

Credit Management Policy And Financial Performance Of Microfinance Institutions In Uganda. A Case Of Pride Microfinance Katwe Branch

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Abstract

The main aim of this study was to examine the relationship between credit management policy and financial profitability of Microfinance Institutions in Uganda, a case study of PML, Katwe Branch. With the objectives of the study which included; establishing the effect of credit monitoring policy on financial profitability; determining the relationship between credit recovery policy and financial profitability; and assessing the relationship between lending policy and financial profitability of PML. The study adopted both descriptive and cross-sectional survey research designs with both qualitative and quantitative methods of Data collection carried out at PML Katwe Branch. The study population was 330 from which 71.8% was randomly and purposively selected as the study sample. Questionnaires and interviews were used as Data collection methods. The results of the study revealed a very strong positive and significant correlation between credit monitoring policy and financial profitability, a moderate significant relationship between loan recovery policy and financial profitability, and a moderate positive significant relationship between lending policy and financial profitability. In conclusion, the findings of the study indicated that credit monitoring policy, loan recovery policy, and lending policy are influential factors of financial profitability in PML. The study recommends that; microfinance institutions need to have effective supervision of borrowers on credit utilization and repayment which should be done frequently to ensure financial profitability; and the study recommends that; management of PML and Microfinance Institutions should consider revising and re-establishing procedures of collecting credits from clients for the cost effectiveness of the Institutions. This can be done by using alternative and cheaper sources of debt collection procedures. Thus, there is a need to develop effective loan repayment system. Microfinance Institutions' committee members and staffs are recommended to visits borrower's business premises and verify borrower's assets before issuing out credit of any form to them.

Key words: credit management policy, financial performance and microfinance institutions

Background of the Study

Credit management policy is defined as the rules and guidelines established by top management that govern the audits of the company's credit department in the extension of credit privileges (Ramadhan et al., 2023). It is simply a set of guidelines designed to minimize the costs associated with credit while maximizing the benefits from it McNaughton (1996). Credit management principles include credit procedures, credit standards and credit conditions (Derrick et al., 2023). Ahmed (2010) describes credit policy as a managerial philosophy that brings

decision variables of credit standards, enforcement efforts and credit terms by which managers in microfinance institutions influence their operations (Kazaara & Christopher, 2023). Credit policy impacts MFI outreach depending on credit approaches used to screen clients for credit instruments that are either liberal or strict in nature. The approaches were effective provided that managers are competent with the required skills, experience and knowledge to achieve the desired goal (Alex & Kazaara, 2023). On the other hand,

financial performance is defined as the ability to grow, survive and be in a position to withstand all the negative forces that arise in the loan portfolio (Gracious, 2023). (Akankwasa et al., 2022), the growing microfinance industry provides scope for the development of other products that will impact the lives of low-income people (Oromo et al., 2023). Low profits hinder the growth of any microfinance institution, thereby affecting its ability to meet demand within it. It is for this reason that most institutions turn to loans from other banks, where banks also charge higher interest rates. This instability has led to a decline in financial performance over the years (Ntirandekura et al., 2022). To measure financial performance, quick ratio and return on assets are used as determinant variables. In this study, profitability will be considered in terms of measures such as profitability (using absolute and relative measures) (Polycarp et al., 2023), liquidity (using liquidity measures such as current ratio, sourness ratio, ease with which the entity can deal with its financial obligations) and Accountability (in terms of financial responsibility) (ACCA-Managerial Finance Paper 8, 2010; and Panday, 2014) (K. Moses et al., 2023). According to Dixon et al. (1990) appropriate measures of profitability are those that enable organizations to direct their activities to achieve their strategic objectives. On the other hand, Stoner (2016) refers to profitability as the ability to operate effectively, profitably, survive, grow and respond to environmental opportunities and threats (Annet et al., 2023). For the purposes of this study, financial performance was assessed basically from the four perspectives of liquidity, profitability, loan recovery and the level of non-performing loans (Collins et al., 2023). Microfinance institutions have a long history

of offering microcredit services in Uganda. Ugandan microcredit involves lending to top entrepreneurs as a means of helping the working poor build strong businesses, improve their income and quality of life, and eradicate poverty (Faridah et al., 2023). Other objectives of microfinance institutions include savings mobilization, insurance training, offering transfer services and financial assurance (Christopher, Moses, Muhindo, & Komunda, 2022). In Uganda, microfinance providers first existed informally as self-help projects, and in the 1950s, microcredit was adopted by cooperative societies (Kazaara & Christopher, 2023). Today, Uganda has the most vibrant microfinance institutions which include Opportunity Uganda formerly Fault micro finance, Uganda finance Trust Ltd, FINCA Uganda, UGAFODE Microfinance Ltd, Pride Microfinance Ltd and many others serving over 2 million people. These microfinance institutions are in different categories commonly known as Tiers, with Tier 1-3 being directly under the supervision of Bank of Uganda and Tier 4 where Pride Microfinance Uganda Ltd is included. (Microfinance Banker 2007). Level 4 is not directly supervised by the Bank of Uganda. Pride Microfinance is one of the largest microfinance institutions in Uganda and is 100% owned by the Government of Uganda. It was established in 1995 and achieved MDI status in 2017 under the Banking Act 2016. It is licensed and supervised by the Bank of Uganda and is also a member of the Association of Microfinance Institutions in Uganda (AMFIU). Pride Microfinance Limited is spread across Uganda with 31 branches and boasts a loan portfolio of approximately UGX 101 billion. Some of the loan products offered include group and individual loans, group guaranteed loans, mortgage and development

loans, payday loans, group accident insurance. According to pride microfinance's five-year business plan of March 2014, the management embarked on a strategy to strengthen the credit policy by employing qualified credit officers, using better systems such as Payment solutions Uganda (PSU) and building a strong recovery team. improve the quality of the loan portfolio (Collins et al., 2023).

Pride Microfinance, like other microfinance institutions in Uganda, has a range of credit policies, mechanisms and procedures from credit policy transfer, credit policy diversification strategies and credit monitoring. All these are stored with the main focus on reducing the level of non-performing loans, loan recovery, liquidity and profitability (Polycarp et al., 2023).

Problem statement

Despite the fact that Pride Microfinance Uganda has put in place various credit management policies such as credit control policies, credit monitoring policies, credit policies and credit recovery policies that are expected to speed up compliance so that loaned funds are recovered in a timely and prudent manner in a profitable manner (Annet et al., 2023), Pride Microfinance Uganda Limited has continuously experienced a short dip in loan recovery where the actual rate of return has continued to be lower than the target rate, yet the institution appears to be putting more emphasis on lending and loan recovery policies, which should be effective in selecting clients who are able to repay, including those whose repayment records are verified and confirmed to be able to repay, for example, as per the annual reports and financial statements of Pride Microfinance Uganda Limited (2020), from the total loan portfolio in 2020 of UGX 58 billion, about 17% were in default (N. Moses et al., 2022). In addition, liabilities to related parties and bank balances - receivables from other banks - have been steadily increasing over the past five years. This impacts the financial performance in terms of capital adequacy, asset adequacy and return on assets at Pride Microfinance Uganda Limited.

Specific Objectives

1. To establish the effect of credit monitoring policy on financial performance of Pride Microfinance limited.
2. To determine the relationship between credit recovery policy and financial performance of Pride Microfinance limited.
3. To assess the relationship between lending policy and financial performance of Pride Microfinance limited

Literature Review

The literature reviewed clearly indicates that there are a number of studies in place which support the fact that there is a relationship between credit management policy and financial performance of micro-financial institutions world over and in Uganda. The availed literature has indicated that credit loan recovery policies, credit monitoring polices and credit appraisal and analysis are significantly related to financial performance of PML. This study will thus reveal new works in place to verify such hypotheses (Anthony et al., 2023).

Methodology

The study adopted a descriptive and cross-sectional design with both qualitative and quantitative methods of Data collection and analysis to allow triangulation. The descriptive research design refers to describing characteristics of a population or phenomenon being studied while not answering questions about how/when/why the characteristics occurred. Descriptive research design was selected because it has the advantage of producing good number of responses from a wide range of people. Also, this design provides a meaningful and accurate picture of events explaining people's perceptions and behavior on the basis of the Data collected. This design helps to find views as they are in their natural setting. On the other hand, cross-sectional study refers to an observational design where researchers record information about subjects without manipulating the study environment in a specific period of time using a cross section of respondents. A cross-sectional design was preferred because it provides a shot of the outcome of a phenomenon and the characteristics associated with it at a specific point in time (Barratt and Kirwan, 2009). Quantitative methods were used to quantify Data in order to describe current conditions and to investigate the relationship between the variables based on the Data that was collected. According to Amin (2005), quantitative research helps researcher to study population samples that represent the general intended population, develop knowledge by collecting numeric Data on observable behavior of samples then subjecting these Data to statistical analysis. The study population consisted of 300 clients and 30 employees of Pride Microfinance. In this study, credit managers were chosen because they are aware of the overall microfinance's credit management policies and profitability for the years it has been in Pride Microfinance Uganda. Lastly, credit officials were chosen since they are involved in the daily services provided by the bank and they are aware of the bank's practices while clients are the beneficiaries of credit facilities from Pride microfinance Uganda limited. The researcher determined the sample size from the population of 330 using Krejcie and Morgan (1970). The study used both probability and non-probability sampling designs. Probabilistic sampling techniques encompassed simple random sampling. Simple random sampling was used to select clients and employees of Pride microfinance. This technique was chosen because the category of the respondents that is the clients and employees have a large population size and as such warranted simple random sampling to minimize sampling bias (Mugenda & Mugenda, 2005). From the existing non-probabilistic sampling designs, purposive sampling was employed to select credit managers and top managers at Pride microfinance who were found to have an importance on the study. The technique was used because the study finds it important to obtain rich specific information which cannot afford to miss out. The study worked with a sample of the population that was selected to be representative of the population. Sekaran (2016) observes that collecting Data from the entire population would be practically impossible and it would be very difficult to examine every element in the population. In addition, it was prohibitive in terms of time, cost, and other resource inputs. Study of a sample is therefore likely to produce more reliable and quick results because fewer errors resulted during the Data collection exercise. The sample size was determined using the table in Appendix C from a study by Morgan and Krejcie (1970, as cited in Amin, 2005).

Table 1: Sample Size and Selection Technique

	Category	Population	Sample Size	Technique
).	Clients	300	169	Simple Random Sampling
).	Credit Officers	20	19	Simple Random Sampling
).	Managers and Supervisors	10	10	Purposive Sampling
	Total	330	237	

Source: Pride Microfinance Limited HR Records (2022)

From Table 1, it can be observed that the researcher worked with a sample size of 237 respondents using a blend of purposive and simple random sampling techniques. Questionnaires were used to collect Data from respondents in Pride microfinance. Questionnaires were randomly distributed to respondents. The questionnaire was used in this case because it has proved to be an invaluable method of collecting a wide range of information from a large number of individuals (Sekaran, 2016). The questionnaire is popular because the respondents filled the questionnaire at their own convenience and are appropriate for large samples. The questionnaire was designed with both open and closed ended questions (Amin, 2005). The questionnaires were semi-structured in nature embracing both open and closed ended questions. The closed ended questions were anchored onto a 5- point likert scale of 5: Strongly agree; 4: agree; 3: Not sure; 2: disagree; 1: strongly disagree; which allowed respondents to choose from a set of alternatives. Quantitative Data was processed by use of SPSS where it was edited, coded, entered, and then presented in comprehensive tables showing the responses of each category of variables. Tables were used to check validity of findings. Coding of Data was undertaken manually and entered into computer using the Statistical Package for Social Scientists (SPSS) (Nelson et al., 2022). Qualitative Data was processed by organised, edited for spelling mistakes and cross checked to establish the different issues arising the research in order to classify respondents' views into meaningful form of information. Quantitative Data analysis involved use of both descriptive and inferential statistics in the Statistical Package for Social Scientists (SPSS). Descriptive statistics entailed determination of measures of central tendency such as mean, mode, median; measures of dispersion such as standard deviation; frequency distributions and mean scores. Data was processed by editing, coding, entering, and then presented in comprehensive tables showing the responses of each category of variables (Nelson et al., 2023). Inferential statistics included correlation analysis using a correlation coefficient and regression analysis using a regression coefficient in order to answer the research questions. According to Sekaran (2016), a correlation study is most appropriate to conduct the study in the natural environment of an organization with minimum interference by the researcher and no manipulation.

RESULTS

Table 2: Descriptive Statistics on Credit Monitoring Policy and Financial Performance

Statement	1	2	3	4	5	Mean	S. DV
The credit department of head office does carry out screening functions fully	0 0%	12 5.7%	24 11.3%	68 32.1%	108 50.9%	4.11	1.211

Statement	1	2	3	4	5	Mean	S. DV
and adequately check and monitor branches							
The organization does adequately monitor whether the terms and conditions stipulated at the time of loan approval are observed	19 9.0%	26 12.3%	4 1.9%	99 46.7%	64 30.2%	3.77	1.254
Internal audits do check whether terms and conditions are being observed	13 6.1%	15 13.3%	1 0.5%	127 59.9%	56 26.4%	3.93	1.051
The institution does constantly monitor collateral value against credit outstanding	3 1.4%	6 2.8%	0 0%	89 42.0%	114 53.8%	4.44	.767
The institution does monitor the borrower's business performance regularly after loan extension, and take appropriate measures based on this monitoring	7 3.3%	41 19.3%	16 7.5%	76 35.8%	72 34.0%	3.78	1.201
The institution does increase the frequency of monitoring business performance according to the seriousness of problem loans	0 0%	1 0.5%	0 0%	61 28.8%	150 70.8%	4.70	.490
The institution does frequently review securities held as collateral when necessary	0 0%	0 0%	10 4.7%	156 73.6%	46 21.7%	4.17	.486
Continuous monitoring is done to ensure compliance with credit terms and identification of early signs of irregularity	0 0%	1 0.5%	0 0%	211 99.5%	0 0%	3.99	.137
Credit limits are reviewed regularly / at least annually or more frequently	0 0%	1 0.5%	0 0%	90 42.5%	121 57.1%	4.56	.525
Average, overall; Mean & SD						4.16	0.791

Source: Primary Data (2022)

On the statement “Internal audits department do check whether terms and conditions are being observed”; 59.9% of the respondents agreed, 26.4% strongly agreed, 0.5% was not sure, 13.3% disagreed while 6.1% strongly disagreed. This statistic indicates moderate agreement among the respondents that Internal audits department at Pride Microfinance Katwe branch check whether terms and conditions are being observed so as to ensure financial

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performance (Joventa et al., 2023). This was further confirmed by a mean score of 3.93 which implies that majority of the respondents agreed as well as a standard deviation which stands 1.051 which implies that there as consensus in responses (Victoria et al., 2023). As stated by Kolapo et al (2012), financial institutions should ensure they have in place complete credit monitoring procedures to assess and mitigate loan credit effectively, and these procedures should have a comprehensive criterion for detecting and reporting present and possible problem accounts for better financial performance in the Microfinance institutions such as Pride Microfinance Uganda limited.

On the statement “The institution does constantly monitor collateral value against credit outstanding” 53.8% of the respondents strongly agreed and 42.2% agreed respectively, 2.8% disagreed while 1.4% strongly disagreed. A mean score of 4.44 was obtained implies that majority of the respondents strongly agreed with the statement whereas a standard deviation of 0.767 implies that there was no consensus in responses (Racheal et al., 2023). This thus implies that Pride Microfinance Katwe branch constantly monitor collateral value against credit outstanding so as to ensure that correct information is provided by the borrowers in order to enhance financial performance. This finding is concurring with World Bank (2016), findings which found out that strict credit monitoring and surveillance policies used by financial by insisting permit credit chiefs to detect problems in lending early, therefore enabling them to encompass various partners in recognizing potential activities to alleviate credit, and trigger pre-determined decisions for better financial performance and profitability (Faith et al., 2023). On the statement “The institution does monitor the borrower’s business performance regularly after loan extension, and take appropriate measures based on this monitoring”; 34.0% of the respondents strongly agreed and 35.8% agreed respectively, 7.5 % were not sure while 22.3% of the respondents in total disagreed with the statement. A mean score of 3.78 was obtained which implies that majority of the study respondents agreed whereas a standard deviation of 1.201 implies that there was no consensus in responses. Since majority of the respondents agreed, this implies that Pride Microfinance Uganda monitor the borrower’s business performance regularly after loan extension, and take appropriate measures based on this monitoring to ensure that the borrowers pay back their credit dues in time so as to enable the institution to reduce on the level of non-performing loans hence financial performance in Pride Microfinance (Derrick et al., 2023). To support this finding, Herbert, Bichanga and Ngati (2014) demonstrated that a decent determination technique for credit monitoring is one that prompts great valuing of the goods in accordance with the anticipated hazard which at the end extraordinarily influence productivity of microfinance institutions (Brighton et al., 2023).

On the statement “The institution does increase the frequency of monitoring business performance according to the seriousness of problem loans”; 28.8% of the respondents agreed and 70.8% strongly agreed respectively and 0.5% disagreed with the statement. The results of the study specify moderate agreement among the respondents that Pride Microfinance Limited increase the frequency of monitoring business performance according to the seriousness of problem loans so as to ensure financial performance (Christopher, Moses, Muhindo, & Nturanabo, 2022). This is further was supported by a mean score of 4.70 which also indicates strong degree of agreement among the respondents whereas a standard deviation of 0.490 implies that there was much consensus in responses. Mutua (2015), showed that successful credit management and administration needs credit monitoring policies to

guarantee that credits are viably recognized and evaluated and that suitable controls and follow-ups are set up so as to ensure financial performance (N. Moses et al., 2022).

On the statement “The institution does frequently review securities held as collateral when necessary”; 73.6% of the respondents agreed, 21.7% strongly agreed and 4.7% were not sure with the statement. These findings indicate that majority of the respondents agreed that Pride Microfinance Katwe branch frequently review securities held as collateral when necessary, so as to ensure that client’s information is properly kept. This was further supported by a mean score of 4.17 which indicates high level of agreement amongst the respondents whereas a standard deviation of 0.486 implies that there was consensus in responses. According to Matul (2011), a proper credit monitoring system will provide the basis for taking prompt corrective actions when warning signs point to deterioration in the financial health of the borrower (Wegulo et al., 2023).

On the statement “Continuous monitoring is done to ensure compliance with credit terms and identification of early signs of irregularity” 99.5% of the study respondent agreed while 0.5% disagreed with the statement. A mean score of 3.99 was obtained implies that majority of the respondents agreed with the statement whereas a standard deviation of 0.137 implies that there was much consensus in responses. This thus implies that at Pride Microfinance Katwe branch, continuous monitoring is done to ensure compliance with credit terms and identification of early signs of irregularity so as to ensure financial performance. As stated by Hugh (2011), every microfinance institution is concerned about fraud and theft and the profitability of the advanced facilities thus the need for Credit monitoring so as to enhance financial performance.

On the statement “Credit limits are reviewed regularly / at least annually or more frequently”; 57.1% of the respondents strongly agreed and 42.5% agreed respectively whereas 0.5% disagreed. A mean score of 4.56 was obtained which implies that majority of the study respondents strongly agreed whereas a standard deviation of 0.525 implies that there was much consensus in responses (Derrick et al., 2023). Since majority of the respondents strongly agreed with the statement, this implies that credit limits are reviewed regularly / at least annually or more frequently at Pride Microfinance so as to reduce on credit risks for better financial performance and profitability.

Relationship Between Credit Recovery Policy and Financial Performance

Table 3: Descriptive Statistics on Credit Recovery Policy and Financial Performance of Pride Microfinance Limited

Statement	1	2	3	4	5	Mean	S.DIV
Guarantors are called upon to pay in case of client’s non-payments.	12 5.7%	48 22.6%	6 2.8%	104 49.1%	42 19.8%	3.55	1.201
Pride microfinance has clear loan recovery policies which enable the institution to recover all the credit extended to the clients	5 2.4%	78 36.8%	2 0.9%	98 46.2%	29 13.7%	3.32	1.173
Clients with difficulty in loan payments are usually given an extension period	13 6.1%	0 0%	63 29.7%	100 47.2%	36 17.0%	3.59	1.244

Statement	1	2	3	4	5	Mean	S.DIV
Interest rates are restructured in case of need.	2 0.9%	68 29.7%	0 0%	98 46.2%	44 20.8%	3.54	1.170
Loan repayment performance reports are monitored daily	0 0%	10 4.7%	6 2.8%	169 79.7%	27 12.7%	3.72	1.139
Loan recovery meetings are held to review all loans	2 0.9%	56 26.4%	0 0%	108 51.4%	45 21.2%	3.65	1.119
Telephone calls are made so as to remind clients about payments of their loans	4 1.9%	12 5.7%	2 0.9%	158 74.5%	12 10.6%	3.98	0.924
SMS and letter reminders are sent to clients	0 0%	13 6.1%	13 6.1%	100 47.2%	86 40.6%	3.86	1.119
Loan disputes are always resolved in court in case the loan committee fails	6 2.8%	52 24.5%	0 0%	84 39.6%	70 33.3%	3.75	1.230
Overall Average score						3.66	1.147

Source: Primary Data, 2022

Respondents were provided with a number of statements and asked to indicate to what extent they agreed with them, using the scale: 1 point = strongly disagree; 2 points = disagree; 3 points = not sure; 4 points = agree; and 5 points = strongly agree. Mean scores greater than 4.5 imply that the respondents strongly agreed to the statement, means between 3.5 and 4.5 imply that the respondents agreed to the statement, means between 2.5 and 3.5 imply that the respondents were not sure about the statement, mean between 1.5 and 2.5 imply that respondents disagreed to the statement and mean scores less than 1.5 imply that the respondents strongly disagreed to the statement. A standard deviation greater than 1 implies a significant variance meaning there was no consensus in the responses while a standard deviation less than 1 shows that there was no significance variance hence consensus in responses

Descriptive Statistics on Credit Recovery Policy and Financial Performance of Pride Microfinance Limited

From the study findings on the statement “Guarantors are called upon to pay in case of clients non-payments”, 49.1% of the respondents agreed, 19.8% strongly agreed, 2.8% were not sure, 22.6% disagreed and 5.7% strongly disagreed respectively. A mean score of 3.55 was obtained which implies that majority of the study respondents agreed where as a standard deviation of 1.201 implies that there was much consensus in responses (Richard et al., 2023). This implies that at Pride Microfinance Uganda Limited Katwe branch, Guarantors are called upon to pay in case of client’s non-payments so as to minimize on the rate of non-performing assets for better financial performance in the bank. This finding concurs with Anwar (2017), who asserted that collection efforts in the microfinance institutions include attaching mandatory savings, forcing guarantors to pay, attaching collateral assets, courts litigation.

On the statement “Pride microfinance has a clear loan recovery policy which enable the institution to recover all the credit extended to the clients”, 46.2% of the respondents agreed, 13.7% strongly agreed, 0.9% were not sure, 36.8% disagreed and 2.4% strongly disagreed. A mean score of 3.32 imply that most of the respondents were not certain with the statement while a standard deviation of 1.173 implies that there was no much consensus in

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responses. This means that, in Pride microfinance loan recovery policy is not properly understood by all clients and employees and this contributes to low loan recovery from the clients hence poor financial performance (Polycarp et al., 2023).

On the statement “Clients with difficulty in loan payments are usually given an extension period”, 47.2% of the respondents agreed, 17.0% strongly agreed, 29.7% were not sure and 6.1% strongly disagreed. A mean score of 3.59 imply that majority of the study respondents agreed while a standard deviation of 1.244 implies that there was no consensus in responses. This thus implies that at Pride Microfinance Uganda limited, clients with difficulty in loan payments are usually given an extension period so as to enable them to pay their loan dues promptly and this enhance financial performance in the bank (Ntirandekura & Christopher, 2022). As stated by Gordy & Michael (2016), collection policy is a guide that ensures prompt payment and regular collections. The rationale is that not all clients meet their obligations, some just take it for granted, others simply forget while others just don’t have a culture of paying until persuaded to do so.

On the statement “Interest rates are restructured in case of need”, 46.2% of the respondents agreed, 20.8% strongly agreed, 29.7% disagreed and 0.9% strongly disagreed. A mean score of 3.54 was obtained which implies that majority of respondents on average agreed with the statement whereas a standard deviation of 1.170 implies that there was no consensus in responses. This thus implies that at Pride Microfinance Katwe branch, interest rates are restructured in case of need and this enable the bank to adjust the interest rates basing on the current market conditions and this leads to a sound financial performance. Pandey (2010) argued that policy of collection should lay down clear methods of collection. Ineffective collection of loans depicts inefficiency in management level (Polycarp et al., 2023).

On the statement “Loan repayment performance reports are monitored daily”, 79.7% of the respondents agreed, 12.7% strongly agreed, 2.8% were not sure and 4.7% disagreed. A mean score of 3.72 imply that most of the respondents agreed with the statement whereas a standard deviation of 1.139 implies that there was no consensus in response. (Polycarp et al., 2023) states that collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses.

On the statement “Loan recovery meetings are held to review all loans”, 51.4% of the respondents agreed, 21.2% strongly agreed, 26.4% disagreed and 0.9% strongly disagreed. A mean score of 3.65 was obtained which implies that most respondents agreed with statement whereas a standard deviation of 1.119 implies that there was no consensus in responses. Since majority of the respondents agreed with the statement, it implies that at Pride Microfinance Uganda limited Katwe branch, loan recovery meetings are held to review all loans and this enable the management to review the progress of the loans extended to the clients and this leads to reduction on the amount of credit risks leading to financial performance. Effective loan recovery policies are related with portfolio growth which in turn leads to financial stability which is mostly about profitability that is expected to have a number of positive effects in terms of performing loans than the non-performing loans (N. Moses et al., 2022).

On the statement “Telephone calls are made so as to remind clients about payments of their loans”, 74.5% of the respondents agreed, 10.6% strongly agreed, 5.7% disagreed and 1.9% strongly disagreed. A mean score of 3.98 was obtained which implies that majority of the study respondents agreed with the statement while a standard

deviation of 1.0.834 implies that there was consensus. Since majority of respondents agreed, this implies that Telephone calls are made so as to remind clients about payments of their loans at Pride Microfinance Katwe branch and this enable the bank to recover all the loan dues from the clients leading to financial performance. According to Gordy & Michael (2016), collection efforts used by Microfinance institutions could include letters, demand letters, telephone calls, visits by the firm's officials for face-to-face reminders to pay and legal enforcements (Turyatamba et al., 2022).

On the statement "SMS and letter reminders are sent to clients", 47.2% of the respondents agreed, 40.6% strongly agreed, 6.1% were not sure and 6.1% disagreed. A mean score of 3.86 imply that most of the respondents agreed with the statement while a corresponding standard deviation of 1.119 implies that there was a consensus in responses. This implies that at Pride Microfinance SMS and letter reminders are sent to clients to ensure prompt collection of loan arrears from the client's hence financial performance (Ntirandekura & Alex, 2022).

Generally, respondents agreed to a moderate degree that there is an agreement between loan recovery policies and financial performance in Pride Microfinance with an overall mean score of 3.66. The overall standard deviation of 1.147 means that there was no consensus in the responses.

Relationship Between Lending Policy and Financial Performance

The aim was to determine the relationship between lending policy and financial performance of Pride Microfinance limited. Respondents were provided with a number of statements and asked to indicate to what extent they agreed with them, using the scale: 1 point = strongly disagree; 2 points = disagree; 3 points = not sure; 4 points = agree; and 5 points = strongly agree. Mean scores greater than 4.5 imply that the respondents strongly agreed to the statement, means between 3.5 and 4.5 imply that the respondents agreed to the statement, means between 2.5 and 3.5 imply that the respondents were not sure about the statement, mean between 1.5 and 2.5 imply that respondents disagreed to the statement and mean scores less than 1.5 imply that the respondents strongly disagreed to the statement. A standard deviation greater than 1 implies a significant variance meaning there was no consensus in the responses while a standard deviation less than 1 shows that there was no significant variance hence consensus in responses.

From the study findings on the statement "Credit management monitors all outstanding loans in the portfolio", 37.7% of the respondents agreed, 34.9% strongly agreed, 5.2% were not sure, and 22.62% disagreed. A mean score of 3.75 was obtained which implies that majority of the study respondents agreed where as a standard deviation of 1.284 implies that there was no much consensus in responses. This implies that at Pride Microfinance Uganda Limited Katwe branch, the Credit management department monitors all outstanding loans in the portfolio to ensure that clients settle their loan fully so as to enhance financial accountability in the bank.

On the statement "The decision to reschedule a loan is only taken by a loans committee", 45.3% of the respondents agreed, 37.3% strongly agreed, 14.6% disagreed and 2.8% strongly disagreed. A mean score of 4.00 imply that most of the respondents were in agreement with the statement while a standard deviation of 1.173 implies that there was no much consensus in responses. This means that, in Pride microfinance Uganda limited the decision to reschedule a loan is only taken by a loans committee which ensure effective loan recovery leading to financial performance. This finding concurs with Hulme (2015), argued that an effective collection policy ensures prompt

payment while a weak collection policy delays payment and, in most cases, it has been blamed for delinquency in micro finance institution.

Table 4: Descriptive Statistics on Lending Policy and Financial Performance

Statement	1	2	3	4	5	Mean	S. DV
Credit management department monitors all outstanding loans in the portfolio.	0 0%	47 22.2%	11 5.2%	80 37.7%	74 34.9%	3.75	1.284
The decision to reschedule a loan is only taken by a loans committee.	6 2.8%	31 14.6%	0 0%	96 45.3%	79 37.3%	4.00	1.104
Requirements for the credit reference bureau are considered	0 0%	52 24.5%	13 6.1%	98 46.2%	49 23.1%	3.56	1.255
Credit committees grant loans consistent with the authority given by Pride.	24 11.3%	52 24.5%	0 0%	96 45.3%	40 18.9%	3.56	1.336
Non - performing loans are written off.	0 0%	59 27.8%	17 8.0%	68 32.1%	68 32.1%	3.52	1.392
Credit officers ensure that each problem loan is different and on routine is universally applicable.	0 0%	26 12.8%	2 0.9%	128 60.4%	56 26.4%	4.25	.869
Credit officers ensure that each problem loan is different and on routine is universally applicable	2 0.9%	16 7.5%	0 0%	104 49.1%	90 42.5%	3.99	.918
All loan terms are compiled with.	4 1.9%	0 0%	28 13.2%	132 62.3%	48 22.6%	3.91	.959
Terms of payments are always observed and any obligation compiled with.	6 2.8%	52 24.5%	0 0%	84 39.6%	70 33.3%	3.89	1.024
Lending procedures are properly followed by credit management	4 1.9%	36 17.0%	2 0.9%	112 52.8%	58 24.5%	3.87	1.058

Source: Primary Data 2022

On the statement “Requirements for the credit reference bureau are considered”, 46.2% of the respondents agreed, 23.1% strongly agreed, 6.1% were not sure and 24.5% disagreed. A mean score of 3.56 was obtained which implies that majority of the study respondents agreed while a standard deviation of 1.255 implies that there was no consensus in responses. This thus implies that at Pride Microfinance Uganda limited, requirements for the credit reference bureau are considered in order to properly monitor the clients borrowing history so as to extend credit to only trusted clients. Ghatak (2010) brings out the fact that the collection policy is that ensures prompt

payment and regular collections the rationale being that not all clients meet their obligations as they mature, with slow payments and none repayment costs rise (Winny et al., 2023).

On the statement “Credit committees grant loans consistent with the authority given by Pride”, 45.3% of the respondents agreed, 18.9% strongly agreed, 24.5% disagreed and 11.3% strongly disagreed. A mean score of 3.56 was obtained which implies that majority of respondents on average agreed with the statement whereas a standard deviation of 1.336 implies that there was no consensus in responses. This thus implies that at Pride Microfinance Katwe branch, Credit committees grant loans consistent with the authority given by Pride microfinance and this enable the institution to minimize on the risks of non-performing loans. Hulme (2010) asserts that microfinance institutions use different procedures to ensure that collection of funds lent out is affected, they may issue warning letters, they may visit the clients to pressurize them to pay attach the collateral seize savings, pressurize guarantors or sue the clients.

On the statement “non-performing loans are written off”, 32.1% of the respondents agreed, 32.1% strongly agreed, 8.0% were not sure and 27.8% disagreed. A mean score of 3.52 imply that most of the respondents agreed with the statement whereas a standard deviation of 1.392 implies that there was no consensus in response. This implies that at Pride Microfinance Uganda limited, non-performing loans are written off over a given period of time and this has a negative impact on financial performance of the institution. According to Wamasembe (2018), loan recovery is crucial to the survival and performance of microfinance institutions.

On the statement “Credit officers ensure that each problem loan is different and on routine is universally applicable”, 60.4% of the respondents agreed, 26.4% strongly agreed, 0.9% disagreed and 12.8% strongly disagreed. A mean score of 4.25 was obtained which implies that most respondents agreed with statement whereas a standard deviation of 0.869 implies that there was consensus in responses. Since majority of the respondents agreed with the statement, it implies that at Pride Microfinance Uganda limited Katwe branch, credit officers ensure that each problem loan is different and on routine is universally applicable and this contributes to financial performance. This finding concurs with Hulme (2010) who found that credit lending policies are major tool microfinance institutions use to screen their clients for purposes of loan extension, to ensure security of loans, to ensure that the loans are collected in specified periods and low buyers are forced to pay.

On the statement “All loan terms are compiled with”, 62.3% of the respondents agreed, 22.6% strongly agreed, 13.2% were not sure and 1.9% strongly disagreed. A mean score of 3.91 was obtained which implies that majority of the study respondents agreed with the statement while a standard deviation of 0.959 implies that there was consensus. Since majority of respondents agreed, this implies that all loan terms are compiled with at Pride microfinance Katwe branch and this enable to eliminate credit lending risks leading to enhanced financial performance. This finding concurs with Norell (2010), who asserted that loan recovery is affected right from the time the client submits the application form and if the loan size is too large for the cash needs of the business extra funds my go to personal use and this can have an impact on loan recovery hence low financial performance.

On the statement “Terms of payments are always observed and any obligation compiled with”, 39.6% of the respondents agreed, 33.3% strongly agreed, 24.5% disagreed and 2.8% strongly disagreed. A mean score of 3.89 was obtained which implies that imply that most of the respondents agreed with the statement while a

corresponding standard deviation of 1.024 implies that there was a consensus in responses. This means that at Pride Microfinance, terms of payments are always observed and any obligation complied with and this enables the bank to detect bad client's hence financial performance. Ghatak (2010) noted that some microfinance institutions have designed short term repayment schedules on weekly and bi-weekly basis; they meet clients on such basis and remind them to pay the loans.

On the statement "Lending procedures are properly followed by credit management", 52.8% of the respondents agreed, 24.5% strongly agreed, 0.9% were not sure, 17.0% disagreed and 1.9% strongly disagreed. A mean score of 3.87 was obtained which implies that majority of the study respondents agreed with the statement while a standard deviation of 1.058 implies that there was no consensus. Since majority of respondents agreed, lending procedures are properly followed by credit management so as to ensure that credit is only extended to qualified clients and to reduce on the rate of non-performing assets for better financial performance. According to Craig (2015) in agreement with Hulme (2010), microfinance institutions put into consideration the clients' marital status, occupational ability; historical back ground and previous dealings with the customers like bankers, customers, suppliers in order establish character. Any material, inconsistencies with the policies will disqualify the client, while clients that meet policy stipulations, qualify to get the services.

Conclusions

The first research objective was stated as, "To assess the effect of credit monitoring policy on financial performance in Pride Microfinance." and the first research question was stated as, "What is the effect of Credit monitoring policy on financial performance in Pride Microfinance Uganda limited?" The study concludes that; there is a positive significant strong relationship between Credit monitoring policy and financial performance in Pride Microfinance considering the Pearson correlation coefficient of $r=0.980$. The positive value of (r) implies that a positive change in Credit monitoring policy results in a corresponding positive financial performance and vice-versa. Therefore, research objective one was achieved and research question one was answered.

The third research objective was stated as, "To establish the relationship between Loan recovery policy and financial performance in Pride Microfinance" and the third research question was stated, "What is the relationship between Loan recovery policy and financial performance in Pride Microfinance Uganda limited?" The study concludes that; Loan recovery policy positively influences financial performance in Pride Microfinance Uganda limited, considering the Pearson product-moment correlation coefficient of $r = 0.577$. The positive value of (r) implies that a positive change in Loan recovery policy results in a corresponding positive change in financial performance in Pride Microfinance and vice-versa. Therefore, research objective three was achieved, and research question three was answered.

The third research objective was stated as, "To establish the relationship between lending policy and financial performance in Pride Microfinance" and the third research question was stated, "What is the relationship between lending policy and financial performance in Pride Microfinance Uganda limited?" The study concludes that; lending policy positively influences financial performance in Pride Microfinance Uganda limited, considering the Pearson product-moment correlation coefficient of $r = 0.541$. The positive value of (r) implies that a positive change in lending policy results into a corresponding positive change in financial performance in Pride

Microfinance and vice-versa. Therefore, research objective three was achieved, and research question three was answered.

Recommendations

The study recommends that the management of Pride Microfinance Uganda limited must be keen not to set up credit monitoring policies that can negatively affect the profits of the Micro Finance Institution. Pride microfinance Uganda limited and other Micro Finance institutions should adopt and implement stringent credit monitoring policies as it would result in a significant increase in financial performance. Microfinance institutions should endeavor to advance more on monitoring practices as a way of improving their financial performance and profitability.

The study recommends that microfinance institutions need to have effective supervision of borrowers on credit utilization and repayment which should be done frequently. Such supervision will enable Microfinance institutions to monitor the performance of borrowers closely done.

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