

**THE RELATIONSHIP BETWEEN CREDIT EXTENSION AND LOAN RECOVERY IN MUKONO
COMMERCIAL MICROFINANCE**

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ABSTRACT

The study examined the relationship between credit extension and loan recovery in Mukono Commercial Micro Finance. The study used a cross section survey design in line with the study objectives. In this study, the loan recovery challenges faced by Commercial Micro Finance- Mukono were classified under terms of Conditions and terms, screening process, asymmetrical information and low level of credit worthiness and confidence building. The study established that despite the fact that Mukono-Commercial Micro Finance has extended its financial services to the clients, there has been poor debt recovery. The poor debt recovery has been attributed to the high interest rates and the need for security group guarantee before a loan is advanced to the clients.

The services marketed have significantly affected two major groups of beneficiaries. These are the households and the business persons. The households, though a certain proportion has benefited, the final outcome is that this group of borrowers cannot effectively manage the extended financial credit. On the other hand, the business group has benefited through improved capital size and profits generated. This study also assessed the effect of Mukono-Commercial Micro Finance operational policies on credit extension results indicated that though there are some problems faced by both the microfinance employees and the overall intended beneficiaries, these have not been prohibitive enough to do away with microfinance services. What is actually needed, the researcher believed was to find a way to improve service delivery through lower interest rates, loan amounts and loan period offered by MFIs be adjusted to suit the needs and capacity of the borrowers and flexing of the strict credit extension condinalities in order to limit the rate of default. In addition Mukono-Commercial Micro Finance requires an

integrated approach in carrying on her activities. It should carry out research, market survey, field supervision of the client projects and come up with an acceptable level of the interest charge and confidence from the clients. In doing this, it will not only widen the capital base but also add value to the finance and the general development of the micro finance sector. When all this is done, more people will be in position to access credit and as well be able to pay back adequately in time.