, Credit repayment performance with 0.903 and Credit administration with 0.928) have got individual indicator reliability values that are shown to be larger than 0.6 as the preferred so high levels of internal consistency reliability have been demonstrated in all the variables.

FIGURE 2.



Source: primary data

The results in figure 2 above indicate that all of the indicators (Borrower behavior with 0.894, Customer commitment with 1.000, Credit repayment performance with 0.903 and Credit administration with 0.928) have got individual indicator reliability values that are shown to be larger than 0.6 as the preferred.

TABLE 4.3: AVERAGE VARIANCE EXTRACTED (AVE)

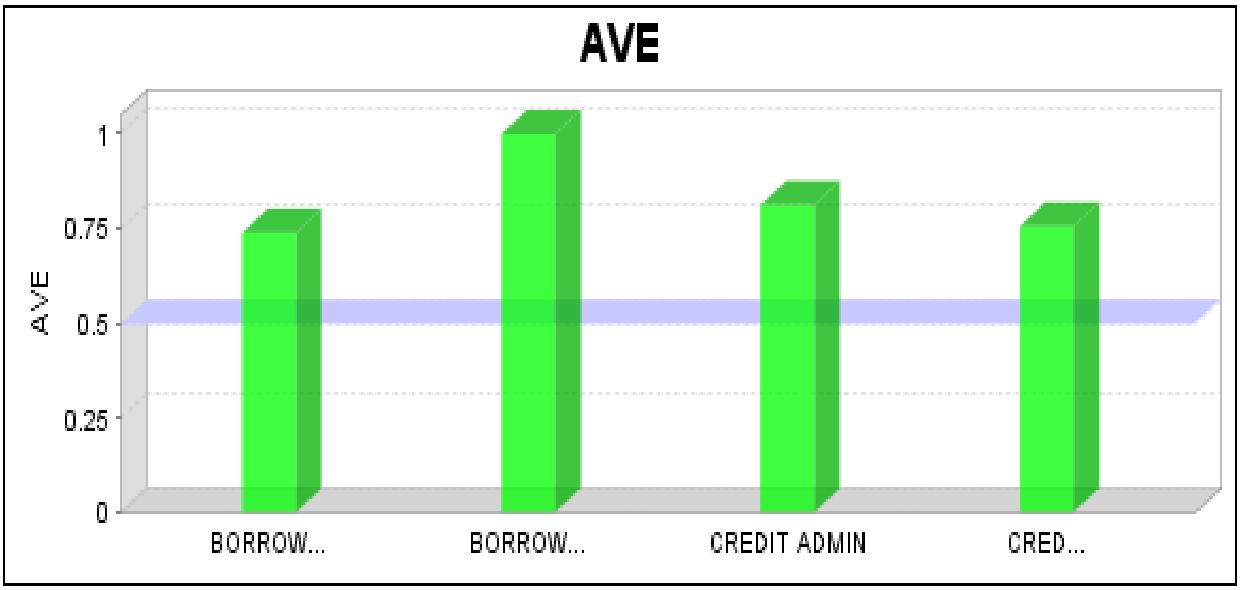
Latent variable	Original sample (O)	Sample Mean (M)	Standard Error (STERR)	T-Statistics	P - Values
BORROWER BEHAVIOR	0.740	0.741	0.030	24.450	0.000
BORROWER COMMITMENT	1.000	1.000	0.000		0.000
CREDIT ADMINISTRATION	0.813	0.814	0.021	38.349	0.000
CREDIT REPAYMENT PERFORMANCE	0.757	0.785	0.035	21.751	0.000

Source: primary data

The results in table 4.3 above indicated square roots of AVE of each latent variable that is greater than the correlations among the latent variables Borrower Behavior, Credit Administration, Borrower Commitment and Credit Repayment Performance with original samples of 0.740, 1.000, 0.813 and 0.757 respectively.

Therefore the results indicate that there is a relationship between Borrower Behavior, Credit Administration, Borrower Commitment and Credit Repayment Performance and they influence the Credit repayment performance of ECOBANK.

FIGURE 3.



Source: primary data

Figure 2 above indicates a very high influence caused by borrower commitment with 1.000 followed by credit administration with 0.813, credit repayment performance with 0.757, and borrower behavior with about 0.740. The indicators loadings are all higher than the preferred level at 0.5 meaning there is a strong correlation between the three variables

TABLE 4.4: PATH COEFFICIENT

Latent variable	Original sample (O)	Sample Mean (M)	Standard Error (STERR)	T-Statistics	P -Values
BORROWER BEHAVIOR -> BORROWER COMMITTMENT	0.390	0.386	0.040	9.788	0.000
BORROWER BEHAVIOR -> **CREDIT REPAYMENT PERFORMANCE**	0.604	0.608	0.042	14.243	0.000
BORROWER COMMITMENT -> CREDIT REPAYMENT PERFORMANCE	0.236	0.237	0.041	5.809	0.000
CREDIT ADMINISTRATION -> BORROWER COMMITTMENT	0.487	0.491	0.026	18.961	0.000
CREDIT ADMINISTRATION -> **CREDIT REPAYMENT PERFORMANCE**	0.144	0.140	0.056	2.584	0.010

Source: primary data

At path coefficient, results in table 4.4 indicate that there is a relationship between borrower behavior with borrower commitment with the original sample of about 0.390, at mean of 0.386 and P-value of 0.000>0.5.

The results in the table also shows that there is a correlation between borrower behavior and credit repayment performance with 0.604 and P-value of 0.000>0.5 meaning that credit repayment is highly influenced by the borrower's behavior.

TABLE 4.5: TOTAL EFFECTS

Latent variable	Original sample (O)	Sample Mean (M)	Standard Error (STERR)	T-Statistics	P - Values
BORROWER BEHAVIOR -> BORROWER COMMITTMENT	0.390	0.386	0.040	9.788	0.000
BORROWER BEHAVIOR - > **CREDIT REPAYMENT PERFORMANCE**	0.697	0.700	0.033	21.158	0.000
BORROWER COMMITMENT -> CREDIT REPAYMENT PERFORMANCE	0.236	0.237	0.041	5.809	0.000
CREDIT ADMINISTRATION -> BORROWER COMMITTMENT	0.487	0.491	0.026	18.961	0.000
CREDIT ADMINISTRATION -> **CREDIT REPAYMENT PERFORMANCE**	0.259	0.256	0.053	4.860	0.000

Source: primary data

The results in the above table indicates significant association between borrower behavior and borrower commitment with about 0.390 and a sample mean of 0.386 and P- value of 0.000>0.5. The results also indicate between borrower behavior and credit repayment performance with about a 0.697, with a sample mean of 0.700 and P- value of 0.000>0.5. Credit administration and borrower commitment also showed a relationship with credit repayment performance with about 0.236 with 0.237 sample mean and P- value of 0.000>0.5. Credit administration and borrower commitment with 0.487 with sample mean of 0.491 and p- value of 0.000>0.5. Finally, credit administration and credit repayment performance with 0.259, with a sample mean of 0.256 and p- value of 0.000>0.5.

CHAPTER FIVE: DISCUSSION OF FINDINGS

5.1 Introduction

This chapter discusses the research findings in relation to the problem statement, literature review of studies conducted elsewhere with and in line with the specific study objectives. It also explains the obtained results from the study.

5.2 The relationship between borrower behaviour and credit repayment performance in Ecobank

During the study, it was revealed that the indicators of borrower behavior such as; attitude, belief and experience as indicated by the loadings 0.867, 0.758 and 0.946 respectively has got significant association with credit repayment performance in Ecobank.

The results of the study also indicated significant association between borrower behavior and credit repayment performance in Ecobank at a standardized path coefficient of 0.604 which is much higher than 0.20. This is in agreement with Nguyen, (2007) in the Behaviour primacy theory which holds that, common behaviour results mainly from an individual’s interactions with the environment. As the environment changes, individuals tend to cope by changing their behaviour. Thus bank borrowers' behaviour is determined by economic, cultural, social, psychological, personal and political factors: Economics was the first discipline to construct a specific theory of buying behaviour.

The findings of the study are also in agreement with Hendriske and Veerman, (2001) who argued that lending relationships are viewed as a form of lender-borrower interactions including partnerships, collaborative linkages and alliances. Further, establishment of these relationships is viewed as an indicator that markets are evolving from emphasis on mere transaction oriented marketing where firms carried out transactions without prior consideration of consumer desires, to emphasis on relation-oriented marketing involving aggressive, integrated, goal-oriented, and systematic pursuit of customers.

5.3 The relationships between customer commitment and credit repayment performance in Ecobank

The study revealed that, there is significant association between customer commitments on loan performance in Ecobank as indicated by the indicator loadings 1.000 at a standardized path coefficient of 0.236 which is much higher than 0.20 meaning that there exists a strong relationship between customer commitments and loan performance in Ecobank. This is in agreement with the findings of the research conducted by Asari, et al. (2011) where they found out that loan defaults depend highly on customer commitment to repay the loan and were highly correlated with higher interest rates which increase the debt burden on borrowers and leads to defaults resulting in capital erosion of banks. Research conducted by Asari, et al. was also on the same lines and concluded that Non-performing loans and interest rates have significant relations.

5.4 The relationship between credit administration and loan repayment performance in Ecobank

The study results indicated that indicators like customer Inspections, default penalties and interest rates and Loan collateral with indicator loadings 0.962, 0.782 and 0.950 respectively influence loan repayment performance in Ecobank. Although credit administration indicated a high association with loan repayment performance in Ecobank, however, does not significantly impact customer loyalty due to its weak effect indicated in the at a standardized path coefficient of (0.144) which is lower than the 0.20 in the linkage meaning that much as credit administration and monitoring influences the repayment performance, but it does not influence the repayment behavior of customers. The findings of the study are in agreement with Kakuru, (2001) who argued that lending institutions should first be engaged in making analysis about the customer's character, ability and capacity to repay the loan whereby the following aspects are considered, namely; bank reference, marital status, attachment to government agencies, level of education, stability of employment, and historical background.

5.5 Credit repayment performance in Ecobank

During the study, it was revealed that the indicator loadings of 0.780, 0.872, and 0.949 respectively and they indicated significant association with credit repayment performance in Ecobank with a standardized path coefficient of 0.144 which is much higher than 0.20. However, Credit repayment performance was a single item construct. The results of the study were in agreement with Kon and Storey, (2003). 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. Improving repayment rates might 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.

CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter deals with the brief summary of the steps taken in the study, conclusions, study findings and implications

6.2 Conclusions

Following the study findings as indicated in chapter four of this paper, the researcher made the following conclusions;

Borrowers' behaviour is rarely the result of a single motive. Common behaviour results mainly from an individual's interactions with the external environment, however, the personality of the borrowers always play an instrumental role in influencing the repayment of the loan. Borrowers usually have a behavior of avoid defaulting on loans because they believe that this may spoil their reputation. Borrowers are usually more determined to use loan money effectively for income generating activities in fear for failure to repay back the loan if they do not effectively plan for the loan.

Loan defaults and repayment depend highly on customer commitment to repay back the loan. The total commitment that borrowers put in to clear their dates as per repayment schedules highly influences the credit repayment performance. Lack of commitment of the borrowers negatively affects the loan repayment performance.

Credit repayment performance requires frequent monitoring of the borrowers. This involves identifying the bad debtors, assessing the performance of their loans that is to say, whether the loan was effectively used for the intended. The rate at which the borrowers meet their loan repayment schedules is directly proportional to loan repayment performance in that the higher the commitment, the better the loan repayment performance and the lower the commitment, the poor the repayment performance.

6.2 Recommendations

Basing on the above conclusions in line with the study objectives, the researcher come up with the following recommendations;

To EcoBank

It is the role of the bank to effectively evaluate, assess and examine the borrowers' ability and willingness to repay the requested loan before they are offered those loans. This will enable the bank to reduce bad debts and improve on the loan repayment performance.

More so, Ecobank should ensure that their interests on the loan are not too high for the borrower in away that the interest rate should not take much of the borrowers' money which may lead to repayment avoidance.

To Borrowers

The borrowers should first plan for the loan before they borrow to avoid diverting the borrowed money for other motives other than the intended. This will help them in meeting the loan repayment schedules and avoid bad debts.

More so, as a borrower, you should first understand the loaning rates, the burden and the opportunity cost of repayment of the loan, how much they will pay as interest during loan repayment as well as evaluating the performance of the business before the loan. This will act as a basis for decision making on whether to borrow or not.

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APPENDIX A: QUESTIONNAIRE

Dear respondent, this questionnaire is purely for academic purposes and any information provided in good faith will be treated with absolute respect and **confidentiality.** The researcher kindly asks for your assistance in the completion of these structured questions in this questionnaire. Your assistance will be highly appreciated.

INSTRUCTION

- ***Tick or circle the most appropriate or fill where necessary***
- ***Linkert Scale: SA: Strongly Agree, A: Agree, N: Not Sure, SD: Strongly Disagree, D: Disagree***

SECTION A: DEMOGRAPHIC CHERACTERISTICS OF THE RESPONDENTS

1) In which age bracket do you fall?

18-25 ☐ 26-30 ☐ 31-35 ☐ 36-40 ☐

41andabove ☐

2) Please kindly state your gender

Male ☐ Female ☐

4) What level of education have you attained?

Certificate ☐ Diploma ☐ Degree ☐ Masters ☐

Others, specify ………………………

5) Please state the department you work within the organization.

………………………………………………………………………

6) For how long have you served?

0-2 years ☐ 3-5 years ☐ 6 years and above ☐

SECTION B: BORROWER BEHAVIOUR

7) What is the relationship between borrower behaviour and credit repayment performance Ecobank (Uganda) Limited?

Borrower behaviour	**SA**	**A**	**N**	**SD**	**D**
1) In order to induce desired behavior of a borrower, Ecobank (Uganda) Limited always uses the threat of cutting off personal savings					
2) Borrowers usually have a behavior of avoid defaulting on loans because they believe that this may spoil their reputation					
3) The reputation of the borrower usually plays a big role in the enforcement of credit contracts at Ecobank (Uganda) Limited					
4) Ecobank (Uganda) Limited is at a disadvantage of establishing the credibility of a borrower					
5) Borrowers of Ecobank (Uganda) Limited value their relationship with the bank and the bank always offers more flexibility in granting credit to borrowers who have had a good track record as a way of ensuring credit repayment performance					
6) Lending money to borrowers with good track record usually enhances recoverability of loans					
7) Borrowers usually have long terms in mind when they make future plans					
8) Borrowers are usually more determined to use loan money effectively for income generating activities in fear for failure to repay back the loan if they do not effectively plan for the loan					
9) Borrowers always pay their loans promptly					
10) Usually borrowers take a lot of time to make a decision about the loan					
11) Lender's willingness to provide the needed loan amount usually affects the borrower's decision					

	to take the loan					
12)	Creativity of lender to provide the borrower with specific terms and solutions usually affects the borrower's decision to take the loan					
13)	In Ecobank (Uganda) Limited relationship lending is based on the borrower's behavior and is a potentially vital instrument linking interests of borrowers with those of the bank					
14)	At Ecobank (Uganda) Limited, borrowers usually work harder towards achieving a good reputation since they are usually given the opportunity to establish the necessary reputation required for loan availability and accessibility					
15)	Lack of business skills usually hinders proper loan investment by borrowers					
16)	Borrower's behavior of Multiple borrowing usually leads to client non payment of loans					

Others, specify …………………………………………………………

SECTION C: CREDIT MONITORING AND LOAN DEFAULTS

8) What is the relationship between credit monitoring and loan defaults in Ecobank?

	Credit monitoring	**SA**	**A**	**N**	**SD**	**D**
1)	Ecobank (Uganda) Limited dedicates time to recover the loan from borrowers through monitoring the loan and borrowers					
2)	Ecobank (Uganda) Limited sometimes issues group loans so that each member acts as a monitor of the other member which act as					

security for loan repayment performance					
3) The loans officers frequently monitor the performance of borrowers by visiting the borrowers' businesses					
4) Ecobank (Uganda) Limited organizes training to borrowers on handling loans effectively and easily repay back the loan					
5) Ecobank (Uganda) Limited takes a step a head in identifying bad debtors in ensuring credit repayment performance.					

Others, specify ………………………………………………………………

SECTION D: BANK OWNERSHIP STRUCTURE AND SIZE

9) What is the relationship between bank ownership structure and size and loan default in Ecobank?

Bank ownership, structure and size	**SA**	**A**	**N**	**SD**	**D**
1. My bank is owned by private individuals but registered under the financial operations of the commercial bank working in agreement with bank of Uganda regulations.					
2. Ecobank has set up structures and increased its coverage by introducing new branch centres that has created my confidence as a borrower					

Others, specify ………………………………………………………………

SECTION E: CREDIT REPAYMENT PERFORMANCE

Credit repayment performance	SA	A	N	SD	D
There are usually delays in credit repayments by customers					
I usually default on my credit repayments					
I pay my loans on due dates and ask for top up					
Through banking relationships, I have always been able to attain high effort and timely repayments					
As a result of high repayment rates, I am unable to pay on time					
The high interest rates hinder quick debt servicing					
Information asymmetry usually hinders proper credit repayment by clients					
Adverse shocks affecting the borrower are usually a major cause of poor credit repayment					
As a result of high repayment rates, my bank always offers adequate financial services to clients needs					

Others, specify …………………………………………………………………

…….End ………