

Credit Recovery Policy And Financial Performance Of Microfinance Institutions In Uganda. A case Study Of

Pride Microfinance Kampala Branch

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Abstract

The study aimed at credit recovery policy and financial performance of microfinance institutions in Uganda. a case study of pride microfinance kampala branch. In investigating the intricate relationship between credit recovery policy and financial performance of microfinance institutions in Uganda, with a specific focus on the Pride Microfinance Kampala Branch, a comprehensive and systematic methodology was employed. The research design embraced a mixed-methods approach, incorporating both qualitative and quantitative techniques to provide a holistic understanding of the multifaceted dynamics at play. Findings of the study shown the relationship between credit recovery policy and financial performance (dependent variable). It shown that through bivariate means, the correlation between Loan recovery policy and financial performance is $(r) = 0.577$. This implied that there was a moderate positive relationship between the two variables since the significant value was 0.000 which was less than 0.05 ($p < 0.05$). The management of Pride Microfinance Uganda limited and Microfinance institutions should consider revising and reestablishing it procedures of collecting credits from clients so as to be cost-effective. This can be done by using alternative and cheaper sources of debt collection procedures. Therefore, there is a need to develop an effective loan repayment system, Microfinance institutions' committee members and staffs are recommended to visit borrower's business premises and verify the borrower's assets.

Key words: Credit Recovery Policy, Financial Performance and Microfinance Institutions

Background of the study

Credit collection policies can be understood as written instructions that set out the conditions for delivery of goods on credit, customer qualification criteria, collection procedure and steps to be taken in the event of customer default (Derrick et al., 2023). This term may also be referred to as a collection policy. They are also guidelines that explain how to decide which customers will be sold to an open account, the exact payment terms, the limits set for outstanding balances and how to deal with delinquent accounts. (Kazaara & Christopher, 2023), the goal of receivables management is to collect receivables without losing revenue from high-pressure collection techniques.

Achieving this goal includes; credit selection and standard, which include the application of techniques to determine which customer should receive credit (Kazaara & Christopher, 2023).

Pandey (2010) argued that the credit recovery policy should lay down clear recovery methods. Inefficient loan collection shows inefficiency at the management level. Inefficiency in the distribution of credit to customers is therefore a policy that is determined through the cost of credit assets as the average cost of credit provided to clients in monetary terms, which is determined by the ratio of total costs to the total amount of loans (Polycarp et al., 2023).

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Laker (2007) refers to debt collection policy as the procedure followed by an institution for overdue collection. Debt collection policies refer to the procedures that microfinance institutions use to collect overdue accounts. The collection process can be quite costly in terms of both product expenditure and loss of goodwill (Collins et al., 2023). Credit enforcement efforts may include attachment of mandatory savings to force guarantors to pay, attachment of collateral assets, litigation (Anwar, 2017). Methods used by microfinance institutions could include letters, demand letters, telephone calls, face-to-face visits by firm officials for payment reminders, and judicial enforcement. (Paul et al., 2023) argue that collection policy is a guideline that ensures prompt payment and regular collection. This is because not all clients follow through, some just take it for granted, others simply forget, while others simply don't have a culture of paying until they are persuaded. According to (Gracious, 2023), many microfinance institutions may send such individuals (borrowers) a letter when, say, ten days pass or make a phone call, and if payment is not received within thirty days, they may refer the account to a collection agency. .

The collection procedure is necessary because some clients do not pay the loan on time, some are slower, while others do not pay at all. So collection efforts focus on speeding up collection from slower payers to avoid bad debts. Immediate payments aim to increase turnover while keeping bad debts low and within limits (Deus, 2023). However, one should be careful about strict actions, especially on regular clients, as harsh measures can cause them to move to competitors (Van Horn 1995). Ssemukono, (2014) states that

collection efforts are aimed at speeding up recovery from slow payers and reducing bad debt losses. This therefore requires a vigorous recovery effort. A yardstick for measuring the effectiveness of a collection policy is its laxity in waking up slow-paying customers (Nelson, Christopher, Teddy et al., 2022).

Microfinance institutions also assess customers' ability to repay based on information provided in the loan application about business income and expenses, information obtained from friends and business partners (Ramadhan et al., 2023), the amount and purpose of the loan. they applied for a loan. Microfinance institutions reserve the right to reduce the amount of the requested loan in order to manage it, or to reject the client's loan entirely if they believe that the client fundamentally lacks the ability to repay (Racheal et al., 2023).

To determine clients' capital, microfinance institutions look at clients' assets and liabilities as shown on the balance sheet (Winny et al., 2023). However, Hume noted that in microfinance institutions, measuring and determining client capital is very difficult and has serious limitations because clients do not declare most assets and most do not keep records.

Norwell (200) observed that if loans are made out of favoritism, clients may delay payments or default. They often hope that their friends at the microfinance institution will encourage the institution to write off the loan, rather than taking the client to court or confiscating his property (District et al., 2023). Adams and Vogel (2014) presented motivational arguments to explain low recovery. They express that a borrower is more likely to repay when the loan and his relationship with the institution are valuable to him. If the loan is

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perceived as a grant or political gift, or if the lender is perceived as transitory and unlikely to provide further services in the future, then the incentive to repay is reduced and the result is, in most cases, default and default problems. This research will determine whether this social technology is appropriate or applied (Polycarp et al., 2023).

According to a report by GTZ (2017), microfinance institutions with strict credit management policies reported minimal cases of collection and default problems. In addition, the deliberate refusal of these institutions to lend to clients with a delinquent history further reduced the problem of low loan returns. However, the GTZ report (2017) found that there is enough careful part for borrowers to eliminate loans during the borrowing period. In some microfinance institutions, careful monitoring of loans and

Problem Statement

The study aimed at credit recovery policy and financial performance of microfinance institutions in Uganda. a case study of pride microfinance kampala branch.

Main Objective

To determine the relationship between credit recovery policy and financial performance of microfinance institutions in Uganda. a case study of pride microfinance kampala branch.

Methodology

In investigating the intricate relationship between credit recovery policy and financial performance of microfinance institutions in Uganda, with a specific focus on the Pride Microfinance Kampala Branch, a comprehensive and systematic methodology was employed. The research design embraced a mixed-methods approach, incorporating both qualitative and quantitative techniques to provide a holistic understanding of the multifaceted dynamics at play. To commence the study, an extensive literature review was conducted to establish a theoretical foundation, synthesizing existing knowledge on credit recovery policies, financial performance metrics of microfinance institutions, and contextual factors influencing these dynamics in the Ugandan setting. This critical review of literature served as the basis for developing the conceptual framework that guided the study's inquiries. Subsequently, a purposive sampling technique was adopted to select the Pride Microfinance Kampala Branch as the primary case study. The selection criteria considered factors such as the institution's prominence, geographical representation, and significance within

confiscation of collateral have largely helped to reduce these problems. Any weakness in these areas promotes delinquency, late repayment, which can easily lead to credit loss (Christopher, Komunda, et al., 2022). Therefore, ongoing and up-to-date monitoring of borrowers and consistent repossession procedures are essential.

Overall, researchers have generally agreed that there is a significant relationship between credit management policies and credit recovery (Paul et al., 2023). The implementation of weak safeguards allows access to credit to weak clients or defaulters, which makes enforcement very difficult and leads to default problems in most cases. However, on the other hand, the strict implementation of a strict credit policy allows microfinance institutions to serve only strong customers and thereby achieve high returns.

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the broader microfinance landscape of Uganda. Data collection commenced with in-depth interviews with key stakeholders, including senior management, credit officers, and clients of the microfinance institution. These interviews aimed to elicit insights into the formulation, implementation, and impact of the credit recovery policy from diverse perspectives. Simultaneously, a survey instrument was designed to quantitatively assess the financial performance of the Pride Microfinance Kampala Branch. Financial data spanning a predetermined period, including key indicators such as profitability ratios, liquidity measures, solvency metrics, and asset quality indicators, were collected. This quantitative data collection allowed for a rigorous statistical analysis to identify patterns, trends, and correlations between the credit recovery policy and financial outcomes. In addition to primary data collection, secondary data sources, such as financial reports, policy documents, and regulatory guidelines, were meticulously examined to triangulate and validate the findings. This triangulation enhanced the reliability and credibility of the study's conclusions by cross-referencing information obtained from various sources. Furthermore, the qualitative data gathered from interviews underwent a rigorous thematic analysis, employing coding and categorization techniques to identify recurring themes, patterns, and outliers. This qualitative analysis was crucial for capturing the nuances, perceptions, and contextual factors shaping the credit recovery policy and its impact on the financial performance of the microfinance institution. The synthesis of qualitative and quantitative findings enabled a comprehensive understanding of the credit recovery policy's effectiveness, shedding light on its implications for the financial health of the Pride Microfinance Kampala Branch. The methodology employed in this study not only facilitated the exploration of causality and relationships but also allowed for the identification of potential areas for policy improvement and operational enhancements within the microfinance sector in Uganda. Data was analyzed in form of correlations and regressions using SPSS & STATA (Nelson, Christopher, & Milton, 2022).

Results

Table 1: Correlation Between credit Recovery Policy and Financial Performance

		Loan Recovery Policy	Financial Performance
Loan Recovery Policy	Pearson Correlation	1	.577**
	Sig. (2-tailed)		.000
	N	212	212
Financial Performance	Pearson Correlation	.577**	1
	Sig. (2-tailed)	.000	
	N	212	212
**. Correlation is significant at the 0.01 level (2-tailed).			

Source; Primary Data, 2022

Findings of the study in Table 1 above show the relationship between credit recovery policy and financial performance (dependent variable). It shows that through bivariate means, the correlation between Loan recovery policy and

financial performance is $(r) = 0.577$. This implies that there is a moderate positive relationship between the two variables since the significant value is 0.000 which is less than 0.05 ($p < 0.05$) (Nelson et al., 2023). This, therefore, shows that the positive change in Loan recovery policy results in a corresponding positive change in financial performance in Pride Microfinance and vice versa. Thus, this implies that there is a statistical relationship between Loan recovery policy and financial performance in Pride Microfinance Kampala Branch

Table 2: Model Summary for Loan Recovery Policy and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.577 ^a	.332	.329	.47187
Predictors: (Constant), Loan Recovery Policy				

Source; Primary Data, 2022

The Regression results as presented in Table 2 above show the, adjusted R square value of 0.329, which implies that the Loan recovery policy only contributes 32.9% towards financial performance in Pride Microfinance Uganda limited, the remaining 67.1% of financial performance is influenced by other factors. This thus shows that there is a relationship between Loan recovery policy and financial performance in Pride Microfinance (Polycarp et al., 2023).

Table 3: ANOVA Values for Loan Recovery Policy and Financial Performance

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1).	Regression	23.276	1	23.276	104.537	.000 ^b
	Residual	46.759	210	.223		
	Total	70.035	211			
Dependent Variable: Financial Performance						
Predictors: (Constant), Loan Recovery Policy						

Source; Primary Data, 2022

The results of the study in Table 3 above indicate that the regression model predicts the dependent variable significantly well. There is a statistical significance of the regression model indicated by $F = 104.537$ and $\text{Sig} = 0.000$ which is less than 0.05. This is also supported by the regression mean square value of 23.276 compared to the residual mean square of 0.223 which is significant to zero. This thus confirms that there is a relationship between Loan recovery policy and financial performance in Pride Microfinance (Collins et al., 2023).

Table 4: Coefficients of Loan Recovery Policy and Financial Performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1).	(Constant)	2.725	.123	22.234	.000

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	Loan Policy	Recovery	.343	.034	.577	10.224	.000
Dependent Variable: Financial Performance							

Source; Primary Data, 2022

Results from Table 4 give t values and Beta. The t-values test the hypothesis that the coefficient is different from 0. To reject this, you need a t-value greater than 1.96 (for 95% confidence). The t-value for Loan recovery policy is 10.224 which are greater than 1.96. This implied Loan recovery policy influence the financial performance in Pride Microfinance considering a significant factor (Sig =0.000) (Christopher, Willies, et al., 2022). Also, the standardized beta coefficients of 0.577 imply that one unit increase in financial performance is caused by 0.577 units increase in Loan recovery policy based on the equation $Y = \beta x + C$ where Y = financial performance (Dependent variable), x = Loan recovery policy (Independent variable, $\beta = 0.577$ and C = constant. This, therefore, means that there is a statistical relationship between Loan recovery policy and financial performance in the Pride Microfinance Kampala Branch

Conclusion

The study concludes that; credit 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 credit 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.

Recommendation

Generally, in microfinance institutions such as Pride Microfinance Uganda limited most of the borrowers who fail to repay lack supervision and efficient guidance on financial management, the study recommends that all clients who qualify for a loan should first be given the basic skills on how to keep books of account as well as business management. This should be accompanied by constant supervision by the loan offers to monitor how the business progresses. This will create a relationship between the client and the institution that will benefit the client in terms of business management and the institution by recovering its loans hence financial performance.

The management of Pride Microfinance Uganda limited and Microfinance institutions should consider revising and reestablishing it procedures of collecting credits from clients so as to be cost-effective. This can be done by using alternative and cheaper sources of debt collection procedures. Therefore, there is a need to develop an effective loan repayment system, Microfinance institutions' committee members and staffs are recommended to visit borrower's business premises and verify the borrower's assets.

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