ANALYSIS OF NON-PERFORMING LOANS:

A CASE STUDY OF DUNKWA AREA TEACHERS CO-OPERATIVE CREDIT UNION (DATCCU)

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DECLARATION

I hereby declare that this work is mine and it is towards the award of Masters in Business Administration (MBA). It must be stated that the work does not contain any published material or work of another person except duly acknowledged.

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DEDICATION

This work is dedicated to my father, Mr. Nicholas Quaicoe, for his unflinching support throughout the period this course was pursued.

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ABSTRACT

Microfinance Institutions (MFIs) have been in Ghana for a long time but their effort in the growth of the economy has been greatly recognized recently. MFI's provide financial services to the less privileged, especially in rural areas that find it difficult to access financial services from the universal banks.

Loans granting is a major activity of MFI's and it constitutes a major source of revenue to MFI's if well managed but if not well managed, can even lead to the collapse of the said institution; the reason loans are termed double-edged sword. Unfortunately, not all loans granted to clients earn the expected returns, and when this happens, can have a negative effect on the institution in question.

Given the role played by MFI's in economic development, it is imperative to delve into the causes of NON-performing loans so as to put in place both proactive and direct measures to help reduce this menace. Moreover, since MFI's cannot stop giving loans, the study sought to find out the effects of NPL's on the performance of MFI's; specifically on operating profits and interest income so as to make recommendations to avoid future occurrences.

The research work focuses on the activities of DATTCU in the last four years, thus 2011-2014. Data wise, both primary and secondary data were used for the study. It was found out from the study that in the four year period, DATTCU had substantial amount of its loans going waste as a result of Non-Performing loans. This affected the performance of DATTCU by reducing operating profits and interest incomes. It was further revealed that a low rate of education has negative effect on the rate of NPL's.

Business failure was adjudged to be the major cause of non-performing loans, though other causes ineffective monitoring, poor loan appraisal, crop failure among others were also identified as causes of non-performing loans. It was further found out from the study that Business and agricultural sectors had chunk of the non-performing loans recorded by DATTCU.

To help solve the problem of NPL's some measures were recommended to the management of DATTCU. Amongst the recommendations are: Incorporation of entrepreneurial courses in the curriculum of schools, Training programmes, effective programs and improvement in credit appraisal.

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CHAPTER ONE

GENERAL INTRODUCTION

1.0 INTRODUCTION

This chapter is the introductory chapter of the study. It is be made up of background of the study, research problem, research objectives, research questions, significance of the study, scope and limitations of the research and the organization of the research.

BACKGROUND TO THE STUDY

As part of efforts to provide financial services, all financial Institutions; including Savings and Loans Companies, Rural banks, Financial Non-Governmental Organization (FNGOs) and credit Unions provide credit facilities to its clients. Provision of credit to clients is one of the traditional functions of financial institutions; therefore its essence in financial institutions cannot be overemphasized. It is therefore not surprising to see that credit takes a chunk of the operating assets of most financial institutions; especially microfinance institutions. In "Microfinance Default Rates in Ghana: Evidence from Individual-Liability Credit Contracts"(2010),Gerald Pollio and James Obuobie stated that Microfinance Institutions (MFIs) currently provide financial services to an estimated 15 percent of the country's total population as compared with 10 percent for the commercial banking sector, with Rural and community banks accounting for more than half the proportion of the sector's total loan portfolio; It is therefore not surprising that MFI's play an important role in the economic growth of countries. There is even an evidence to suggest that well-functioning lending institutions help to accelerate economic growth and conversely, poorly functioning ones impede progress and aggravate poverty.

It must be noted that the interest on these loans serve as major source of revenue for these institutions.

A loan, as it is said, is a double edged sword. This implies that performing loans is very essential for the growth of financial institutions since they affect lending capacity, Liquidity and the overall profitability of financial institutions. Loans, however, if not well managed, can lead to liquidity issues; leading to insolvency and eventual collapse of microfinance institutions. Unfortunately, most of the loans given by microfinance institutions are not serviced by borrowers, resulting in bad debt; which has its consequences on the microfinance institutions.

In recent times, the issue of Non-performing Loans(NFL's) in the banking industry; specifically microfinance institutions has been on the high side, leading to the eventual collapse of most microfinance institutions in the country recently. According to GHAMFIN annual report (2008), the total NPLs of the MFI stood at 6% in 2004 and by 2006, it shot up to 9%.

The direct impact of non- performing loans is the reduction in Profitability as a result of bad debts and reduction in the funds available for loans. In instances where banks have not paid attention to the problem of non-performing loans and have gone ahead to give more loans, it has sometimes created liquidity problems, run on a bank and sometimes, an eventual collapse.

A lot of publications on the collapse of banks have identified high non-performing loans as a major cause. Including but not limited to: commercial banking crises in Kenya: causes and remedies (Waweru Nelson and Kalani Victor, 2009), non-performing loans in commercial banks: a case of cbz bank limited in Zimbabwe (mabvure et al, 2012). All the above publications attested that non-performing loans is the cause of most of bank failures, in his Studies in other countries.

In analyzing the Malaysian financial system, there was a seen significant relationship between credit risk and financial crises and it was therefore concluded that credit risk had already started to build up before the onset of the 1997 Asian financial crisis, and this became more serious as non-performing loans increased. This relationship was also found by and Fofack (2005). According to (Greenidge and Grosvenor, 2010), "even before the collapse of the sub-prime mortgage market in August 2007 , there was an evidence that non -performing loans in the US had started to increase substantially in early 2006 in all sectors". In Indonesia, non-performing loans represented about 75% of total loan assets which led to the collapse of over sixty banks in 1997, Caprio and Klingebiel (2002) cited in Fofack (2005). It should however be stated that not every country is experiencing this problem. Countries such as Sweden, Norway, Finland, Australia and Spain do not have problems with non-performing loans (less than 1 percent). Unfortunately, other countries such as Egypt, Nigeria, Philippines, Morocco, Algeria and Tunisia (more than 15 percent) suffer severely from bad loans. Unfortunately, most of the countries suffering from this problem are in Africa, with Ghana not being an exception.

1.2 PROBLEM STATEMENT

According to the Bank of Ghana, the upward trend of collapse of financial institutions is a cause for concern. Despite lessons obtained from the 2004 financial crisis in Zimbabwe, Indonesia in 1997 and U.S.A in 2007, some financial institutions in Ghana are still suffering from non-performing loans. More than 30 microfinance institutions in the country collapsed in the first quarter of 2013 (Ghana business news.com, August 19, 2013); non-performing loans being the major reason for the collapse.

Since financial institutions cannot stop giving loans, it is appropriate to help find a lasting solution to this problem and also avoid the collapse of more institutions. Unfortunately, most of the works done on this area have focused on the other forms of financial institutions at the expense of credit unions. This paper seeks to fill the void created by investigating into the causes of non-performing loans and its consequences on credit unions.

1.3 OBJECTIVE OF THE STUDY

i. To find out the trend of non-performing loans in DATCCU and the sector/loan type with highest incidence of NPL.
ii. To identify the causes of non-performing loans in Dunkwa Area Teachers Co-operative Credit Union(DATCCU)
iii. To find the effect of Non-performing loans on some key performance areas of DATCU.
iv. To identify problems faced by institutions in the microfinance sector.

1.4 RESEARCH QUESTIONS

The research work seeks to find answers to the following questions:

i. What is the trend of non-performing loans in DATCU in the last five years; and which sector has the highest burden of Non-Performing Loans?
ii. What are the causes of non-performing loans in DATCU?
iii. What are the effects of non-performing loans on some key areas of DATCU's performance?

iv. What are the problems faced by institutions in the Microfinance Sector?

1.5 Scope of the Study

The study was undertaken in Dunkwa-on-offin, the municipal capital of Upper Denkyira East Municipality, in the central region of Ghana. The study focuses on analyzing non-performing loans and its effects on financial institutions with emphasis on DATCU; the best credit union in central region of Ghana. In this regard only issues of specific concern such as the causes and possible repercussions of nonperforming loans on the performance of credit unions as well as measures to prevent its occurrence were ascertained. DATCU was selected as a focus for this study because it is one of the oldest credit unions in the country (established in 1975). The selection was made on the premises that it has operated long enough to give the outcome the study seeks to achieve. Moreover, it virtually undertakes every activity undertaken by the other credit unions in the country and it lends to almost every sector of the economy. Aside other sources of data, opinions from workers of the institution within will also be factored into the findings. The study lasted for a period of four (4) months.

1.6 Significance of the Study

As already stated, loans are a major source of revenue for financial institutions as a result of the interest they generate. As a result, it plays an essential role in determining how sound a financial institution is and a key measure of performance as well. To ensure a healthy credit union, It is appropriate to know the causes and problems that non-performing loans can cause a credit union. The outcome of the study would help DATCU put in place measures that would ensure improvement in the problem of increasing non-performing loans; thereby increasing profitability of the institution.

Since many financial institutions have collapsed as a result of non-performing loans, this work would benefit not only credit unions but all institutions that give loans. This is because all these institutions are faced with similar external environmental factors and clients who share similar characteristics.

Moreover, since credit unions are a grey area of study, this work will help in future research works. This would further help in the development of the credit unions, which has proven to be a major tool for poverty alleviation.

1.7 Limitations of the Study

In undertaken this study, a lot of constraints were faced. Topping the list of constraints is time. It is an undeniable fact that credit unions and financial institutions in the country face similar problems and characteristics of consumers, each institution has some unique problems that would require time to fish out. This, ideally, would have required that the entire credit staff be interviewed or administered with questionnaires; but due to time constraints, a sample of the credit staff would be interviewed. This obviously would have a negative impact on the final outcome of the study.

Moreover, since most employees are threatened by the breach of oath of secrecy, employees are not readily willing to disclose information. This coupled with the fact that not much work has been done on credit unions makes accessibility to information very difficult. To solve the problem of Duty of confidentiality, respondents were assured of non-disclosure of identity since the information is meant specifically for academic exercise. Moreover, published reports by mother organizations as well as financial statements will be relied on.

1.8 Organization of the Study

The entire study is comprised of five chapters. Chapter one is comprised of background of the study ,the problem statement, research questions, objectives of the study, significance of the study, scope and limitations of the study as well as organization of the study.

Chapter two covers the literature review on Evolution of credit unions, the causes of Non-performing Loans in credit unions, and the implications of Non-performing Loans on credit unions. The chapter also covers measures taken to reduce Non-performing Loans. Chapter three outlines the methodology and the profile of the study area. Chapter four would be composed of discussions and presentation of findings with chapter five covering the conclusion and recommendations of the study.

CHAPTER TWO

LITERATUIRE REVIEW

2.0 Introduction

This chapter reviews the literatures that already exist, related to the research problem and it is

Sub-divided into headings: Evolution of micro finance sub-sector, various categories of Microfinance institutions in Ghana, Performing and non-performing loans in MFIs, Classification and Provisioning, Microfinance and development, Implication of NPLs, Causes of NPLs, Reducing the incidence of NPLs and the Challenges facing micro Finance institutions in Ghana.

2.1. Evolution of the Microfinance Sub-Sector in Ghana

As stated earlier, microfinance provides financial services to majority of the populace and as such, is seen as an engine of growth. It is for this reason that there has been continuous advocacy for microfinance sector to be managed well so as to be used as a tool for poverty reduction and women empowerment. According to (Adjei, 2010), Micro-entrepreneurs constitute about 66% of the labour force in the country and, thus, represent a vital economic force.

It should however be stated that the concept of microfinance started in Ghana not today, it has been in existence in a long time. Even before the introduction of microfinance institutions, our traditional and local settings allowed for the borrowing from individuals and groups to start farming activities and other business ventures. Also, groups contributed to help group members in times of need; a concept that has evolved to become group loan.

According to (Morduch et al, 2005), globally, the concept of microfinance started with a Bangladeshi economist, Professor Muhammad Yunus, when he granted a few dollars to a basket maker in the year of 1974. In Ghana however, it is believed that the first credit union was established in the Northern part of Ghana in 1955 by the Canadian Catholic missionaries. Susu was later introduced as a borrowed idea from Nigeria in 1900. Due to the role microfinance plays in poverty alleviation, various governments over the years have implemented different policies and programme to ensure the development of the sector. These programmes and policies implemented have together led to the evolvement of the sector from its inception to its current state. Amongst the programmes are;

- credit subsidization in the 1950s;
- Agricultural Development Bank in was established 1965 to specifically address the financial needs of the fisheries and agricultural sector;
- Establishment of Rural and Community Banks (RCBs), and the introduction of regulations such as commercial banks being required to set aside 20% of total portfolio, to promote lending to agriculture and small scale industries in the 1970s and early 1980s;
- Shifting from a restrictive financial sector regime to a liberalized regime in 1986;
- Promulgation of PNDC Law 328 in 1991 to allow the establishment of different categories of non-bank financial institutions, including savings and loans companies, and credit unions.

The above policies has led to three sub-divisions in non-bank financial institution;

• Formal suppliers such as savings and loans companies, rural and community banks, as well as some development and commercial banks;

• Semi-formal suppliers such as credit unions, financial non-governmental organizations (FNGOs), and cooperatives;

• Informal suppliers such as susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals."

In terms of the regulatory framework, rural and community banks are regulated under the Banking Act 2004 (Act 673), while the Savings and Loans Companies are currently regulated under the Non-Bank Financial Institutions (NBFI) Law 1993 (PNDCL 328). The Bank of Ghana has been designing the operational guidelines and licensing requirements that helps streamline the operations of MFIs in the country.

2.1.1 Various categories of Microfinance Institutions in Ghana

The key stakeholders of Microfinance institutions in Ghana are the Rural /Community Banks, Savings & Loans companies, Credit Unions and Financial Non-Governmental Organizations.

(i) Rural Banks

Rural and community banks, popularly called rural Banks are unitof banks which are owned and managed by members of a community through the purchase of shares.

Rural banks are registered under the company's code and licensed to provide financial intermediation and other financial services. Initiated in

1976, rural banks were established to extend savings mobilization and credit services to areas that were not served by commercial and development banks. They play a major role in mobilization of savings and credit extension to the rural poor.

(ii) Savings and Loans Companies

These are deposit-taking financial institutions that are regulated
by the Bank of Ghana, under the Non- Bank Financial Institution (NBFI) Law 1993 (PNDCL 328). As a requirement, a minimum capital is required before a savings and loans bank is established. This minimum requirement is not fixed but changes with time. It started with(¢100 million or US$150,000) and currently stands at 100,000 Ghana cedis.

Even though initial licensing was difficult, the saving and loans category has led to the rapid growth and transformation of some Financial Non-Governmental Organisations (FNGOs) into savings and loans companies providing financial intermediation. It has also led to the establishment of banking operations that serve a market niche. Savings and loans companies are restricted the range of services they can provide to their clients. Their activities are the area of deposit mobilization, credit provision to low income groups as well as advisory services to their clients.

(iii) Credit Union

These are thrift societies that offer savings and loan facilities to members only. Most credit Unions use susu as a way of mobilizing savings from clients. To qualify for loan from a union, the individual must have enough deposits which can serve as collateral or make another client with enough savings serve as a guarantor. Credit unions operate under a common umbrella known as CUA, formed in 1968; thirteen (13) years after the first credit union had been formed in the Northern region of

Ghana. CUA regulates the activities of credit unions in the country and creates conducive atmosphere for CU's to operate. (Gallardo et al. 2002) states, CUA is an innovator in providing both credit insurance (which pays off the outstanding loan balance in case of the death of a borrower) and a contractual savings program (which matches savings, up to a limit, if held at death or to maturity).

(iv) Financial Non-Governmental Organizations.

Under the companies' code, these are incorporated as companies limited by guarantee. FNGO's belong to the semi-formal group system, registered but not licensed by BOG. FNGO's are not supposed to take deposits from clients; as a result, they depend on external funds from donors, Government schemes or social investors to finance its lending. Regardless of the role they play in poverty reduction, FNGO's are not many. (GHAMFIN, 2003): Although some 50 NGOs have active micro credit programs, they are generally multipurpose or welfare-oriented agencies (only four exceed 3,000 clients and total outreach is only about 60,000 clients). Although Ghana has few NGO's with microfinance intentions, the few that exist are playing an important role in the provision of financial services, especially in the Northern Region, where the operation of rural banks are limited.

2.1.2 Microfinance and Development

Microfinance is a type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services. Ultimately, the goal of microfinance is to give low income people an opportunity to become self-sufficient by providing a means of saving money and borrowing money.(Investopedia). Microfinance as the provision of financial services such credits (loans), savings, micro-leasing, micro-insurance, and payment transfers to economically active poor and low income household to enable them engage in income generating activities or expand/grow the small businesses(Irobi,2008). According to (Ledgerwood,1997), Microfinance institutions can be non-governmental organizations, savings and loan cooperatives, loan unions, government banks, commercial banks, or non-bank financial institutions.

Microfinance includes the provision of loans, savings, insurance, transfer services and other financial products and services to clients. It is therefore considered as one of the critical tools needed for the poor in order to change their standard of living. This is because the poor just like the rich, needs access to financial services so as to bring a change in their conditions of life. These financial services however are not readily given to the poor by commercial banks. It is for this reason that Littlefield and Rosenberg (2004), believes MFI's have emerged to address the market failure which has led to the poor generally being excluded from financial services sector of the economy.

Available literature suggests that micro- finance makes these services readily available to the poor. The provision of capital in addition to human capital development services through education and training enable the poor to migrate from poverty to a better standard of living. Thus microfinance is believed to be an effective and powerful tool for poverty alleviation (Adamu, 2007; Irobi, 2008; Wrigth, 2000; Zaman, 2000; McCulloch and Baulch, 2000).

According to (Otero, 1999) by providing material capital to poor persons, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and Society. Microfinance is not just about individuals rather, at the institutional as well. It creates institutions that provide financial services the low income groups that are ignored by the formal banking sector. This is confirmed by Otero (1999). The objective of microfinance is not providing capital to the poor to combat poverty; it seeks to create an institution that delivers financial services to the poor who are ignored by the formal banking sector. Microfinance, according to (Adamu, 2007) is a unique programme for the reduction of vulnerability, and hence the achievement of the Millennium Developmental Goals. Empirical evidence emphatically shows that the poor benefits from microfinance on both economic and socio views, but this, according to (Zaman, 2000; Robinson, 2001; Dahiru and Zubair,2008), can be done only if the financial sustainability of the Micro-financial institutions is not jeopardized.

Regardless of the above, some scholars and writers have questioned the role of microfinance in poverty alleviation. Some even believe that it does nothing but to make profit from the less privileged they claim to be helping.

Hulme and Mosley (1996) for example, though acknowledged the role of Microfinance in poverty reduction, their conclusion from their research on Microfinance was that "most contemporary schemes are less effective than they might be". They further argued that microfinance is not a panacea for poverty – alleviation and that in some cases the poorest people have been made worse-off by microfinance. It was further found out in Nigeria that even though microfinance institutions Nigeria have grown phenomenally, driven largely by expanding informal sector activities and the reluctance of commercial banks to fund emerging microenterprises. But, the number of beneficiaries of microfinance institutions is an insignificant proportion of the people in need of microfinance services (Adamu 2007). According to (Dahiru and Zubair, 2008), in a country where over 70% of the country's population live below the poverty line, the microfinance sector serviced less than one million clients. The research further stated that even the most vulnerable group in need of microfinance is not reached by microfinance institutions.

Notwithstanding the above, microfinance has been seen as a tool that can be used to empower women as well as improve the standard of living of the vulnerable. There have been studies showing overwhelming benefit of microfinance in increase in income and reduction of vulnerability. Khandker (1998), for example, in several related studies using statistical method on assessment of impact of microfinance among three Bangladesi programs found that every additional takas lend to a woman add additional of 0.18 taka to annual household expenditure. Also, Khandker (2005), in a similar study found out that each additional 100 taka of credit to women increase total annual household expenditures by more than 20 taka. All these studies go to confirm that microfinance is indeed playing a role in poverty reduction. In their focus on the ability of microfinance to reach the poor, Amin, Rai, and Topai (2003) affirmed that microfinance has served people below and above the poverty line.

Microfinance, although may not be a universal solution in poverty alleviation but if it is well developed and made part of the bigger plan in poverty eradication, it can make contributions to national development in the form capital creation and empowerment which in turn leads to confidence and self-esteem, especially for women and the vulnerable.

2.1.3 Microcredit and Microfinance

Microcredit

Microcredit includes the provision of all types of loans(cash and in-kind loans) that financial institutions, such as banks and insurance companies provide to micro and small entrepreneurs meant to improve their business operations. Microcredit helps poor small business unit owners secure loans that otherwise wouldn't have secured from commercial banks.

Microfinance

Microfinance consists primarily of providing micro-credit in addition to other financial services; including but not limited to savings and micro insurance in relatively smaller units. It is a financial practice designed to help improve living conditions of the relatively poor groups in the society. In addition to financial services, some institutions may provide non-financial services in the form of training to clients.

2.2 Performing Loans

Credit means a contract that binds a creditor to give an asset with the expectation that an equivalent value will be returned in the future by the debtor. Credit normally comes with additional charges aside the principal to be paid. This includes compensation for the cost and risk of lending money to the borrower or debtor; loans are therefore offered at a cost known as interest. Interest is normally expressed in terms of percentage of the amount owned. Interest may also take the form processing fees, monitoring fees among others. A loan or credit is deemed performing if the debtor is able to paythe interest in addition to the principal as per the agreed upon terms between the debtor and the creditor. These healthy asset portfolios serve as a regular source of income to the lending institution.

2.3 Non Performing Loans (NPLs)

Non-Performing Loans is a loan that is at default or almost at default. According to (Fofack 2005) it has been used interchangeably with Bad loans and impaired loans as identified. A non-performing however means a loan given by a bank or finance company on which interest and principal repayments are not made on time. (Bloem and Gorter,2001) stated that some countries prefer to use quantitative criteria whiles others rely on qualitative criteria to evaluate future payments of loans to help know which loans are likely to be non-performing. Many researchers, including (Alton and Hazen 2001) have described non-performing loans as loans that no more accrues interest and is ninety days or more past. As cited in Fofack (2005), Caprio and Klingebiel(1990) stated that non-performing loans are the type of loans that have not generated income(both the interest and principal have not been paid) for a long period of time, at least 90 days.

From the above, we can conclude that loans that have both the principal and interest unpaid for minimum of 90 days can be considered non-performing.

As stated earlier, the collapse of many microfinance institutions in Ghana are as a result of the increasing trend in non-performing loans. The problem of non-performing loans is not limited to Ghana alone but in most African countries and some Asian countries. And this type of loan could be injurious to the performance of the financial institutions, according to Berger and De Young(2007). For the sake of this study, Quantitative criteria for identifying non-performing loans will be used; any loan that repayment has been outstanding for at least 90 days.

2.4 Loan Classification and Provisioning

As a way of reviewing portfolio and minimizing non-performing loans, all licensed financial institutions are required to monitor their Credit and risk assets at least once every quarter on a regular basis. Assets are classified into four grades of risk: (i) standard; (ii) sub-standard ;(iii) doubtful; and (iv) loss. Assets in risk grades (ii) to (iv) are considered non-performing and therefore no income may be accrued on them. Microfinance and small business loans are supposed to be reviewed once every month and are to be classified into current and/or delinquent. A delinquent loan is a type of loan whose interest payment or scheduled payment of principal has not been paid as per agreed.

2.4.1 Provisioning for portfolio at risk.

Globally, loans are granted with the view that debtors will be willing and able to pay the principal and the interest in time, as agreed between both parties. But due to uncertainty and willful default by debtors, certain measures are put in place to reduce non-performing loans. This is done through ensuring that credit is secured in the form guarantee or deposit. If at the due date borrowers have still not paid the loan, legal action may be taken by the financial institution against the debtor and guarantor; after all efforts to recover have proved futile. This notwithstanding, some loans may be delinquent. It is for this reason that provision is made for expected loses from bad debts.

This provision is made not for individuals, rather, for a group or on basket basis. This involves making a blanket provision for the aggregate outstanding balances of loans grouped in each age basket, regardless of any security available for individual loans.

In Ghana, the BOG mandates all microfinance Institutions to maintain a general loss provision of 5% of the aggregate outstanding of all the current or standard class of loan assets in addition to the specific loss provision made for non-performing loans.

These institutions are also required to disclose separately the specific and general loss provisions made for non-performing or delinquent loans and standard/current loan assets in their financial accounts and reports.

Below is a table showing the prescribed rate of provisioning for microfinance and small business loans.

Table 2.1:

	PROVISION	NO OF DAYS OF DELINQUENCY
1	5%	Up to 30 days
2	20%	31-59 (30 days less than 60 days)
3	40%	60-89 (60days less than 90 days)
4	60%	90-119 (90 days less than 120 days)
5	80%	120-149 (120 days less than 150 days)
6	100%	150 days and above

2.5 Implication of NPLs for Microfinance Institutions

Loans generate a lot of revenue to the bank in the form of interest and other charges on loans. This revenue takes a high a percentage of the entire revenue, performance and profitability of financial institutions. Loans, as said, are a double edged sword. This means that if loans are not well managed it can be a bane to the development of a bank; this happens when loans become delinquent. When this happens, the performance of the institution is put in jeopardy.

This is because when banks have chunks of non-performing loans, it makes it impossible for that institution to grant more loans; in effect reducing the profit level of the said bank.

Non-performing loans may also lead to liquidity problems, which might lead to loss of confidence on the part of clients and other stakeholders. This may lead to a run on the bank and the eventual collapse of the bank.

Non-performing loans also have a negative impact of making banks lose huge sums of money in the form of written off bad debt, which negatively affects the growth of the institutions . It further affects dividend since credit losses are deducted before dividends are declared.

It is argued that failing banks have huge amount of non-performing loans before their eventual collapse (Berger and De Young(1997). Kwan and Eisenbeis (1994) further argued that even when they do not fail, there is an inverse relationship between the non-performing loans and performance efficiency.

Just the above two literature confirms the devastating effect non-performing loans can have on microfinance institutions. In Ghana for example, a lot of microfinance institutions have collapsed in the past years due to the problem of non-performing loans. The study therefore intends to identify the major causes of non-performing loans and also suggest some solutions to this problem so as to reduce the incidence non-performing loans in Ghana.

2.6 Factors Accounting for NPLs

Different writers have different opinion on the causes of non-performing loans in microfinance but a lot of these writers have some of their findings in common. Some researchers like Berger and De Young (1997) have concluded that non-performing loans come as a result of poor management. It is argued that most microfinance institutions that have high rates of non-performing loans do not have good practices when it comes monitoring and controlling of loans.

Another factor that accounts for non-performing loans is Credit culture. This refers to the motive for which borrowers apply for loans. It is a fact that borrowers sometimes apply for loan without planning well as to how the loan facility will be used and how they it will be repaid. They however apply for loans because friends and colleagues are applying for loans. This has resulted in a lot of defaulted loans since the loan is used anyhow because plans were not made for it usage before it was given.

NPLs may also be caused by less predictable incidents such as the cost of petroleum products, prices of key exports, foreign exchange rates, or interest rate change abruptly according to (Bloem and Gorter2001). The study further indicated that poor management, poor supervision, overoptimistic assessments of creditworthiness during economic booms and moral hazards resulting from generous government guarantees could also lead to loan default.

Adverse economic shock and high cost of borrowing, according to a working paper on NPLs in Sub-Saharan Africa, has also been known to be a major source of non-performing loans. According to (Fofack, 2005) "the accumulation of NPLs is generally attributable to a number of factors, including economic downturn, macroeconomic volatility, terms of trade deterioration, high interest rate, excessive reliance on overly high-priced inter-bank borrowings, insider borrowing and moral hazard."

Some writers have also argued that Non-performing loans may come as a result of overdrawn account .This happens when there is no overdraft limit or overdraft taken on account which has not been actively operated for some time and overdraft taken in excess of the reasonable operational limit. Others have further identified lack of good skills and judgment on the part of lenders as a possible cause of NPLs.

Again, another publication (kalyan-city.blogspot.com) identifies speculation: i.e investing in high risk assets to earn high income and also fraudulent practices such advancing loans to ineligible persons or advances without security or reference as some of the causes of NPLs. It also cites internal reasons such as labour agitation/shortage and market failure as some of the causes of the incidence of NPLs. External factors such as recession in the economy and natural calamities/disasters were also cited by the same publication as some of the factors accounting for loan default.

2.7 Loan Processing in MFIs

Loans are given bearing in mind that there is a possibility that the expected repayment may not

Occur, thus default risk. Lending takes place when a lender provides a loan in return for a promise of interest and principal repayment in future(Kay Associate Ltd), 2005). Due to the possibility that a loan will not be repaid, a sound judgment has to be made as to who should be given a loan to ensure that loans are repaid at the agreed date. Much emphasis has been made on the role to be played by the lender so as to ensure that the right person selected and given loan in order to minimize credit risk. Once NPLs is a burden to the lender, it is his responsibility to ensure that enough information has been gathered on the borrower. This will aid in making a sound credit decision and help in reducing some factors that would lead to chunk of loan been unpaid.

To ensure this, financial institutions use a combination of factors, referred to as the cans of lending, usually in the form of an acronym, which are used to check whether an applicant qualifies for loan or not. As many as they are, the most commonly used is the CAMPARI; an acronym for:

1. The character of the prospective borrower
2. Amount being requested by the customer
3. Margin (Interest margin, commissions and relevant fees.)
4. The purpose of the loan
5. Ability of the borrower to manage business successfully.
6. Repayment (source of repayment must be credible)
7. Insurance (security provided by the customer)
8. Technical and financial viability of the business

The above is used to avoid adverse selection and moral hazard; which leads to loan default. Before an individual is given a loan, the applicant has to go through three steps;

(i) Preliminary Screening

This is the first stage of the application process. This is where the applicant makes contact with the institution. This is the stage where applicant is asked questions pertaining to himself, his household and the business as well. The information obtained from the questioning and answering session is critically analyzed to help screen the applicant. This is one of the critical stages in the loan processing Procedure. This is because it is at this stage that it is determined whether the client is creditworthy.

(ii) Loan Proposal and Credit Committee

After the information has been given by the applicant, a follow up is made to confirm the applicant's information. The visit will also ascertain that there is enough collateral and guarantors. Loan officers are assigned to applicants and it is their(loans officer) responsibility to confirm the information given by the client. After the visit, the information obtained is used to prepare a formal loan proposal and presented to the credit committee for approval. Based on that information, the loan committee then decides the amount and the period to be used in paying back the loan.

(iii)Monitoring and Repayment

This is one important stage of the process which if left undone, may lead to default and it is done after the loan has been given to the client. The main purpose of this activity is to avoid moral hazard and ensure that loan collected is used for its intended purpose and also remind them of when they supposed to make payments to the bank. This one activity that if well carried out, can reduce the rate of growing NPLs, unfortunately, this is one area many institutions pay less attention to.

Monitoring helps to minimize the incidence of NPLs in the following ways:

- ensuring the utilization of the loan for the intended purpose
- Identifying early warning signals of any problem relating to the operations of the business that are likely to affect the performance of the loan
- Ensuring compliance with the covenants of the loan facility.
- Affording the lender the opportunity to discuss the problems and prospects of The borrower‟s business.

2.8 Reducing Non-Performing Loans in Microfinance Institutions

NPL's can be reduced if granted to well deserving applicants; thus applicants who have demonstrated the willingness and ability to pay. A Credit analysis has to be well carried out to ensure that a god credit decision is made to avoid adverse selection.

Furthermore, loan has to be monitored to ensure repayment is made as and when it is due so as to avoid default. The MFIs should also avoid granting loans to the risky customers or for speculative ventures, monitor loan repayments and sometimes renegotiate loans if the borrower is in difficulty (Kay Associates Ltd, 2005)

All the above may be ensured by simply applying the 5c's of lending. The 5c's of credit are explained below.

Character

It is important to a bank to have significant comfort with the character of its prospective borrowers. Indicators such as credit rating and borrowing history coupled with more qualitative factors such as honesty and integrity all support a case for a borrower's willingness and ability to repay a loan**.**

Capital

A bank needs to understand the capital position of the prospective borrower's business or personal wealth. More capital represents the borrower's ability to withstand volatility. It also demonstrates the commitment an owner of a borrowing entity maintains. A strong capital position reassures a lender of repayment capacity in a borrower.

Capacity

Understanding capacity to repay a loan is critical for a bank during the underwriting process. Capacity is determined by the borrower's ability to generate cash flow to service the interest and principal on the loan. Strong cash flow from borrowers' normal business activities demonstrates capacity to repay debt and mitigates the probability of default.

Conditions

A bank must also understand the broader market conditions affecting the industry, segment, market and overall economy in which its borrowers engage in commerce. Strong industry growth or economic conditions support a business' ability to generate cash and repay debt.

Collateral

Lenders often take a lien on borrower collateral. In the event a borrower is not able to repay debt with its cash flow, a lender must rely on the quality and sale ability of borrower collateral to repay the loan. A robust analysis of the collateral supporting a loan is an important step in granting a loan.

2.9 Challenges facing the Microfinance Sector

In an attempt to provide financial services to the less privileged in the society, microfinance institutions are faced with some challenges. Amongst the key challenges that confront microfinance institutions in developing countries like Ghana are:

(i) Capacity Building

Capacity building simply means putting in place education and training programmes that will enable employees work effectively and efficiently. Unfortunately in Ghana, most financial institutions do not have these systems in place. This has led to a situation where loan officers without much knowledge end up granting loans to unqualified applicants as well as perform poor recovery; leading to high non-performing loans.

(ii) Inadequate and expensive Infrastructure base

The infrastructural base needed to support the operations of the microfinance sector in Ghana is inadequate. Inadequate infrastructure like communication, good roads, modern technology amongst others limit the performance of the microfinance sector, since their inexistence in some places makes it almost impossible for microfinance institutions to survive there. In places where they exist, the cost of using them is too expensive. This high cost increases operational cost which limits

(iii) Loss of confidence

Due to the collapse of many microfinance institutions, especially in recent times, there has been a lose of confidence in the sector. Many customers or target of microfinance institutions have lost interest in saving and entrusting their monies in the hands of these institutions. As a result, the institutions in this sector are currently are now finding difficulties in convincing clients to work with them. This has become a big challenge for institutions in the sector since it has led to high cost of advertisement and reduced profitability.

(iv) Poor information/Data base

The Ghanaian system is such that there is data base containing the general information of populace. This makes it very difficult for microfinance institutions to get adequate and reliable information about their clients. This has led to a situation where sometimes the wrong clients are targeted instead of the less privileged; diverting the very essence of microfinance.

(v) Regulation and Supervision

It is true that on paper, there are regulatory bodies guiding the actions of Microfinance institutions, in reality, most of these institutions are not performing their mandated responsibilities. Some of the rules and the regulatory environment in general sometimes serve as challenges for innovation and the performance of the institutions in general. All these come together to serve as a big challenge to the performance of Microfinance institutions.

The next chapter will deal with methodology and procedures involved in the research work and underlying basis for selecting such methods in conducting the research and it also provides a contextual

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents two broad issues. Firstly the methodology adopted and used for the study has been discussed. These include the research design, sampling, data collection and analysis techniques among others. The second issue discussed is the profile of DATCCU focusing on brief history and scope of activities.

3.1 Research Design

Any researcher has the option of choosing from different available strategies at his/her disposal. According to (Saunders et al, 2007), it could be experimental, survey, case study, grounded theory and archival research. None of these different research strategies has been found to be superior to the other; rather, the choice of any research method or strategy depends on the type of research being carried out and the answers the research seeks to find. This study intends to employ a case study because it represents a comprehensive description and explanation of components of a given social situation; as defined by Robson (2002:178), cited by Saunders et al 2007; as "a study for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence".

In order to explain the situation very well, personal contact were in administering questionnaires and interviews were also used to bring out the necessary information needed but could not be brought out by the questionnaire. As confirmed by existing literature, case studies are mostly used in exploratory and explanatory research

(Saunder et al, 2007); as it helps in answering questions like how, why and what as used in research questions.

3.2 Population and Sampling

DATCCU has four branches in the country, all in the central region of Ghana. These four branches are used in catering for the financial needs of people living in Upper Denkyira East Municipality, Upper Denkyira west District and Wasa Amenfi East District. Three loan officers, three loan committee members, the general manager and three general staff members of the institution were selected for this study. In addition to these people, one hundred and twenty (120) clients were selected to help answer some of the research questions. To get divergent answers from different communities, respondents from different locations and branches were selected.

All three branches in addition to the main office were interviewed, representing 100% branch coverage. Selecting respondents working in different capacities, from different branches with different experience ensured that the relevant information relating to the topic was obtained for the study.

3.3 Sources of Data

The sources of data used for this work were Primary and secondary data sources. The data collected first hand through the administration of questionnaires forms the basis of primary data. This data source focuses on the background information of respondents, their knowledge on the subject, NPL’s in this case.

For secondary sources, information from published and unpublished sources; including official annual financial reports of DATTCU were used to get additional information that could not be revealed by the primary data.

3.4 Methods of Data Collection

The data used for the study was made up of primary and secondary data. These data types were collected using different tools and from different sources. The data type, instruments used and the data sources are discussed below.

3.4.1 Primary Data

Structured questionnaires and interview guides were used to collect data from selected respondents.

The structured questionnaires were used to get the unbiased opinion of respondents whiles the interviews were used to seek clarification some unclear issues like how adverse selection leads to high non-performing loans among others. This helped in obtaining the information required for this work. I was personally able to visit the two branches in upper Denkyira East municipality for the data collection exercise. In this case, respondents were allowed to choose the time convenient to them for the interview. Where figures will be needed, respondents were briefed on what will be needed so that he/she will be prepared before the scheduled meeting.

The other two branches where I couldn’t go, respondents were contacted on phone and briefed about the study. After agreement had been reached, the questionnaires were sent to them and were sent back after they had answered the questions on the questionnaires.

It should be noted that aside the major questions, there were follow up questions. These follow up questions sought to give clarifications to some responses, if necessary. Respondents were also given the opportunity to build up on their responses whenever the need be.

3.4.2 Secondary Data

Published annual reports, and financial statements and published work of other researchers and writers were used as secondary data. The reports from the firm covered a period of four years, thus from 2011-2014 and it is information already processed for public consumption. This source of information was very useful to the study in diverse ways. Firstly, it is reliable and its quality is something that cannot be doubted. It helped to give very useful information on for example, loan portfolio of the institutions and profitability during the four (4) year period. It was further cheap to collect as compared to the primary data collected.

3.5 Pre-testing

To avoid ambiguity, pre-testing was done to ensure that the wording and sentence construction was checked through pre-testing. The focus was to ensure that the questionnaires will be reliable and valid and also avoid ambiguity. Respondents were asked their opinions on questions on the questionnaire. Moreover, answers from the respondents helped to know where there were supposed to be follow up questions and make modifications where necessary. In all, it helped to put the research on course since after the modification, it was evidently clear that the questionnaires would bring out the best answers and information needed for the success of the study.

3.6 Limitation of data collection

The data collection exercise was a very successful due to the understanding and support of respondent. Notwithstanding, like any other study, this study too had some difficulties encountered. Due to the tight schedule of some of the respondents, it was difficult to meet respondents to complete the questionnaire and on some occasions, agreed interview date had to be postponed. Some respondents also were reluctant to give out information they deemed confidential and personal.

3.7 Data Analysis

The processed data from the firm used for the study spanned from 2010-2014. For the quantitative aspect, Statistical Package for the Social Scientist (SPSS version 17) is used for the data analysis. Tables and statistical diagrams like pie charts and bar graphs were also used in the data presentation. The use theses statistical tools presented a pictorial view of the data which made its understanding very easy.

3.8 Brief History of DATCCU

Dunkwa Area Teachers Cooperative Credit Union (DATCCU) is a teachers' credit union which serves not only teachers but traders and other low income earners in its operating area. It is the first credit union in Upper Denkyira and one of the oldest in the Central Region and the country.

It all started when some missionary schools and tribal clans started operating a welfare fund in the 1970's. This fund eventually evolved into the District welfare fund and operated successfully for twelve (12) months. The idea of forming a credit union was then conceived and implemented.

DATTCU was formed in 1975 with 63 members. It registered Department of Co-operatives in 1976 with 4680 as registration number under the chairmanship of Messrs Kwoffi. DATTCU operated in rooms and GES office but eventually moved to a small office which was used till 2003, when it moved into its office complex where it currently operates from. This dream came through under the leadership of Messrs OwusuKra and the late Peter Baah Aboagye as the chairman and manager respectively. DATTCU during its existence has seen to the opening of Dunkwa

Traders Co-operative Credit union (DUNTACCU) and Twifo Heman Lower Denkyira Co-operative Credit Union(DUNTACCU); though both have deflected. DATTCU opened its first branches in Dunkwa central market and Wasa Akropong in 2010. It later extended its branches to Diaso in the Upper Denkyira west District. Initially, the credit union served teachers and other government employees until about five years ago. The reason for that decision was for easy loan deduction of loans as well as easy savings mobilization. Currently, traders are very strong members of the union and once they have the required collateral or guarantor, they qualify for loan just like the government employees.

3.9 ACTIVITIES AND PRODUCTS OF DATTCU

Below explained are the major products and services that DATTCU provides to its customers.

- **Savings Mobilization**

DATCCU mobilizes savings in two major ways, namely:

Mobile Banking

This is a product designed to help clients, especially traders mobilize savings on a daily basis. Mobile bankers go to the door steps of clients to collect their daily savings, popularly known as susu. The money collected is deposited in the client's account by the mobile banker and goes back the following day with the evidence that payment has been paid into the account. It should be noted however that having account alone does not qualify you for a loan. To qualify for a loan, a client must have an account with DATTCU in addition to the susu account.

Direct Savings and Source Deduction

Savings at DATCCU takes place in two ways; direct savings and source deduction from controller and accountant general. An individual having an account with DATTCU can go deposit money into the account in person or through the susu collection. For employees paid by the controller and accountant general, an order can be made so that deductions will be done at source and paid into the DATTCU account held by the said employee, before the rest is paid into the account through which the employee receives his/her salary. These systems were put in place to ensure that savings mobilization will be easy and favorable to all clients.

- **Loans**

The loans that are given to the clients take diverse forms; as a result, loans are grouped into different categories. This helps to know which loans need instantaneous attention and sometimes helps to determine the payment term to be given to a type of loan.

It should be noted that all loans are given a payment period of 1-24 months, depending on the type of loan and the amount involved. As a way of reducing default, loans that are not paid within the agreed period attracts additional four (4)% aside the interest the loan originally attracts. Moreover, the amount of loan the individual qualifies for depends on the amount of money in his/her account.

Below are the loan facilities available to clients of DATTCU.

Business Loan

Business loans are targeted at micro and small scale enterprises that have accounts with DATTCU. This loan facility is given to clients who qualify for loan to expand their business units and increase their income in the future. The loan facility is grouped into different categories but the terms of payment for the different business loan Products are the same. The loan categories under the business loan are transport, tailoring, liquidity, trading amongst others.

Agricultural Loan

Agricultural loan is a loan given to farmers to expand their farms. This was put in place to ensure that farmers get easy access to loan to help support their farming activities. The agricultural loan includes but not limited to fertilizer, livestock, equipment and seedlings loans. Farmers make estimate of the amount needed to procure any of the above in order to help expand their farming activities

Providence Loan

Providence loan is a loan given to clients for personal and emergency use. This loan facility helps clients to get out of emergency situations. As a result of its emergency nature, special attention is paid to this loan and systems have been put in place for the processing of this loan to be as fast as possible, especially medical and school fees loans. This is because if the loan is not processed quickly but delayed, the reason for applying for the loan and the very essence of the loan will be lost.

- **Non-Financial Services**

As of now, the only non-financial service DATTCU offers is consultancy and advisory service. Customers are given expert advice on how best to utilize the facilities granted them.

CHAPTER FOUR

INTERPRETATION, ANALYSIS AND FINDINGS OF DATA

4.0 Introduction

The chapter interprets data and explains information gathered from respondents as well as secondary data. It plays an essential role by generally providing empirical data to support the findings of the work. It is the findings of the work that answers the research questions bearing in mind the objectives of the study. Discussed in this chapter are the trends of Non-performing loans, effects of NPLs on interest income and operating profit as well as the causes of NPLs and problems faced by institutions in the sector. The chapter also touches on the default rate sector-wise.

4.1 Age Distribution of Respondents

The two categories of respondents sampled for the study were staff and borrowers/members of DATCCU. Below is a table depicting the age distribution of the respondents.

Table 4.1: Age distribution of Staff of DATCCU

Age	Frequency	Percentage (%)
18-25	2	20
26-30	5	50
31 and above	3	30
Total	10	100.0

Source: Field survey

Table 4.1.2: Age distribution of Borrowers/Members

Age	Frequency	Percentage (%)
20-30	26	26.5
31-40	51	52.0
41 and Above	21	21.4
Total	98	100

Source: field survey, 2015.

4.2 Gender Distribution Of Respondents

The analysis of the questionnaire showed that female members of the union took more loan than the male members. This goes a long way to confirm the role microfinance plays in the development of women. Out of the 98 questionnaires received from the 120 sent to borrowers, 36, representing 36.7% were males whiles 62, representing 63.3% were females. DATTCUI on the other hand had 30% of their staff interviewed to be females whilst 7, representing 70% were females. It was however found out that not only do females dominate in borrowing; they also dominate in terms of defaulting. Out of the 26 borrowers found to have defaulted, 19, representing 73.1% were females whiles 7, representing 26.9% were males.

Table 4.2: Gender Distribution Among Respondents

Gender	Frequency	Percent
Male	43	39.8
Female	65	60.2
Total	108	100.0

Source: field survey, 2015.

4.3 Educational status of Respondents

It was realized from the study that most of the borrowers have not attained high levels of education. Out of the 98 questionnaires received from borrowers, only 16 persons representing 16.3% had attained tertiary education. Majority of the borrowers were JHS leavers, having as high as 47%. On the other hand, HND holders dominated the staff of DATTCU, with only three first degree holders and one second degree holder. The tables below show the educational status of DATCCU staff and borrowers respectively.

Table 4.3: Level of Education of Respondents

Level	Frequency	Percent
None	6	5.6
JHS	46	42.6
SHS	20	18.5
Primary	11	10.2
Diploma	10	9.3
Degree	12	11.1
Post Graduate	3	2.8
Total	108	100.0

Source: field survey, 2015.

This generally low level of education of borrowers is also a contributing factor to NPLs. This is because most of the defaulters were self-employed people who had low levels of education. Since those with low levels education are sometimes easily convinced to use their loans for unintended purposes, the expected outcome is the rate of default. This is confirmed by the fact that out of the 18 defaulters who were self-employed, none had a higher level of education; even though the sector had 4 people who had attained higher levels of education

4.4 Occupational distribution of Respondents

Out of the borrowers whose questionnaires were received, 53 of them, representing the majority of 49.1%, were self-employed, mostly engaged in business and farming. Only 31, representing 28.7% were with the public sector**.** The remaining twenty four (24) is made up of Fourteen (14) borrowers and 10 DATCCU staff; all with the private sector. The table below depicts the occupational distribution of respondents contacted

Table 4.4 Occupational distribution of Respondents

Sector	Frequency	Percent
public sector	31	28.7
private sector	24	22.2
self employed	53	49.1
Total	108	100.0

Source: field survey, 2015.

The data further revealed that out of a total of 53 self-employed borrowers, only 4 representing 7.5% of were with high levels of education (Tertiary). This confirms the notion that most people with higher levels of education prefer white-collar jobs to entrepreneurial activities or the absence of such opportunities. The self-employed sector was also noted to the sector with high levels default rate, with 18 out of 26 defaulters found.

4.5 Marital Status of Borrowers

Out of the 98 questionnaires received from the 120 sent to borrowers, 45 of them representing 45.9% were married and living with their spouses. Twenty-one respondents representing 21.4% of this category were found to have divorced, seven respondent were widowed whilst the rest of the respondents were either single or separated. Table 4.5 shows the marital status of the respondents.

Table 4.5 Marital Status Of Borrowers

Status	Frequency	Percent
Single	14	14.3
Married	45	45.9
Separated	11	11.2
Divorced	21	21.4
Widowed	7	7.1
Total	98	100.0

Source: field survey, 2015.

It was further found out from the data that out of the total number of 26 defaulters, as many as 15, representing 56.7% of defaulters were single parents. 8 of the defaulters, representing 30.8% were married, whiles the remaining 3, representing 11.5 % were single.

4.6 Analysis of Trend of Non-Performing Loan figures (2011-2014)

The analysis under this seeks to establish the pattern of the non-performing loans in DATTCU for the period under study-2011-2014. Table 4.1 and figure 4.1 provide a tabular and pictorial representation of the NPLs figures for the period under consideration.

Table 4.6-Trend of NPLs

	2011	2012	2013	2014
Net Loans	1288638.08	3980978.73	6747026.38	8463705.35
Impairment	20126.00	79997.00	117,105.00	56310.00
Ratio of Impairment to total Loan	1.6%	2%	1.7%	0.7%

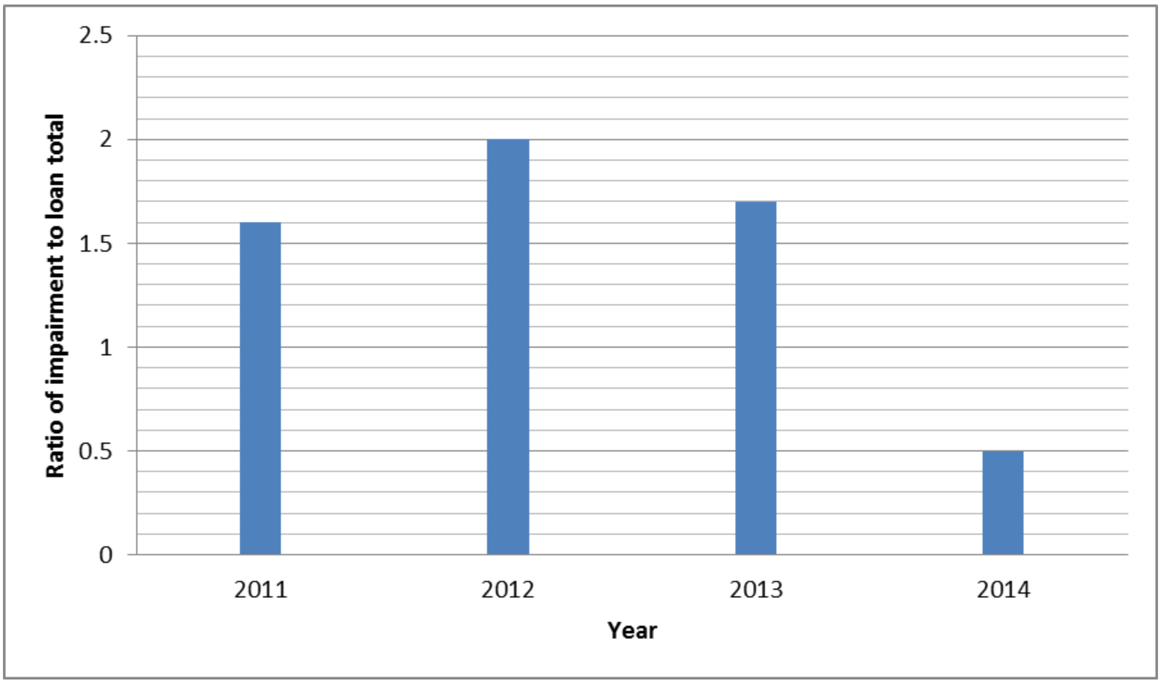

Fig. 4.1-Trend of Non-Performing Loans

Source: DATTCU Annual and Financial Statement, 2011-2014

From the table above, provisions were made for credit losses in the four year period of study, and were expressed as a percentage of the total loan portfolio. The percentage values for the period 2011-2014 were1.6%, 2%, 1.7% and 0.7% respectively. The ratio was a bit high initially but became more worrying when it rose it rose to2%, 1.7% in 2012 and 2013 respectively. The ratio has however declined significantly from the previous figure of 1.7% in 2012 to just 0.7% in 2014. The fall in the ratio represents a significant improvement in the quality of loan portfolio given to clients. This can be attributed to loans renegotiated loans in the previous year and improvement in loan recoveries. In absolute terms, the total amount of money lost to NPLs was GH¢273538.

Form the table, in 2014, there was a remarkable improvement in the quality of the loan portfolio as just0.7% of the total loan was deemed non-performing. This success has been achieved because management realized the growing trend in the loans-

NPLS ratio and as a result, had to initiate and implement policies aimed at halting the growing trend; leading to the significant reduction in 2014.

Some of the policies were improvement in loan monitoring and recoveries and the use of the RRS software, which prevents them from granting loans to public sector workers whose pays lips are already showing “red”; this further deductions cannot take place.

4.7 Analysis of Sector/Loan Type And Contribution To NPLs

DATTCU has its lending activities sub-divided into three main broad areas, namely; providence, Agriculture and business. This implies that the impairment rate seen from the above are caused by loans given to borrowers from these sectors. The study established that incidence of NPLs prevalent in the business sector. From the ten DATTCU staff that were interviewed, as many as 6 of the respondents, representing 60% listed this as their first choice regarding the area with high levels delinquent loans. This means that a chunk of the NPLs is caused by this sector, therefore, for management to reduce the amount of NPLs, measures must put in must be focused on this sector than the other sectors.

Agricultural loan was seen as the second category of loans with high rate of default. Three of the respondents, representing 30% of total marks awarded stated this as the sector with high rate of NPL’s. This confirmed the ranking of the causes of loan by the respondents in table 4.10. As explained earlier, the reason why this sector records the second highest in terms of NPLs is mainly as a result of weather failure and post-harvest losses.

The category of loans that recorded the least proportion of NPLs was the providence loan. Some of the loan types under this category of loans are funeral and wedding loans. By their nature, ideally, these activities do not need longer period of time generate the principal and interest. As a result, borrowers pay back immediately after the funeral or wedding. Moreover, because the purpose of this loan is not business oriented; unless willful default, borrowers have no reason not to payback.

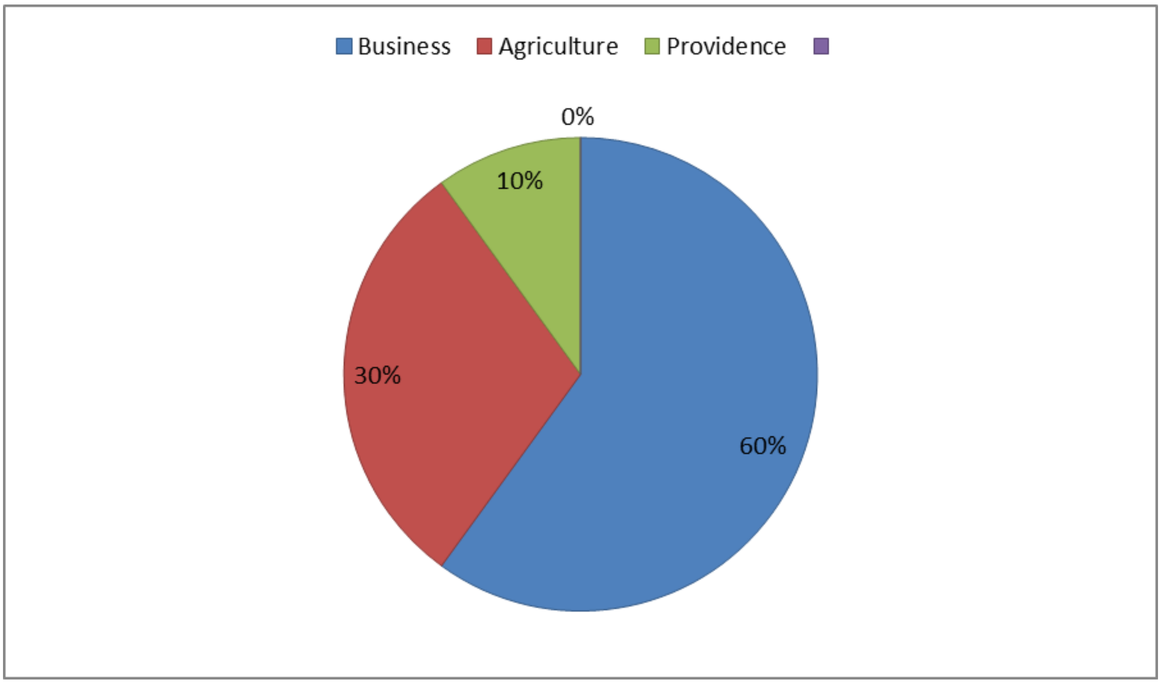

Fig. 4.2 Sectoral Analysis of NPLs

4.8 Impact of NPLs on Interest Income

As stated earlier, interest income is the major source of income to all lending institutions, with DATTCU not being an exception .This analysis seeks to determine the effect of NPLs on the interest incomes.

09Table 4.8NPLs to Interest Income

	2011	2012	2013	2014
Interest on loan	149567.10	448229.18	961348.87	1334085.74
Impairment	20126.00	79997.00	117,105.00	56310.00
Ratio of Interest to total Loan	13.5%	17.8%	12.2%	4.2%

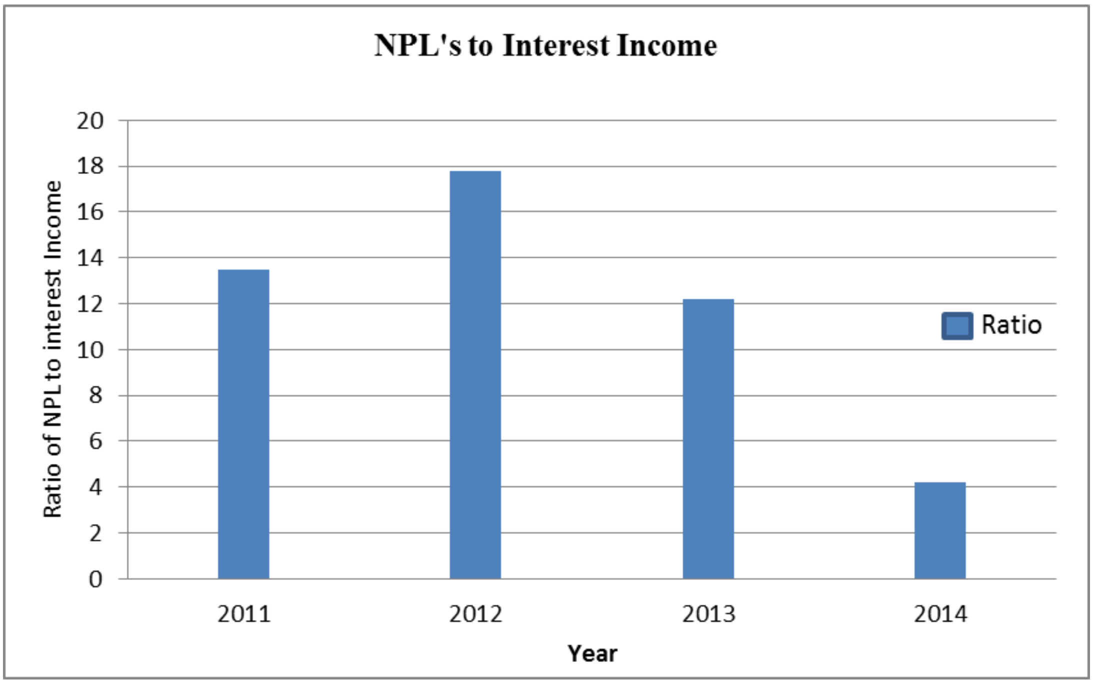

Fig 4.3: NPLs to Interest Income

Source: DATTCU Annual and Financial Statement, 2011-2014

From table 4.8, there has been a consistent increase in the interest income generated by loan portfolio from 2011 to 2014. However, this income interest is reduced as a result of provision made for credit losses. As indicated above, the provisions made were 13.5%, 17.8%, 12.2% and 4.2% respectively. It is further seen that in the year 2011 and 2012, the institution experienced the worst of the situations, recording 13.5%, 17.8% respectively. The table further revealed that in the four year period of study, the interest income of the union was reduced by GH¢273538, representing 11%

as a result of provision for credit losses. The ratio of NPL to the interest income was 17.8% in the year 2012, it however dropped significantly to 12.2% and 4.2% in 2013 and 2014 respectively. This is mainly as a result of efforts by management to reduce NPL's; knowing the negative impact it can have on the institution. As stated earlier, effective recovery programmes as well as reduction in moral hazard have been the secret to this significant drop. Looking at the significant drop from 12.2% in 2013 to 4.2% in 2014, it is obvious that management did tremendously well to reduce loan impairment so as to increase the net profit of the institution.

From the above discussions, it is seen that the total income of the institution during the period under consideration was negatively affected as a result of provision for credit losses. Even though it can be argued that efforts have been made to reduce NPL's significantly, it does not take away the fact that it has and still reduces the interest income of the institution.

4.9 Impact of NPLs on Operating Profit

The essence of this analysis is to establish the effect of NPLs on the operating profits of DATTCU for the period 2011-2014. The table and graph below illustrate the tabular and graphical representation of effect for the four-year period under study, i.e. (2011-2014).

Table 4.9 Impact of NPLs on Operating Profit

Item/Year	2011	2012	2013	2014
Operating Profit	125,462.34	183,967.29	507,181.08	782978.15
Provision for credit loss	20126.00	79997.00	117,105.00	56310.00
Ratio of provision to Operating profit	16%	43%	23%	7%

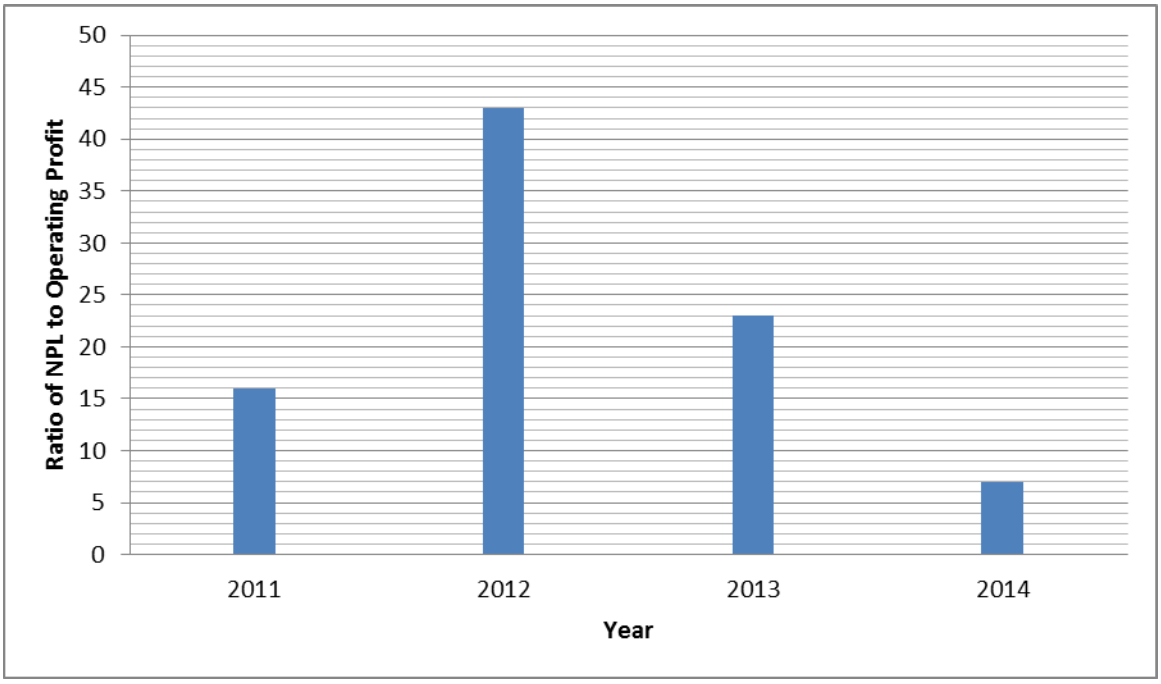

Fig. 4.4: Impact of NPL on Operating Profit

Source: DATTCU Annual Report and Financial Statement, 2011-2014

From table 4.9 above, it is obvious that part of the Union's operating profit is eroded by the provision for loan impairment. In 2012,as much as 43% of the operating profit was eroded by loan impairment. The provision made for credit losses in 2013 represented 23% of the total operating profit whilst 7% of the operating profit for 2014 was lost as a result of provision for credit losses. In absolute terms, DATTCU recorded the highest provision in 2013, where the operating profit was reduced by

GH¢117,105.00, representing 23%, with 2014 recording the least figure of GH¢20126.00 representing 16% of the operating margin lost to loan impairment.

In ratio terms, DATTCU recorded its worst NPL to operating profit in 2012, with a percentage figure of 43% and the least figure of 7% in 2014. In absolute terms, a total of GH¢1599588.86 was recorded as the operating profit for the four-year period but this sum was reduced by GH¢273538, representing 17% due to bad debt. The total amount is so huge that if paid, could have been used to better the lives of other low income earners. Aside the money lost, this can send wrong signals to the market, customers and shareholders who wish to see growth in their wealth; not lose it to growing non-performing loans. This obviously has a negative impact on the financial performance of the institution. This situation can further undermine the ability of DATTCU to raise extra capital from investors, should the need be. This is because these investors and even lending institutions measure the performance the institution, with healthy loan portfolio as a key variable before they invest.

Looking at the table, there is an improvement in the loan impairment and profitability. This is due to a combination of factors such as effective monitoring and recovery programs as well measures put in place to avoid adverse selection. The essence of this analysis is to bring out the impact of NPLs on the operating profit of DATTCU, which in turn affects the net profit of the union negatively. And from the above analysis, it is obvious that NPL's can have a devastating effect on the fortunes of any financial institution. It therefore behooves on management to put in place measures that will reduce this problem to the barest minimum; if not eradicated. This will help improve the quality of loans as well increase the net profit of the institution.

4.10 Factors Accounting for the incidence of NPLs in MFIs

After the administration of the questionnaires, respondents gave their opinions on what to them, causes loan default. Respondent were asked to rank the causes of loans defaults in MFIs using the scale of 1-10, with 10 being the most dominant cause and 1 as the least dominant cause. They ranked the causes to give weight to the various causes so as to help management in tackling the problem of NPL's. Below shown are the various causes of NPLs and the marks assigned by respondents.

Table 4.10 Factors accounting for NPLs

Factor	Rank Marks/Total Score	Percentage(%)	POSITION
Business failure	893	15	1st
Delay in credit delivery	526	8.9	7th
Poor Appraisal	578	9.7	6th
Loan amount not sufficient for project	489	8.2	8th
Ineffective monitoring	638	10.7	5th
Unexpected events like Sickness	815	13.7	2nd
High interest rate	367	6.2	9th
Poor Weather/Crop failure	642	10.8	4th
Diversion of funds	677	11.4	3rd
others	315	5.3	10th
Total	5940	100	

Source: Field Survey, May 2015

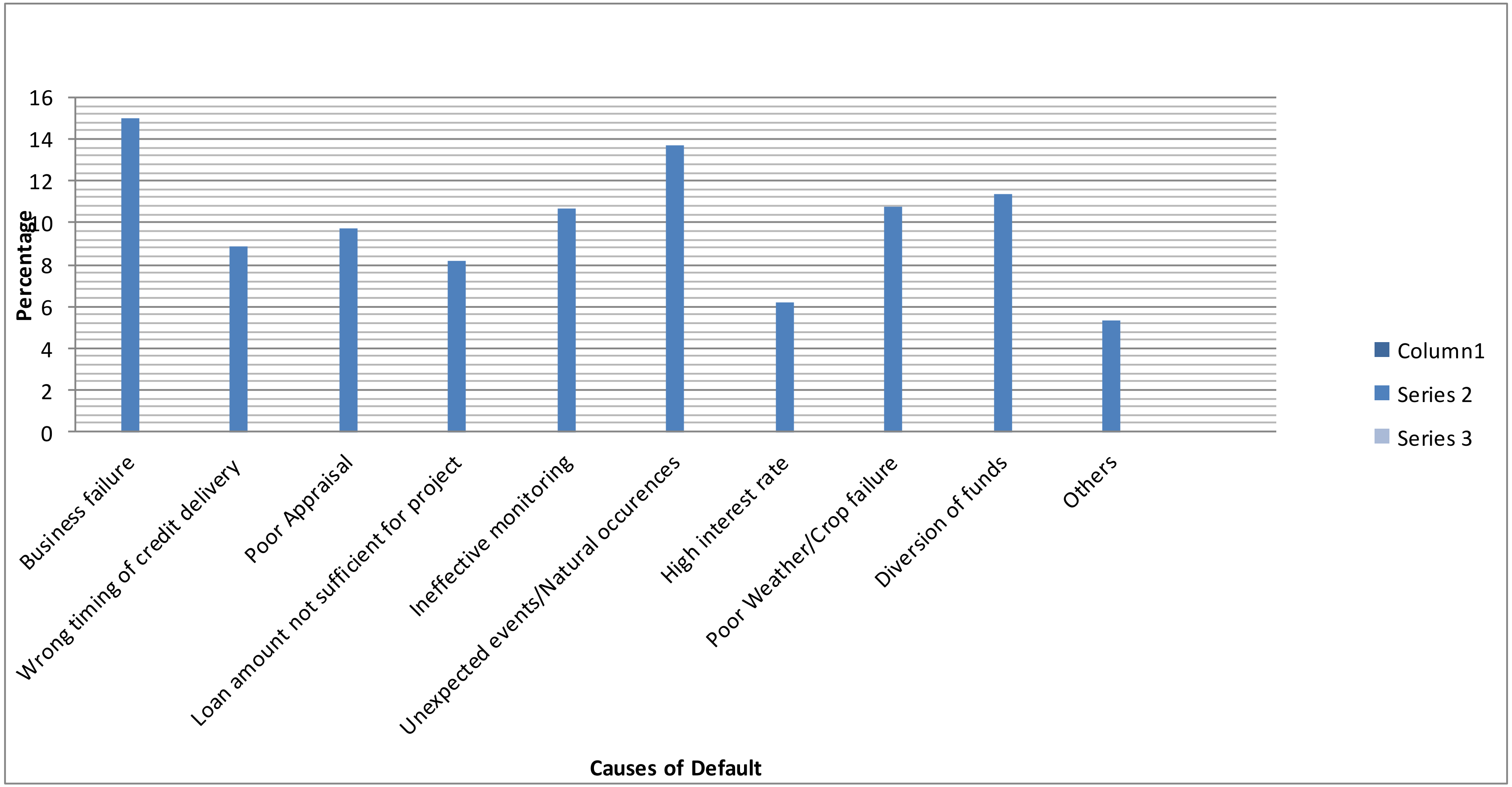

Fig. 4.5: Factors Accounting For NPL's

Business failure

Business failure was stated by respondents to be one of the major causes of NPLs. Business failure is known to be resulting from reduction in demand for the products of debtors as well mismanagement. It was cited by as many as 15% of the respondents as the most dominant factor that causes NPLs in MFIs. This is because most of the members of the union take loans to expand their businesses. Most of these, however, are in perishable goods. As a result, anytime business activities slow down, their products perish. Same problem was faced most members who go into farming with their loan facilities. Those farmers who are into perishable products experience post-harvest losses and this has led to their inability to pay their loans.

Unexpected Events/Natural Occurrences

Many are the people who could not pay back their loan as a result of unexpected events like sickness, death and other natural occurrences like flood amongst others. According to some respondents, they couldn't use the loan for its intended purpose not because they chose not to, rather, they were faced with situations they had no control over. Respondents who stated this as a major source of loan default stated sickness as the major source of NPLs under this cause of delinquent loans. This has been a major source of loan default but on most occasions it's ignored by researchers. From this study, it was ranked as the 2nd major cause of loan defaulting, representing 13.7% of the responses.

Diversion of Funds

Loan diversion occurs when loans are used for purposes which originally were not planned for. When this happens and the new venture does not generate revenues as anticipated, paying back the loan becomes very difficult. The next factor that was cited by the respondents was diversion of funds. The research revealed that due to the booming activities of small scale mining, some borrowers end up using the amount borrowed for small scale mining activities. This, on most occasions has led to delinquent loans since the diverted funds don not always produce the anticipated results.

Poor Weather Conditions

Poor weather conditions were also cited as one of the reasons for loan default, especially in the Diaso and Akropong Branches of DATCCU. This is because these areas are farming areas as a result; most members who took loans went into farming. The reason for this situation was that there are times when poor weather conditions like severe drought, excessive rainfall, shortened rainfall period, late onset of rains amongst others occurs. When one or a combination of these factors occurs, the result is crop failure. Once, a farmer experiences crop failure then the inability to pay the loan becomes imminent. It is therefore no surprising that a high percentage of the delinquent loan amount is found in the farming areas DATTCU operates.

Ineffective Monitoring

From the survey, ineffective monitoring was seen to be one of the major causes of loan default. The respondents further stated that the loan officers do not come to check whether the purpose for which the loan was granted is on course or is retrogressing, rather, they come around only when members are in default. As seen from the above this was ranked as the 5th most important cause of NPLs with 10.7% of the total marks assigned to this as a cause of NPLs. Understaffing and lack of logistics(vehicles/motor Inadequate cars and poor road networks were stated as the reason for ineffective monitoring.

Poor credit Appraisal

In the view of respondents, Poor credit appraisal was also stated as one of the reasons for non-performing loans. Even though DATTCU has a credit policy, the data collected indicated that they sometimes deviate from the credit policy. There are some instances that members are given more loans than deserved; given the amount of money in their savings account. Moreover, some branches do not have credit officers; as a result, accountants and cashiers are made to act as credit officers. These accountants lack the skills to adequately access the credit worthiness of clients and therefore end up giving loans to the wrong members, leading to delinquent loans. Moreover, the data from the borrowers indicated that loan officers do not come round to check and confirm whether the purpose stated for the loan exist and whether the amount requested can be used to achieve that purpose or not.

Wrong Timing Of Credit Delivery

Some customers also default due to the delay in loans approval.There are instances that some business opportunities are lost before the loan amount is disbursed to the applicants. This situation is worsened if the loan is granted to members in cash form. This is because if the loan is granted in the form of cash, loan applicants tend to use the money for other purposes even if the business opportunity is lost. When this happens, borrowers are not able to pay back their loans, leading to delinquent loans.

Loan Amount Not Sufficient For Project

Some respondents also stated that the inability of clients to get the exact amount they need to undertake a project is also a major cause of NPLs. According to loan policy of DATTCU, the amount of money an individual qualifies to receive as a loan facility is dependent on how much he has in his savings accounts. As a result, even when client needs more than what he is qualified to take and has further shown signs of his ability to pay, he still would not be given amount that exceeds three times what is in his savings account. As result, some borrowers start a project with the loan facility and runs out of money along the line. When this happens, they are unable to pay back their loan since the project couldn't be completed to generate revenues.

High Interest Rate

High interest rate was cited by respondents as a cause and it was ranked number 9th among the other reasons causing the incidence of NPLs in DATTCU. This was not considered too strong a reason because DATTCU'S interest rate is considered the best in its operating area with a rate of 19.5%p.a. Moreover, only defaulters who have paid the principal but yet to pay the interest can state this as a reason not borrowers owing both principal and interest.

Others

Other factors such as poor residential numbering system, willful default, overtrading, bush fires, high cost of inputs, inadequate storage facilities and information asymmetry were also cited as other factors accounting for the incidence of NPLs.

4.11 Challenges Facing the Microfinance Sector

It was known from the study that the microfinance sector is plunged in a series of problems which indirectly contributes to the problem of NPL's. Among the problems confronting the sector are discussed below.

Loan Delinquency

Loan delinquency was listed as one of the major problems faced by the sector. Respondents stated that some clients are not able to pay their loans; even not all those pay do pay on time. It was further known from the data that even teachers who are on monthly salary refuse to pay by cash anytime they have a problem at controller and accountant General. This has been a burden to them since as a microfinance institution; they cannot stop giving loans to their members. As already explained, the more the loans become delinquent, the weaker the performance of the institution and the vice versa since the more delinquent loans recorded by the institution, the more problems it encounters.

Difficulties in Identifying Defaulted Clients

This was also stated as major challenge to the microfinance sector. According to the annual report of DATTCU, tracing defaulted clients was very difficult and even sometimes impossible. This goes to confirm the fact that credit officers do not do enough background checks to know clients very well before granting them loans. According to respondents as well as the2014 annual reports, defaulted clients as well as their guarantors were difficult to locate, thereby making loan recoveries very difficult. This has in a way contributed to NPL's and its related problems to the institution.

Staffing Problems

The Microfinance sector is such that most employees do not the knowledge required to work in a financial sector. Some of these employees are SHS graduates who know little or nothing about credit management but sometimes given the chance to evaluate thye credit worthiness of an applicant. . Unfortunately, most financial institutions do not have systems in place that deepen the knowledge of these employees in order for them to work effectively. This has led to a situation where loan officers without much knowledge end up granting loans to unqualified applicants as well as perform poor recovery; leading to high non-performing loans.

Loss of confidence

Due to the collapse of many microfinance institutions, especially in recent times, there has been a loss of confidence in the sector. Many customers or target of microfinance institutions have lost interest in saving and entrusting their monies in the hands of these institutions. As a result, the institutions in this sector are currently are now finding difficulties in convincing clients to work with them. This has become a big challenge for institutions in the sector since it has led to high cost of advertisement and reduced profitability.

Inadequate information/Data base

The Ghanaian system is such that there is data base containing the general information of populace. This makes it very difficult for microfinance institutions to get adequate and reliable information about their clients. The inadequacy of information for MFI's has made it difficult to target the right clients and has further led to difficulties in proper assessment of clients' credit worthiness; this has led to a situation where sometimes the wrong clients are given assistance instead of the less privileged; diverting the very essence of microfinance.

Regulation and Supervision

It is true that on paper, there are regulatory bodies guiding the actions of Microfinance institutions, in reality, most of these institutions are not performing their mandated responsibilities. Some of the rules and the regulatory environment in general sometimes serve as challenges for innovation and the performance of the institutions in general. All these come together to serve as a big challenge to the performance of Microfinance institutions.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The objective of this study is to conduct an analysis of NPL's; specifically to: investigate into major causes of NPLs and its effect on the MFIs with emphasis on DATTCU as well as problems faced by the sector. This chapter captures the findings addressed in the work as well as recommendations to problems identified by the study. These recommendations are intended to help MFI's reduce the rate of NPL's and its related effects.

5.1 Summary of Findings

From the demography, it was found out that the rate at which females borrow and default was more than that of men. Out of the 98 borrowers, only 36 males, representing 36.7% were males whiles 62, representing 63.3% were females. In terms of default,19 females, representing 73.1% were found to have defaulted, whiles only 7 males representing 26.9% had defaulted. The data further revealed that most of the borrowers didn't have high levels education. As high as 46 borrowers were JHS graduates; with only 16 borrowers attaining tertiary education certificates. Due to the low interest in entrepreneurial activities by graduates and the absence of employment opportunities in the public and private sector most of these low-educated borrowers were Self-employed. This was the group with the highest rate of defaulters as well low literacy rate. This is because the self employed people were reliant on only one source of income, any failure in that activity makes them unable to repay their loans on time. Also, the low rate of literacy was found to be a major reason why this group of people defaulted. The impact of single parenthood was also found to be a factor leading to NPL's even though respondents did not explicitly state that as a reason; this is because most defaulters were single parents. The other aspect of this single-parenthood was that most of the single parents were women. In conclusion, it can be deduced from the analysis of the demographic data that females with low levels of education were the main group of people that defaulted.

For the period of study, thus 2011-2014, It was established from the findings that DATTCU recorded its highest NPL ration in 2012 with 2013 recording the second highest. The lowest NPL ratio of 0.5% was recorded in the year 2011. This significant reduction in the NPL ratio recorded in the 2014 mostly attributed to the source deduction of loan of clients who are on the payroll of controller and accountant general.

In general, the trend of NPL ratios was erratic during the five-year period under consideration. However, the average NPL ratio for the period 1.2%% for the period compared with the base year(2011) ratio of 0.5% clearly shows that on the average, management of NPL ratio has not been good .

It is also seen from analysis that NPL figures increased by 297% from 2011 to 2012 though there was a reduction in the NPL figure by 46% between 2012 and 2013. There was a further improvement in the figure by -57% from 2013 to 2014.

It was further revealed from the analysis that though interest income on loans continued to increase throughout the period under study. Notwithstanding this, due to the high provisions made for loan Impairment, a significant part of this income was eroded away.

In all, a total amount of GH¢273538, representing 11% of interest on loans was allocated for credit losses for the period 2011 to 2014.

The of provision for loan impairment relative to interest on loans was at its peak in the year 2012 and 2013 with ratios of 17.8% and 12.2% respectively. It is important to note that whilst the interest income increased from GH¢149567.10 in 2011to GH¢448229.18 in 2013representing 199%% , provision for bad debt increased from GH¢20126.00 in 2011 to GH¢79997.00 in 2012 representing 297% in the same period.

It is revealed from the analysis that a considerable proportion of the Operating profit was eroded by provision for loan impairment allowance as follows: In 2011, 16% of the operating profit went into provision for bad debt. The ratio however increased in 2012 to 43%, representing 168% growth. 23% and 7% of operating profit were provisioned for credit losses in 2013 and 2014 respectively. In total, an amount of GH¢273538, representing 17% of operating profit generated in the four year under study was lost due to provision made for bad.

The study further revealed that a number of factors accounted for bad debts in DATTCU. To the respondents, the factor that causes NPL's most is business failure. Other factors like natural occurrences, ineffective monitoring as well as poor credit appraisal techniques were also cited by the respondents as other causes of NPL portfolio in DATTCU.

It was further known from the data collected that DATCCU focuses their lending activities mainly on Providence, Agriculture and business; of which business failure recorded the highest incidence of NPLs, as confirmed by 60% of the respondents. The loan type with the second highest NPL was found to be the agriculture sub-sector, followed by providence loans. This came as no surprise as over 80% of the loan portfolio of DATTCU was concentrated in the Agriculture and Business sector.

5.2 Conclusion

The study concludes that females with low levels of education are the major group of people that default most. Moreover, females found to be single parents were also identified to be having high rates of default. It was further revealed that people with high levels of education were not interested in entrepreneurial activities; thereby leaving it for the class of people with low educational levels.

From the above, it is glaring that within the period understudy, ie 2011-2014, DATTCU had a sizeable amount of its loan facilities eroded away by NPL's. Though there was a massive improvement in the year 2014, on the average, it was seen that NPL ratio was on the increase.

Looking at the negative impact of NPL's on interest income and operating profit, it is obvious that non-performing loans adversely affected the financial performance of DATTCU in terms of its profitability, as well as liquidity within the period under review.

Business failure was rated as the highest among the factors accounting for Non-performing Loans whiles business sub sector was rated as the sector with highest incidence of NPLs. It can therefore be concluded that the loans to the business sector was the riskiest of loans in terms of default as compared to other sectors. It is therefore strongly recommended that management will put in place effective risk mitigating measures in this subsector to improve the overall health status of the loan portfolio.

5.3 Recommendations

From the findings of the research, it was clearly seen that NPLs do impact negatively on the activities of MFI's. This was evidenced by the reduction in profitability and liquidity by NPL's in the years under study as well as the negative consequence it has on the confidence of investors and depositors.

The analysis further brought to fore the amount of money NPLs have eaten away in the four-year period under study and how the money could have been used to better the fortunes of the institution.

Since DATTCU, like other MFI's, in an attempt to extend financial services to the poor, cannot stop giving loans members, it is important that proactive measures are put in place to avert the problem of NPLs. This will further help MFI's to operate well and help improve the living conditions of the less privileged in our societies.

Based on the findings of the work, below explained are some direct and pro-active recommendations made to management so as to reduce NPL's.

Regular and Effective Monitoring

If the menace of Non-Performing loans can be eradicated or reduced, then essence of effective and regular monitoring cannot be overemphasized. Regular and effective monitoring can help avoid the problem of loan diversion, which was identified to be one of the major causes of Non-performing loans. Effective monitoring also provides the opportunity for loan officers to advise borrowers on how to keep records and help their businesses grow so as to help them pay their loans. The periodic review will also help identify borrowers whose loans are likely to be non-performing and necessary actions taken.

For this to effectively take place, it is recommended that management should put in place measures that will make logistics and other materials needed by loan officers to go on routine monitoring and support monitoring activities.

Proper Segmentation

From the analysis of the demographic data, it was revealed that some categories of borrowers had high rates of default. It is therefore recommended that proper segmentation is done to avoid further adverse selection and its related consequences. It was known that people with low levels of education, especially women; as well as well as single parented borrowers were the main groups of people that defaulted most. It is therefore highly recommended that management is extra careful when assessing clients within this category of borrowers before loans are granted to them. Moreover, management has to be strict in applying their loan policy when granting loans to clients who are self employed because it is the sector with highest rate of default.

Refresher Training Courses for Credit Officers and Managers

To help reduce Non-performing loans, Periodic relevant refresher training for loan officers is also recommended to management. Periodic training will help improve the knowledge of loan officers on areas such as credit worthiness as well as risk assessment of clients. This will lead to an improved credit appraisal system and help alleviate adverse selection.

It will also assist credit officers to appreciate the role prompt credit delivery plays in loan default prevention. The training would further equip credit officers to be able to quickly identify loans that have a potential of not performing. When these signals are picked early, it makes credit officers proactive; thereby putting in place measures that would remedy the situation. It is recommended that

for effective training programmes to take place, the services of experts and resourced persons in the area of microfinance and/or banking be engaged in the provision of training programmes. It is worth noting management does not see to the implementation of what was taught and learnt during the training. Management must therefore be committed in providing a conduced environment that will ensure that what is taught during training programs is well implemented.

Provision of security for Credit Facility

As stated earlier, giving loans to borrowers implies bearing risk of default. Notwithstanding the risk, it is unfortunate that the physical appearance of borrowers does not depict their credit worthiness; and that lenders cannot tell from the looks of people's faces whether they are good or bad borrowers. It is therefore strongly recommended that MFIs demand some form of security that can be sold to defray the loan in-case of indebtedness or default. The security could be in the form savings, fixed deposit, and physical asset like land amongst others.

This measure will help reduce the problem of non-performing loans as well as its related consequences. It should be further stated that if a property is used to secure a loan, it will reduce absconding on the part of borrowers as well as willful default. This is because borrowers, knowing that their property was used to secure the loan; they will make every effort to pay back the loan since the property will be realized to offset the indebtedness if they don't pay the loan. It is therefore advised that management insist on the application of the credit policy to borrowers to ensure that the institution will be able to reduce the impact of NPL's on the performance of profitability.

Use of Credit Reference Bureau

This is a system put in place to avail the credit history of prospective borrower to financial institutions. Since most members save and borrow from more than a source, the use of this system will make DATTCU aware of the history of the prospective borrower to help determine whether he/she is credit worthy or not. It is true that not every client's history will be by using this software but some can be known; and will help reduce NPL's a bit.

Improvement in Credit Appraisal

Even though not ranked first by respondents, an improvement in credit appraisal can significantly reduce the amount of NPL recorded by DATTCU in a year. It is obvious that globally, most loans have become non-performing due to adverse selection, thus giving loans people who don't deserve to be given loans. DATTCU is not an exception when it comes to the problem of adverse selection and this was confirmed by respondents that credit officers do not come round to verify if businesses do even exist before loans are given to clients. This has resulted in loan diversion and its related consequences.

To avoid the above, it is strongly recommended that credit officers do make sure that loan applicants are credit worthy before loans are granted. This includes checking behind the scenes to find out if what applicants present is true or not. The background check will further reveal information hidden by applicants, which might influence the decision of the committee whether to grant the loan or not.

Government must also incorporate entrepreneurial courses in the curriculum of schools. The inclusion of both theoretical and practical entrepreneurial training in school will help inculcate the spirit of entrepreneurship in graduates. This will make them eager to start and create jobs on their own instead of relying solely on government for white-collar jobs. The inclusion of literates in entrepreneurship will in diverse ways help reduce the burden of NPL caused partly due to illiteracy. The reduction in NPL's will lead to a more healthy loans and also help MFI's to achieve their goal of helping the less privileged.

Inadequate Credit delivery and management

The mechanism for credit delivery within the microfinance sector is such that it is sometimes very difficult to assist the core poor in the society. Moreover, the institutions do not have the expertise to categorize their clients into different groups in order to meet their specific needs.

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APPENDICES

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY (KNUST)

Survey Questionnaire on "Analysis of non- performing loans: A Case Study of DATTCU". (STAFF)

Your response to this Questionnaire will serve as a source of information for the thesis purpose. Any response you provide here is strictly confidential and will be used exclusively for the research purpose. Your honesty in responding the right answer is vital for the research outcome to be reliable.

SECTION A:SOCIOECONOMIC CHARACTERISTICS

1. Gender male { } female { }
2. Age 18 – 25 { } 26 – 30 { } 31 and above { }
3. Marital status single{ } married { }separated{ } divorced{ }widowed{ }
4. Indicate the highest educational level attained
   a. No formal education { } **b.** Primary School { }
   c. Junior High/Middle School { } **d.** Senior High/Technical School { }
   e. University/Polytechnic/Diploma { }
5. Religion: Christianity { } Islam { } Traditional { } others (specify)………….

SECTION B: To investigate the appropriateness of credit appraisal process of DATTCU.

6. Does DATCCU have a credit policy for loan applicants? (a) Yes { } (b) No { }

7. How long does it take a customer to secure a loan from DATCCU? (a) 1 – 3 days { } (b) 3 – 7 days { } (c) 7 – 14 days { } (d) 14 days or more { }

8. What is interest rate range on loans?

   (a) 10 - 20% { } (b) 21 – 25% { } (c) 26 – 30% { } (d) Above 31% { }

9. How do you price your loans/credit facility?

   (a) Treasury Bill + risk premium (b) Policy rate + risk premium

   (c) Base rate + premium (d) Average of the market

10. Is there a mechanism to check applicant's borrowing history with other financial institutions? (a) Yes { } (b) No { }

11. Do loan officers make follow up to ensure that information given by applicants are true?

    (a) Yes { } (b) No { }

12. Do loan officers make follow up to ensure that loan facilities are used for the purposes for which they were granted. (a) Yes { } (b) No { }

SECTION C To identify how loan officers evaluate the creditworthiness of new clients.

13. What do you require of a new loan applicant?

    (a) A mortgage security { } (c) A running account with a specific balance { }

    (b) A Guarantor { } (d) Other. Specify ………………………………

14. How do you assess the creditworthiness of a new loan applicant?

    (a) We use CAMPARI { } (c) We use the 3 C's

    (b) We use PASER { } (d) Other Specify ………………………

15. Do you grant loans to every new applicant who is able to provide collateral security or guarantor?

    (a) Yes (b) No

16. If Yes, why?

(a) In the event of default, the bank takes charge of the property. { }
(b) The value of collateral is always higher than the loan granted. { }
(c) Guarantors are resorted to, to repay the loan. { }
(d) Other. Specify…………………………………………………………

17. If No, why?
(a) Collateral security alone does not guarantee repayment of loan. { }
(b) The procedure to take over property and sell to repay the loan is cumbersome { }
(c) The collateral might have been used to secure another loan somewhere { }
(d) Other. Specify …………………………………………………………

18. What do you think should be done to make the loan assessment process more effective. ……………………………………………………………………

SECTION D To investigate into why borrowers default

18. Do you have any formal training in credit appraisal? (a) Yes (b) No

20. Do you sometimes deviate from the credit policy? (a) Yes (b) No

21. If yes to above, which of the following account for that?

(a) Customer pressure (b) Management pressure

(c) Ignorance of the requirements (d) others, please specify ………………………

22. How will you rank the following factors as causes of NPLs using a scale of 1 to 10, with 10 being the highest and 1, the lowest.

(i) Delayed approval [ ] (vi) Ineffective monitoring [ ]

(ii) Poor credit appraisal [ ] (vii) Poor weather conditions [ ]

(iii) Diversion of funds [ ] (viii) Inadequate marketing avenues [ ]

(iv) Business Failure [ ] (ix) High Interest Rate [ ]

(v) Wrong timing of credit [ ] (x) Willful Default [ ]

(xi) Others, please specify[ ]

23. Which of the following factors hinder effective monitoring of loans?

(a) Staffing problem (b) Lack of logistics (c) Poor road network (d) All the above

24. Do you sometimes delay in approving loans? (a) Yes (b) No

25. If yes, what are the causes of delayed loan approval?

(a) Rigid approval procedures

(b) Customers inability to meet approval requirement

(c) Insufficient loanable funds

(d) Poor credit appraisal

26. Which sector loan/loan type record the highest incidence of NPLs? (a) Agriculture

(b) Trading (c) Providence (d) Agriculture

(e) others, please specify

27. Are there any particular reasons for your answer in above? Please specify ………………………………………………………………………………………………

28.How do you deal with problem loans?

(a) Legal Action (b) Outsourcing (External solicitor/ Debt collectors)

(c) Write off (d) Others please specify …………………………

29. what are the challenges faced by DATTCU in its sector of operations?

(a) ______________________________

(b) ______________________________

(c) ______________________________

(d) ______________________________

APPENDIX II

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

(KNUST)

Survey Questionnaire on "Analysis of non- performing loans: A Case Study of DATTCU" (CUSTOMERS)

Your response to this Questionnaire will serve as a source of information for the thesis purpose. Any response you provide here is strictly confidential and will be used exclusively for the research purpose. Your honesty in responding the right answer is vital for the research outcome to be reliable.

SECTION A:SOCIOECONOMIC CHARACTERISTICS

1. Gender male { } female { }
2. Age 18 – 25 { } 26 – 30 { } 31 and above { }
3. Marital status single{ } married { }separated{ } divorced{ }widowed{ }
4. Indicate the highest educational level attained
   b. No formal education { } **b.** Primary School { }
   d. Junior High/Middle School { } **d.** Senior High/Technical School { }
   f. University/Polytechnic/Diploma { }
5. Religion Christianity { } Islam { } Traditional { } Others (specify)………….
6. State the category of employment applicable to you
   a. Public/Civil Servant { } (c) Private Sector { }
   b. Self-Employed { } (d) Unemployed { }
   c. Others (Specify) …………………………………..

SECTION B: To investigate the causes of non-performing loans at DATTCU

7. Have you taken loan from the Bank before? (a)Yes { } (b) No { }
8. If Yes, was it the first time? (a) Yes { } (b) No { }
9. If No, how many times have you secured a loan from the Bank?

(a) 2 times { } (b) 3 times { } (c) 4 times { } (d) more than 5 times { }

10. What was the basic requirement needed to qualify for a loan? (a) Guarantor (b) collateral (c) savings

11. Did loan officers follow up to check that the information you gave about your business is true before granting the loan? (a) Yes (b) No

12. Did you use the loan for its intended purpose? (a) Yes (b) No

13. If no, why?

(a) Business activities slowed down { } (b)I used part of the loan money for a different purpose { } (C) Opportunity was lost before the money was received { }

(d) Others, Specify …………………………………………………………

14. Do you service your loan regularly? (a) Yes { } (b) No { }

15. How will you rank the following factors as causes of NPLs using a scale of 1 to 10, with 10 being the highest and 1, the lowest.

(i) Delayed approval [ ] (vi) Ineffective monitoring [ ]
(ii) Poor credit appraisal [ ] (vii) Poor weather conditions [ ]
(iii) Diversion of funds [ ] (viii) Inadequate marketing avenues [ ]
(iv) Business Failure [ ] (ix) High Interest Rate [ ]
(v) Wrong timing of credit [ ] (x) Willful Default [ ]
(xi) Others, please specify[ ]

16. Do Loan Officers visit regularly to monitor progress of your business? (a) Yes { } (b) No { }

FINANCIAL HIGHLIGHTS USED OF DATCCU'S ANNUAL REPORT USED FOR THE STUDY

PARTIUCIULARS	AS OF 30TH ,JUINE 2011	AS OF 30TH ,JUINE 2012	AS OF 30TH ,JUINE 2013	AS OF 30TH ,JUINE 2014
INTEREST ON LOANS	149567.10	448229.18	961348.87	1334085.74
PROVISION FOR LOAN LOSSES	20126.00	79997.00	117,105.00	56310.00
NET LOANS TO MEMBERS	1288638.08	3980978.73	6747026.38	8463705.35
OPERATING PROFIT	125,462.34	183,967.29	507,181.08	782978.15