

**RELEVANCE OF LOAN RECOVERY ON MICROFINANCE INSTITUTION  
PERFORMANCE: A CASE OF PRIDE MICROFINANCE**

**DOUGLAS KACURIZA NABAASA**

**J23B05/054**

**A DISSERTATION SUBMITTED TO THE SCHOOL BUSINESS IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF BUSINESS  
ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY**

**September, 2024**



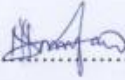
**UGANDA CHRISTIAN  
UNIVERSITY**

*A Centre of Excellence in the Heart of Africa*

## DECLARATION

I NABAASA DOUGLAS KACURIZA hereby declare that this dissertation, titled "Relevance of Loan Recovery on Micro Finance Institution Performance: A Case of Pride Micro Finance" is based on my own original work and research. I have conducted all the research and analysis presented in this document. I confirm that the information and findings contained herein are accurate and have not been previously submitted or published elsewhere for academic credit. Any references to previously published work are cited appropriately and their contribution to my research is acknowledged.

Signature.....



Date.....

4/09/2024

NABAASA DOUGLAS KACURIZA

## APPROVAL

This is to certify that the research report titled "Relevance of Loan Recovery on Micro Finance Institution Performance: A Case of Pride Micro Finance" has been examined and approved. The research was conducted under my supervision and is hereby approved for submission in partial fulfillment of the requirements for the Bachelor's Degree in Business Administration at Uganda Christian University.

Signature.....

MR. KISENYI VINCENT  
(Supervisor)

Date.....

4/9/2024

## **DEDICATION**

This dissertation is dedicated to my family, who have provided unwavering support, encouragement, and unconditional love throughout my life. Their sacrifices and belief in me have enabled me to reach this goal.

I am grateful to my supervisors, Mr. Kisenyi Vincent and Dr. Katono Isaac, who provided significant guidance, mentorship and support throughout this research. Their guidance and encouragement have helped me succeed academically.

I thank my friends and mentors for their support, friendship and helpful ideas along my academic journey.

Thank you and May God bless you all.

## **ACKNOWLEDGEMENT**

I am eternally grateful to God for the strength, grace, and love that have enabled me to complete this research.

I would like to express my sincere gratitude to the faculty and staff of the Uganda Christian University, School of Business for any assistance availed during this research, for their commitment to providing students with the necessary resources and support to succeed in their academic endeavors.

I am deeply indebted and grateful to my academic supervisor Mr. Kisenyi Vincent and Dr. Katono Isaac for their expertise, insightful guidance, support and encouragement. Their mentorship has been instrumental in shaping this research project.

I extend my heartfelt thanks to my fellow students of the UCU School of Business for their collaboration, assistance and the knowledge shared during our interactions.

## **ABSTRACT.**

The study dwelled to examine the relevance of loan recovery on micro finance institution performance: a case of pride micro finance. The study was guided by the following specific objective :to examine the practice of credit assessment in pride micro finance limited, mukono branch.: to find out the challenges faced in recovering loans in pride micro finance limited, mukono branch.: to establish the relationship between credit assessment and loan recovery in pride micro finance limited. The study was conducted at the mukono branch of pride micro finance limited. The organization targets micro, small, and medium-sized business owners as well as wage earners engaged in a variety of economic activities with a broad array of products and services across multiple industries. At the pride micro finance mukono, the researcher employed a study sample of 40 participants from a total population of 70, including top management, loan officers, and loan inspectors, as well as clients and their support staff. The findings of the study showed largely that the practice of credit assessment at pride micro finance Limited's mukono branch is designed to ensure that loans are granted to creditworthy individuals and businesses while managing associated risks. The findings showed that this process involves a comprehensive evaluation of the borrower's financial situation, including an assessment of their income, credit history, and business viability. The study recommended that there was need to Utilize sophisticated credit scoring models and risk assessment tools to better evaluate the creditworthiness of borrowers. This can improve the accuracy of credit assessments and help in identifying potential risks more effectively.

## TABLE OF CONTENTS

DECLARATION.....	i
APPROVAL.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT.....	iv
LIST OF TABLES.....	viii
<b>CHAPTER ONE.....</b>	<b>1</b>
1.1 Background.....	1
1.2 Statement of the Problem.....	2
1.3 General Objective.....	3
1.3.1 Specific Objectives of the study.....	3
1.4 Research questions.....	3
1.5 Scope of the study.....	3
1.5.1 Content Scope.....	3
1 5.2 Geographical Scope.....	4
1 5.3 Time Scope.....	4
1.6 Significance of the study.....	4
1.7 Definitions of terms.....	4
1.8 CONCEPTUAL FRAMEWORK.....	5
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>6</b>
2.0 Introduction.....	6

2.1 Theoretical framework.....	6
2.2 Practice of credit assessment.....	6
2.3 Challenges faced in recovering loans in microfinance institutions.....	8
2.4 Relationship between credit assessment and loan recovery.....	10
<b>CHAPTER THREE: RESEARCH METHODOLOGY</b> .....	<b>13</b>
3.0 Introduction.....	13
3.1 Research designs.....	13
3.2 Study Area.....	13
3.3 Study population.....	13
3.3.1 The study population and sample size.....	13
3.4 Sampling Strategy.....	14
3.4.1 Sampling techniques and procedure.....	14
3.5 Data collection methods.....	14
3.6 Data collection instruments.....	15
3.6.1 Questionnaire.....	15
3.6.2 A Key Informants Guide.....	15
3.7 Validity and reliability of quantitative research.....	15
3.8 Data management and analysis.....	16
3.8.1 Quantitative data.....	16
3.9 Ethical considerations and procedure of data collection.....	16
<b>CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS</b> .....	<b>17</b>
4.0 Introduction.....	17

4.1 Descriptive analysis of demography.....	17
4.2. To examine the practice of Credit assessment in Pride Micro Finance Limited, Mukono Branch.....	19
4.3 Challenges faced in recovering Loans in Microfinance Institutions.....	20
4.4 Relationship between Credit assessment and Loan Recovery.....	21
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS</b> .....	<b>23</b>
5.0 Introduction.....	23
5.1 Summary of the findings.....	23
5.1.1 To Examine the practice of credit assessment in Pride Micro Finance Limited, Mukono Branch.....	23
5.1.2 Challenges faced in recovering Loans in Microfinance Institutions.....	23
5.1.3. Relationship between Credit Assessment and Loan Recovery.....	24
5.3 Conclusions.....	24
5.4 Recommendations.....	25
REFERENCES.....	26
APPENDICES.....	28
APPENDIX I: QUESTIONNAIRES.....	28

## LIST OF TABLES

Table 1: Study population and sample size table.....	14
Table 4.1 Shows the gender of the respondents.....	17
Table 4.2 Shows the age bracket of the respondents.....	17
Table 4.3 Shows the education level of the respondents.....	18
Table 4.4 shows the department levels of the respondents.....	18
Table 4.5 examines the practice of credit assessment in pride micro finance limited._	19
Table 4.6 Assess the challenges faced in recovering loans in microfinance institutions	20
4.4 Table 4.7 Shows the relationship between credit assessment and loan recovery..._	21

## CHAPTER ONE

### 1.1 BACKGROUND

As part of a larger category of financial organizations known as semi-formal financial institutions, microfinance institutions are included. According to the Microfinance Act of 2003, they are establishments that are registered as nongovernmental organizations and carry out lending and deposit-taking activities. Credit policy, according to Kakuru (2000), is a collection of policy measures aimed to minimize costs associated to credit while optimizing its advantages. According to Edminster (1990), a credit policy is an organization's "process of analyzing credit requests and its decision criteria for accepting or rejecting applications." The objective of this strategy is to optimize debtor recovery, given that a business may have a rigorous or loose credit policy.

According to Pandey (1995), microfinance companies use three decision variable indicators in tandem: lending criteria, credit terms, and collection attempts. The criteria used to identify the types of customers to whom credit may be granted are called credit standards, sometimes referred to as accessibility measures. These requirements cover asset quality and capital sufficiency. The circumstances under which credit is granted are known as credit terms, and they specify the duration of the credit as well as the terms of client payments, such as the loan amount and period. The actions the institution takes to recover past-due payments, known as the real collection period, are established by collection attempts, which include in-person meetings and phone calls.

Loan recovery (operational definition) is the process of figuring out the rate of payback, portfolio quality ratios, profitability ratios, productivity and efficiency ratios, and the depth of outreach. It also describes the pace at which customers return the money and interest that was lent to them. Ssewagudde (2000) claims that credit policies are well-

thought-out, well understood, and set procedures, guidelines, and directives that are applied at the highest levels of the business. Microfinance companies evaluate credit applicants and decide whether or not to give loans based on three processes in order to maintain proper credit standards, avoid excessive risk, and appraise business opportunities: credit data, credit research, and credit evaluation (ies) Loan recovery is crucial for lending institutions to be able to clean their balance sheets so that they may step up collection efforts and make financial report preparation easier, according to Michael Malan, managing director of comp scan credit reference bureau (CRB) (The New Vision, September 15, 2010). According to Mugisa (1995), loan recovery rates allow for the measurement of performance and non-performing asset ratios, or the capacity to gauge the amount of financial resources that can be recycled, which in turn allows the institution to enjoy the trust of the general public. Any lending institution must ensure pleasant loan recovery since it reduces default risk and saves operations and transportation costs associated with finding defaulters.

Mugisa (1995) asserts that low-quality loans (assets) endanger the institution's viability and cut off the economy's flow of capital, in addition to undermining its capacity to repurpose its financial resources. With the assistance of the Norwegian Agency for Development Cooperation (NORAD), Pride Microfinance was established in 1995 as a non-governmental organization (NGO). Its main goal was to provide credit to the underprivileged, especially those in the agricultural industry. It became Pride Africa Uganda Limited after being registered as a limited company in 1999. Pride Microfinance Limited was the new name of the business after the Ugandan government bought all of its shares in 2003 (Mbanga, 2008). In accordance with the Banking Act of 2003, it became an MDI in 2005 It is overseen and licensed by Uganda's central bank, the Bank of Uganda. It is one of the members of the Association of Microfinance Institutions in Uganda (AMFIU). PMFL (MDI) is the name of a microfinance deposit-taking institution. It provides financial services to the segment of Ugandan society that the nation's commercial banks either cannot serve or do not serve. The micro, small, and medium-sized business owners are the emphasis of PMFL. The company also offers money transfer services through Western Union and Money Gram. PMFL is both an MDI and a Tier III financial institution. It is therefore not permitted to create checking accounts or

exchange currency. The organization currently has 35 locations around Uganda, with its headquarters located in Metropole House on Entebbe Road, in Kampala's core business district. The largest and capital city of Uganda.

## **1.2 STATEMENT OF THE PROBLEM.**

According to Mbanga (2008), credit evaluation is the process of determining a borrower's credit worthiness. It guarantees that lenders assess borrowers' capacity to repay new debts, removes needless risk, boosts the profitability of the credit portfolio, lowers overhead, and ultimately results in effective client acquisition (Ssewangude, 2000; Mbanga, 2008). Despite conducting credit assessments on its clients, Pride Microfinance Limited has persistently been unable to retrieve the loans that it has provided to clients on time. The loan portfolio changed from 0.38% to 0.58% as a result, as shown by the Pride Microfinance annual report from 2013. Pride Microfinance may become bankrupt, lose clients, and eventually close if this scenario is not addressed. The researcher's intention is to investigate the applicability of loan recovery on micro finance institutions

## **1.3 GENERAL OBJECTIVE**

To analyze the relevance of loan recovery on micro finance institution performance in pride microfinance Mukono

### **1.3.1 Specific Objectives of the study**

- i. To examine the practice of credit assessment in Pride Micro Finance Limited, Mukono Branch.
- ii. To find out the challenges faced in recovering loans in pride Micro Finance Limited, Mukono Branch.
- iii. To establish the relationship between credit assessment and loan recovery in pride Micro Finance Limited

## **1.4 RESEARCH QUESTIONS**

- i) What is the practice of credit assessment on recovery used by pride Micro Finance

Limited? ii) What are the challenges in loan recovery in pride Micro Finance Limited?

iii) What is the relationship between credit assessment and loan recovery in pride Micro Finance Limited?

## **1.5 SCOPE OF THE STUDY**

This study will consist of the content scope, geographical scope and finally time scopes discussed below;

### **1.5.1 Content Scope**

The importance of loan recovery to microfinance institutions will be discussed in the study. This will go through the process of credit evaluation, difficulties encountered in loan recovery, and ultimately the connection between credit assessment and loan recovery.

### **1.5.2 Geographic Range**

The study will be conducted at the Mukono Branch of Pride Micro Finance Limited. The organization targets micro, small, and medium-sized business owners as well as wage earners engaged in a variety of economic activities with a broad array of products and services across multiple industries.

### **1.5.3 Scope of time**

The trial will run from July to October for a total of four months.

## **1.6 SIGNIFICANCE OF THE STUDY.**

The study's findings may help policy makers by supplying details on the loan recovery procedure, obstacles to credit evaluation, and the connection between the two. These details will facilitate the future seamless running of microfinance organizations.

The results can be consulted by academics and other researchers to close the knowledge gap and offer new perspectives for investigations in the future. The research may be utilized to partially complete Uganda Christian University's requirements for the award of a bachelor's degree in business administration.

## 1.7 DEFINITIONS OF TERMS

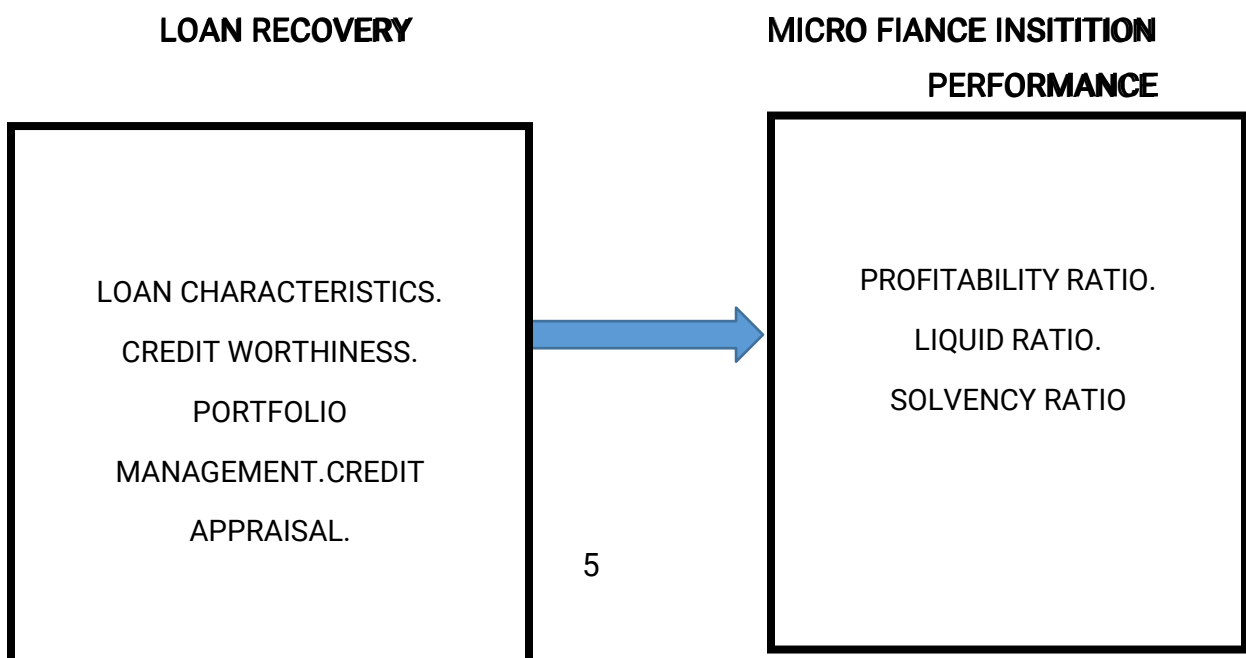
Credit worthiness is the evaluation of a customer's prior credit history that enables a prospective lender to make an offer of credit or decline it. Credit assessment: An evaluation of a borrower's general or specific debt or financial obligation-related credit worthiness.

Credit appraisal is the process of obtaining, processing, and evaluating high-quality data in order to determine a client's creditworthiness and lessen conflicts of interest between lenders acting as principals and borrowers acting as agents.

Portfolio management includes monitoring credit facilities, administering credit facilities to guarantee timely and complete payments, and devising workout plans when credit genuinely declines.

Loan Recovery: Refers to collection of amount due. The normally recovery depends on the purpose, time and condition, business running process etc.

## 1.8 CONCEPTUAL FRAMEWORK.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter reviews the literature related to credit assessment and loan recovery in microfinance institutions. It covered what other authors have written on the practice of credit assessment, challenges to loan recovery in microfinance institutions and Relationship between credit assessment and loan recovery.

#### **2.1 Theoretical framework.**

Principal-Agent Theory:

This theory examines the relationship between principals (MFIs) and agents (borrowers). The principal-agent problem arises when agents have incentives to act in their own interest rather than in the best interest of the principals. In the context of loan recovery, MFIs (principals) must design incentive mechanisms and monitoring systems to ensure that borrowers (agents) repay their loans. Effective contracts and monitoring reduce information asymmetry and moral hazard, leading to higher recovery rates. Therefore this paper will be guided by this theory

#### **2.2 Practice of credit assessment**

Credit assessment is the initial step in the lending process, according to Nsereko (1995). It is the procedure by which the borrower submits the required paperwork to the bank in

order to be approved for a loan. A credit assessment is a legal contract in which the borrower accepts a benefit now and promises to pay the lender back later, usually with interest (Feder & Just 1980). Additionally, it is an accounting entry that modifies the balance sheet of the organization by increasing or decreasing liabilities and equity. According to Pandey (2008), a credit will boost net income while a debit will decrease it on the income statement of the business.

According to Beams (2001), the first phase in the credit assessment process is determining a borrower's creditworthiness, or their capacity and willingness to repay a loan. The credit officer's assessment of the borrower's current and expected financial condition, the borrower's credit history and a positive correlation between past and projected repayment capacity, the borrower's ability to withstand adverse conditions or "stress," and the ideal loan structure, including loan amortization, covenants, reporting requirements, and underwriting elements, should all be found by the examiner. Quantity, quality, and liquidity of collateral pledged by the borrower; the bank's ability to realize the collateral in the seven worst-case scenarios; and Qualitative factors, such as economic conditions, industry, and management

The first steps in this procedure involve gathering, examining, and assessing the data needed to assess the borrower's creditworthiness before approving credit from the bank. Following the completion of the credit analysis and the determination that the borrower constitutes an acceptable risk, the credit officer recommends a loan structure that safeguards against the borrower's acknowledged vulnerabilities while preserving the borrower's strengths. Determining a risk rating for credit and loan acceptance (or rejection) marks the process's conclusion.

The parameters for this process are set by the bank's credit policy, lending criteria, and processes, which determine the bank's appetite for risk and whether it is cautious or aggressive.

The permitted loan reasons, loan types and structures, industries to which the bank is willing to lend, and the kinds of information the lender must gather and examine should all be specified in the credit policy and standards. All bank credit employees will engage in lending within the framework, regulations, and tolerance limitations established by

the policy and standards. As they perform analysis, underwriting, and monitoring for lending activities, lenders need to be aware of the bank's credit risk management system and their place within it. The following factors are taken into account while evaluating client loans: The Credit Department ought to handle the evaluation and supervision of consumer loans and debtors.

Two primary components comprise consumer lending risk management: the evaluation and tracking of each individual borrower as well as the evaluation and tracking of the borrower market. The portfolio comprises all of the borrowers. Does the borrower have a stable social group affiliation? Does he work for a corporation and get a regular salary?

In addition, the department verifies if a business can repay the loan, checks for bankruptcy history, confirms if a company pays suppliers on time, looks up a client's or company's credit score prior to approving the loan, and determines whether a client or company has outstanding debt from another institution.

When assessing and monitoring the borrower, it is important to take into account not only the kind of customers being sought but also the applicant's credit history, income and employment verification, income stability, employment stability, residence stability, and debt-to-income ratio. It shouldn't take too long to evaluate the case. A detailed analysis of the borrower's family and personal situation is necessary. Some of these include the borrower's age, nationality (only citizens of the country should be eligible to borrow), regular source of income and employment (monthly salary), number of children and marital status, stable place of residence, bank account with the bank, lack of past due bills (rent or taxes), lack of other outstanding debts with other banks or financial institutions, lack of other dependents (parents), and the applicant's inaction.

### **2.3 Challenges faced in recovering loans in microfinance institutions**

According to Kakuru (2003), there are a number of restrictions on loan recovery by different financial institutions. One of these is the inability to track and reconcile accounts. Kakuru further notes that if an account's current status is unknown, it is impossible to recall and recycle accounts in a timely manner or move an account from one DCA to another. However, many creditors face this avoidable issue while

attempting to use their recovery systems. According to the report, some creditors have a significant number of accounts that are in a condition of "limbo," meaning that no effort is being made to collect any debt. In addition to the aforementioned, Kakuru contends that a crucial characteristic of top-performing debt collection teams is their ongoing capacity to create, test, and implement novel recovery tactics. Regretfully, a lot of systems have trouble supporting testing, particularly when it comes to organizing and keeping track of several test and control groups. Systems must be adaptable enough to accommodate comprehensive performance tracking, add new external data sources, and change portfolio segmentation algorithms. The potential to maximize collections may be seriously hampered by systems' incapacity to support the creation, testing, and implementation of innovative tactics.

According to Odongo, W. (2004), failing to respond to inquiries and complaints promptly may be the main reason for customer discontent. A large portion of the debt collection sector still handles client inquiries amongst the many organizations engaged in the recovery process manually. Creditors bear the expense of handling the ensuing operational actions in addition to the evident reputational and regulatory hazards. Studies have also revealed that the inability to reply to inquiries affects the capacity to gather data. Automated inquiry management has been demonstrated in recent experiments to raise collection levels on these accounts by up to 400%. Financial organizations lack data and insight, according to Garber (1997).

While rising interest rates bring in more money for banks, they also increase the cost of borrowing for customers (Stem, 1991). The charges are not profitable if the clients do not make their payments on schedule. Customers will quit borrowing if the interest rate is high, according to Brook's (1993) law of demand, which states that credit demand is a function of interest. 10 Most member lending institutions understand their obligation to one another in order to effectively promote their economic interests; this is crucial for achieving sustainability.

Low loan supervision—clients should be supervised on how to use the loan advanced to them—poor client assessment procedures—clients are given loans without considering the character, capacity, and collateral of the borrower—and low incentive to

save—Uganda has a very low domestic saving to gross domestic product (GDP) of 6-8% (Bureau of Labor Statistics 2010).

High rates of inflation present another difficulty; historically speaking, significant inflation typically heralds the arrival of an economic apocalyptic event that is accompanied by financial instability, unemployment, and stagnation. The main explanation for why severe inflation frequently coexists with severe economic challenges is simple: One type of sovereign default is inflation. It is equivalent to defaulting on half of the debt when bonds are paid off with money that is only worth half of what it once was. Furthermore, sovereign default occurs during times of economic distress rather than during periods of prosperity (Mutebile, 2005). Even those analysts who are concerned about inflation these days tend to overlook the direct correlation between debt, impending deficits, and inflation. Because monetarists emphasize the relationship between money and inflation, they are concerned that the Fed's recent large increases in the money supply would cause inflation to expand dramatically as well. The Fed's own opinions are essentially "Keynesian," emphasizing interest rates and the previously mentioned "slack" as the main causes of inflation and deflation. The Fed's inflation "hawks" are concerned that interest rates will remain too low for too long and that it will be difficult to control inflation once it starts. Fed "doves," on the other hand, believe that in the event of inflation, the central bank can and will hike rates swiftly enough to allay concerns about inflation at this time.

High taxes; one way the legal system handles debtors who are unable to make payments is through bankruptcy. After a bankruptcy order is issued, a Trustee is designated to seize your assets and distribute them equitably among your creditors in accordance with established guidelines. Additionally, filing for bankruptcy places many limitations on your actions. Seek counsel from an advisor from the list of contacts in section 11 of this guide for comprehensive information on bankruptcy. In general, being declared bankrupt by HMRC is comparable to being declared bankrupt by a business creditor; however, there are several additional elements that you should be aware of.

## 2.4 Relationship between credit assessment and loan recovery.

According to Kakuru (2003), in order for financial institutions to recoup advanced loans, credit standards must be followed and clients must be thoroughly assessed before granting such loans. He says it's critical to determine the client's capacity to repay the loan in the first place. Additionally, he says that financial institutions won't be able to see an increase in loan payback from their clientele until they obtain the collateral security and determine the client's ability to return a loan. According to Mutebile (2005), credit policies that involve determining a client's financial background (viability) assist financial organizations in providing rules and processes that are consistently followed when granting loans to clients.. As per his statement, the standard will assist in providing consistent terms to every customer and evaluate the circumstances around the loan's availability.

. Loan Recovery Rates and Financial Sustainability: MFIs' capacity to maintain their financial stability depends on having high loan recovery rates. MFIs may grow their services, pay for operating expenses, and maintain their financial viability only if they are able to recover loans effectively. For example, a 2011 study by Hermes and Lensink discovered that MFIs with better loan recovery rates have a greater chance of reaching financial sustainability and carrying on with successful operations.

Impact on Borrowers: Loan recovery practices can significantly impact borrowers. Strict recovery practices may ensure higher repayment rates but can also lead to borrower distress. Conversely, more lenient recovery practices may reduce financial stress on borrowers but increase the risk of default for MFIs. As highlighted by the Microfinance Information Exchange (MIX) Market, balancing these aspects is crucial for the long-term success of MFIs (MIX Market, 2014).

Loan Recovery Strategies: MFIs employ various strategies to improve loan recovery

rates, such as group lending, frequent repayment schedules, and social collateral. Group lending; in particular, has been shown to enhance repayment rates by leveraging peer pressure and mutual accountability among group members (Giné & Karlan, 2014).

**Regulatory Environment:** The regulatory environment also plays a significant role in loan recovery. Effective regulations can provide a framework that supports both MFIs and borrowers, ensuring fair recovery practices while maintaining high repayment rates. The Consultative Group to Assist the Poor (CGAP) emphasizes the importance of a supportive regulatory environment for the growth and sustainability of microfinance institutions (CGAP, 2012).

**Technological Innovations:** Technological advancements have also impacted loan recovery in microfinance. Mobile banking and digital payment systems have made it easier for borrowers to repay loans, thus improving recovery rates. According to a report by the International Finance Corporation (IFC, 2019), the integration of technology in microfinance operations has led to improved loan recovery and better financial inclusion.

Bendrey and West (1997) concur that evaluating a client's character before to granting a loan can help a financial institution boost loan payback. Financial institutions claim that policies will always specify that these requirements will be consistently met if the proper customer must be selected in order to provide loans. The selection of appropriate clientele is what will make it possible for financial institutions to get their money back. According to Beams (2001), financial institutions have been underperforming in terms of loan 12 because they have not been verifying the credit quality of their consumers prior to making a loan. This makes recovering a loan difficult. He continues by saying that financial organizations' inability to screen potential customers based on their qualifications and morality has resulted in borrowers' inability to repay debts. Consequently, he asserts that credit rules assist financial institutions in increasing loan payback rates because they direct them to extend loans based on collateral, capital, ability, character, and the ability to work in an atmosphere that promotes loan repayment.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

Research methods, study population sample populations, sampling designs, study variables, data collection, data sources, instrument administration, data processing, and study limits are all covered in this chapter.

### 3.1 Designs for research

In order to collect data from respondents from the representative population at a particular point in time without repetition, this study will employ a quantitative descriptive research methodology. The design was selected because it required less time to complete (Patrik & Ugo, 2019). It will also be put to use since it made it easier for the researcher to record information based on data collected at a certain moment in time. For this study, a quantitative technique will be chosen since it is a formal, objective, systemic procedure that uses numerical data to obtain information

### 3.2 Study Area

The target population sample for my research study will be Pride microfinance Mukono. So that's where my research study will be conducted in terms of geography.

### 3.3 Study population

#### 3.3.1 The study population and sample size

A population is a collection of individuals who share the same traits or characteristics that the researcher is interested in, according to Burns and Grove (2001). The sample size for the Stanbic bank will be chosen by the researcher following the method described in Krejcie and Morgan's (1970) table for choosing the sample size for a known population. At the pride micro finance Mukono, the researcher will employ a study sample of 40 participants from a total population of 70, including top management, loan officers, and loan inspectors, as well as clients and their support staff. A list of all supervisors and their direct reports will be compiled based on Krejcie and Morgan's (1970)

**Table 1: Study population and sample size table**

<b>Departments /Directorates</b>	<b>Total Populations</b>	<b>Sample size</b>
Top bank Management	10	5
Loan officers	10	10
Loan supervisors.	10	5
Clients/customers	10	5

Support staff	10	5
<b>Total</b>	<b>50</b>	<b>30</b>

### 3.4 Sampling Strategy

#### 3.4.1 Sampling techniques and procedure

Identification and selection of individuals or groups of individuals who have knowledge of or experience with an interesting phenomenon will be involved in purposeful sampling (Creswell and Plano Clark 2011). A plan for purposeful sampling will also be employed to assist the researcher in locating key informants. Given that they are the intended key informant group of respondents who are knowledgeable about the microfinance issues pertinent to the study topic. The goal is credibility, not representativeness or generalizability, so simple random sampling, which uses small sample sizes, is an approach that increases the credibility of a sample when the possible purposeful sample is larger than one can handle (Patton, 2001). The selection of the microfinance customers will be done using this sample. This population will have an equal chance of being represented in the sample, so the researcher will use this sampling strategy.

### 3.5 Data collection methods

Quantitative data collection techniques will be used in this investigation. Key informant interviews and self-administered questionnaires will be used to gather quantitative data from a sample size

### 3.6 Data collection instruments

#### 3.6.1 Questionnaire

According to Kombo and Tromp (2006), a questionnaire is a useful instrument for gathering information from a large sample or number of respondents. The questionnaire is the main data collection instrument in survey research. To put it simply, it is a set of uniform questions, or items, that follow a preset framework in order to

collect individual data on one or more specific subjects. Sometimes, questionnaires and interviews are used interchangeably. Actually, the questionnaire acts as a stand-in for a specific kind of interview—a formal contract—where the questions' wording and order direct the conversation. Frequently, the survey is administered to all respondents in an identical, or standardized, way. This survey will be created with the study's objectives in mind.

### **3.6.2 A Key Informants Guide**

A collection of inquiries the researcher asks during the interview is known as a "Key interview guide" (McNamara, 2009). Interviews with key informants are "qualitative, in-depth interviews with 15–35 participants who were chosen for their first-hand expertise on a particular subject. The interviews follow a rough structure that is based on a list of topics for discussion. Key informant interviews allow for an open exchange of ideas and information and resemble a discussion between friends. Interviewers ask open-ended inquiries, elicit information, and take notes that are later expanded upon" (USAID 1996).

The key respondents will be interviewed at the headquarters using a design created by the researcher as an interview guide. The researcher will question the respondents to nudge them toward providing the information needed to achieve the study's objectives and prodded them to get more information about their answers

### **3.7 Validity and reliability of quantitative research**

Validity testing will be conducted to see whether the questions are able to collect the desired amount of data (Cohen et al., 2007). Research specialists examine the questions to make sure they elicit the desired response. To determine the validity of the study instrument, a Content Validity Index (CVI) will be computed. To determine the validity of the study equipment, the researcher will apply the formula shown below.

Content validity Index (CVI): Items deemed appropriate by all judges that are relevant  
total amount of things evaluated.

### **3.8 Data management and analysis**

#### **3.8.1 Quantitative data**

To clearly highlight scientific arguments supported by statistical proof, primary data was coded, loaded into a computer, cleaned up, and modified. Descriptive statistics will be easier to cross-tabulate and display as a result. With the aid of software programs like MS Excel, SPSS data will further examined.

### **3.9 Ethical considerations and procedure of data collection**

The following ethical considerations will be taken into consideration by the researcher based on those raised by Callahan (1998):

The School of Business and Administration at Uganda Christian University Mukono will grant a ethical clearance.

Interviewees will be advised that the study is a requirement for the researcher's bachelor's degree and that the bank officials may use the findings to enhance their performance.

The researcher will explain how privacy and confidentiality issues should be handled and will be mindful of how information is safeguarded against unauthorized access as well as whether and how participants should be informed of any unexpected research results that they are not supposed to know.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS

#### 4.0 Introduction

This chapter consists of data presentation, analysis and interpretation of the findings on the themes of the study

#### 4.1 Descriptive analysis of demography

**Table 4.1 Shows the gender of the respondents**

Gender	Frequency	Percentage
Male	18	60%
female	12	40%
Total	30	100

**Source: Field data (2024)**

According to the study's findings, 40% of respondents were women and 60% of respondents were men. The study's conclusions demonstrate that more males work in pride microfinance.

**Table 4.2 Shows the age bracket of the respondents**

Gender	Frequency	Percentage
18-25 years	10	33.3%
26-35 years	10	33.3%
36-45 and above	5	16.7%
45 and above	5	16.7%
Total	30	100%

**Source: Field data (2024)**

According to the survey results, 33.3% of participants were between the ages of 18 and 25, 33.3% were between the ages of 26 and 35, 16.6% were between the ages of 36 and 45, and 16.7% were over 45. According to the study's findings, respondents at pride micro finance are 36 years old on average.

**Table 4.3 Shows the education level of the respondents**

Education level	Frequency	Percentage
Postgraduate	08	26.6%
Degree	10	33.3%
Diploma	12	40%
Total	30	100%

**Source: Field data (2024)**

The findings from the study show that 33.3% of the respondents were degree holders, 26.6% of the respondents were postgraduate holders, 40% of the respondents were diploma holders, the findings from the study imply of the respondents from pride micro-finance are educated.

**Table 4.4 shows the department levels of the respondents**

Education level	Frequency	Percentage
Management	04	13.3%
Loans office	10	33.3%
Clients	12	40%
Support staff	2	6.6%
Total	30	100%

**Source: Field data (2024)**

The findings of the study revealed that 13.3% of the respondents were from the management department, 33.3% of the respondents were from the loans department, 40 % of the respondents were clients and 6.6% were the support staff.

## 4.2. TO EXAMINE THE PRACTICE OF CREDIT ASSESSMENT IN PRIDE MICRO FINANCE LIMITED, MUKONO BRANCH

Table 4.5 examines the practice of credit assessment in pride microfinance limited.

Source: Field data (2024)

	Statement	SA	A	N	D	SD	St De	Mea n
1	Client Identification and Verification:	51.9%	48.1%	0%	0%	0%	.505	1.48
2	Credit History Evaluation	34.6%	50%	15.4%	0%	0%	.687	1.81
3	Income Assessment:	53.8%	0%	0%	46.2%	0%	.503	1.54
4	Loan Purpose Assessment	38.5%	46.2%	15.4%	0%	0%	1.00 7	1.92
5	Collateral Evaluation	69.2%	30.8%	0%	0%	0%	.466	1.31

51.9% of respondents highly agreed, according to the study's findings, that Pride Microfinance had

appropriate loan procedures that include client verification and identification. The same statement and the table above revealed that the mean was 1.48 and the standard deviation was 0.05, even though 48.1% of respondents agreed with the assertion.

The study's conclusions showed that 50% of respondents believed that evaluating credit history was a crucial step in the loan assessment process. 34.6% of respondents strongly agreed with the statement, while 15.4% of respondents were unsure of it. According to the following table, the mean is 1.81 and the standard deviation is 0.687.

According to the study's findings, 53.8% of participants strongly agreed that Pride Microfinance evaluated loans based on income. 46.2% of the respondents disagreed with the statement, despite the fact that it and the previous table indicated that the mean is 1.54 and the standard deviation is 0.503.

Additional survey findings indicate that 46.2% of participants considered the loan purpose evaluation to be a crucial procedure in the loan assessment process. 15.4% of the respondents were unclear despite the fact that the statement and the previous table

indicated that the mean is 1.92 and the standard deviation is 1.007.

The study further revealed that 69.2% of the respondents strongly agreed that Collateral Evaluation was vital in loan assessment as it was strongly impactful to the worthiness of the loan. 30.8% of the respondents also agreed with the statement and however, the same statement and the above table revealed that the standard deviation is 0.466 and the mean is 1.32

### 4.3 CHALLENGES FACED IN RECOVERING LOANS IN MICROFINANCE INSTITUTIONS

**Table 4.6 Assess the challenges faced in recovering loans in microfinance institutions**

	Statement	SA	A	N	D	SD	St De	Mean
1	Poor client's assessment procedures	57.7%	42.3%	0%	0%	0%	.499	1.42
2	There is also a challenge of high inflation rates	26.9%	46.2%	3.8%	23.1%	0%	1.096	2.23
3	Fraud and Misrepresentation	26.9%	65.4%	0%	7.7%	0%	.758	1.88
4	Inadequate Support Services	30.8%	69.2%	0%	0%	0%	.471	1.68
5	failure to react in a timely manner to repay loan	76.9%	23.1%	0%	0%	0%	.425	1.23

**Source: Field data (2024)**

According to the study's findings, 43.3% of respondents and 57.7% of respondents strongly agreed that poor clients' assessment procedures posed a significant obstacle to Pride Microfinance's loan recovery. Nevertheless, the same respondents and the above table also revealed that the mean and standard deviation of the statement are 1.42 and 0.499, respectively.

According to the study, 46.2% of participants concurred that an issue that affects loan appraisal over time is high rates of inflation. Although 26.9% of respondents agreed with the statement, the identical statement and the table above showed that the mean was 2.23 and the standard deviation was 1.096.

According to the study's findings, 65.4% of respondents thought that one of the biggest problems facing microfinance's clients was fraud and misrepresentation. The statement was strongly agreed with by 26.9% of respondents, disputed with by 7.7% of respondents; the standard deviation and mean of the statement, as shown in the above table, are 0.758 and 1.88, respectively.

The study also showed that 69.2% of participants felt that the institutions' capacity to successfully recover loans was hampered by inadequate support services. However, the identical statement and the preceding table revealed that the mean is 1.68 and the standard deviation is 0.471. Thirty-eight percent of the respondents agreed with the statement.

The study further revealed that 76.9% of the respondents strongly agreed that failure to react in a timely manner to repay loan from the client hinder the institutions capacity to create more credit..23.1% of the respondents agreed with the statement and however, the same statement and the above table revealed that the standard deviation is 0.425 and the mean is 1.23.

#### 4.4 RELATIONSHIP BETWEEN CREDIT ASSESSMENT AND LOAN RECOVERY

4.4 Table 4.7 Shows the relationship between credit assessment and loan recovery.

	Statement	SA	A	N	D	SD	St De	Mean
1	Credit assessment helps in identifying potential risks associated with a borrower.	46.2%	53.8%	0%	0%	0%	.503	1.54
2	Assessing a borrower's repayment capacity ensures that they can meet their	57.7%	42.3%	0%	0%	0%	.499	1.42

	financial obligations without undue hardship							
3	Proper assessment of collateral helps ensure that the assets securing the loan are of sufficient value	50%	50%	0%	0%	0%	.505	1.50
4	A comprehensive credit assessment often involves understanding the borrower's financial habits and business practices.	73.1%	26.9%	0%	0%	0%	.448	1.27
5	Credit assessment can identify early warning signs of potential repayment issues.	61.5%	38.5%	0%	0%	0%	.491	1.38

**Source: Field data (2024)**

53.8% of respondents to the study felt that credit assessment assists in identifying potential hazards related to a borrower. However, the identical statement and the preceding table revealed that the mean is 1.54 and the standard deviation is 0.05. 46.2% of the respondents also strongly agreed with the statement.

Additionally, the study showed that 57.7% of participants strongly agreed that determining a borrower's capacity to repay debt guarantees that they won't experience excessive hardship in meeting their financial responsibilities. Although 42.3% of respondents agreed with the statement, the identical statement and the table above showed that the mean was 1.42 and the standard deviation was 0.499.

The study found that half of the participants strongly agreed with the statement that adequate collateral appraisal ensures the assets used to secure the loan are valuable enough. The aforementioned table's mean is 1.50 and its standard deviation is 0.505.

73.1% of participants in the research strongly agreed with that. A comprehensive credit evaluation typically requires an understanding of the borrower's financial activities and business practices. But the same statement and the previous table showed that the standard deviation is 0.448 and the mean is 1.27. Of those surveyed, 26.9% agreed with the statement.

The study's conclusions also showed that credit evaluation can spot early indicators of possible payback problems. This was evident whereby 61.5% of the respondents strongly agreed to the statement, 38.5% of the respondents also agreed to the same statement. The statement exhibited a mean of 1.38 and a standard deviation of 0.491

## CHAPTER FIVE

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter presents summary of the findings, conclusion and recommendations on the topic of the study

#### **5.1 Summary of the findings**

##### **5.1.1 TO EXAMINE THE PRACTICE OF CREDIT ASSESSMENT IN PRIDE MICRO FINANCE LIMITED, MUKONO BRANCH.**

According to the study's findings, a crucial step in the credit assessment process was the thorough investigation of the borrower's creditworthiness—that is, their capacity and willingness to repay the loan—as well as the collateral's value. Pride Microfinance learns that the credit officer considers the borrower's credit history, aptitude to handle stress

or tough situations, current and projected financial situation, and a positive correlation between past and projected repayment ability. This outcome agreed with the findings of Beams (2001). The results also showed that monitoring and evaluating the borrower is crucial. Among other things, it's necessary to evaluate the type of clients being looked for, their credit history, their income and employment history, their stability in work and residence, and their debt-to-income ratio.

### **5.1.2 CHALLENGES FACED IN RECOVERING LOANS IN MICROFINANCE INSTITUTIONS.**

The findings of the study revealed that Borrowers might default on their loans due to financial difficulties, poor business performance, or unforeseen circumstances, making it difficult to recover the outstanding amounts. Economic downturns, inflation, or currency devaluation can negatively impact borrowers' ability to repay their loans, especially in developing regions where microfinance operates. The findings further revealed that Borrowers may lack proper financial management skills, leading to cash flow problems that hinder their ability to make timely repayments. Pride micro finance microfinance clients do not have significant assets to offer as collateral, which can make recovery efforts more challenging if they default. The findings of study showed that there was limited or no credit history for new or small-scale borrowers can make it difficult to predict repayment behavior and manage risk effectively.

### **5.1.3. RELATIONSHIP BETWEEN CREDIT ASSESSMENT AND LOAN RECOVERY**

The findings of the study revealed that Loan recovery practices can significantly impact borrowers. Strict recovery practices may ensure higher repayment rates but can also lead to borrower distress. Conversely, more lenient recovery practices may reduce financial stress on borrowers but increase the risk of default. This was line with the research by (2012 MFIs). The findings further found a positive correlation between assessment and loan recovery. Credit assessment helps in identifying potential risks associated with a borrower. By evaluating a borrower's credit history, income, and business viability, institutions can gauge the likelihood of default. This proactive approach allows for better risk management and strategies to mitigate potential losses.

A thorough credit assessment informs the decision-making process regarding loan approval. By ensuring that loans are granted to individuals or businesses with a high likelihood of repayment, institutions can improve overall recovery rates. Effective credit assessment leads to the setting of appropriate loan terms and conditions, including interest rates, repayment schedules, and collateral requirements. Tailoring these terms to the borrower's financial situation helps in making the loan more manageable and increases the chances of timely repayment.

### **5.3 Conclusions.**

The practice of credit assessment at Pride Micro Finance Limited's Mukono Branch is designed to ensure that loans are granted to creditworthy individuals and businesses while managing associated risks. This process involves a comprehensive evaluation of the borrower's financial situation, including an assessment of their income, credit history, and business viability. By scrutinizing these factors, the branch aims to determine the borrower's ability to repay the loan, which is crucial for maintaining the institution's financial health and sustainability.

In summary, a strong credit assessment process is fundamental to effective loan recovery. By ensuring that loans are granted based on thorough evaluations of creditworthiness and financial stability, the Mukono Branch can significantly reduce the risk of defaults and improve overall recovery outcomes. Addressing the challenges identified and leveraging the insights gained from credit assessments can lead to more successful loan management and recovery strategies, ultimately supporting the institution's mission of providing financial services while maintaining financial health.

### **5.4 Recommendations.**

Based on the examination of credit assessment practices, challenges in loan recovery, and the relationship between these two aspects at Pride Micro Finance Limited's Mukono Branch, the following recommendations are proposed.

Utilize sophisticated credit scoring models and risk assessment tools to better evaluate the creditworthiness of borrowers. This can improve the accuracy of credit

assessments and help in identifying potential risks more effectively.

Offer additional support services, such as business training, mentorship programs, and financial planning assistance. This can help borrowers improve their business operations and financial management, reducing the likelihood of default.

Build stronger relationships with borrowers through regular communication and personalized support. Engaging with clients and understanding their needs can lead to better loan management and recovery outcomes.

By implementing these recommendations, Pride Micro Finance Limited's Mukono Branch can strengthen its credit assessment practices, improve loan recovery rates, and enhance overall operational efficiency. These measures will not only mitigate risks but also support the institution in fulfilling its mission of providing financial services while maintaining financial stability

## **REFERENCES.**

Quarterly Economic Report, Bank of Uganda, Different Volumes

Buck, W.H. (1979); A risk-management strategy for loan and lease pricing Commercial Bank Lending Journal, April, pages 2–15

MBA thesis, Centenary Rural Development Bank University Makerere in Kampala.

CGAP (2012). A Handbook for Microfinance Regulation and Supervision. Group Consultative to Aid the Poor (CGAP). taken from CGAP

Ugandan commercial banks: a case study of the country's financial systems and commercial banks A research proposal that was delivered at the Nairobi, Kenya, AERC workshop.

Karlan, D., and Giné, X. (2014). Filipino Microcredit Lending Groups Provide Both Short- and Long-Term Evidence for Group vs. Individual Liability. Development Economics Journal, 107, 65–83.

Lensink, R., and Hermes, N. (2011). The Effects, Reach, and Sustainability of Microfinance. 39(6) World Development, 875-881.

The International Finance Corporation

Kakuru .J (2000). Financial decision 2uid Edition. The Business Publication Group  
Kampala.

Edminiser (1990), the Banking environment in Uganda in the 1990s, the Uganda Banker  
vol.3 No .2 Kampala.

Kakuru, J (2005); Finance Decision and the Business, 2nd edition

Kasekende, L & Atieng-ego, (1995) Financial Liberalization and its Implication for the  
Domestic

Mbanga, Jeff (22 May 2008). "Pride Microfinance Limited Is On Sale". The Observer(Uganda).

MIX Market. (2014). The State of Microfinance: Outreach, Financial Inclusion and  
Impact. Retrieved from MIX Market

Nsereko, J. (1995); Problems of Non-Performing advances III the Uganda Banker, Vol.3,  
No.1, Pg.26-3 5

Odongo, W. (2004), The Effects of Credit Policies on the Performance of loans by banks  
in Uganda, An MBA research dissertation to Makerere University, Kampala, Uganda.

Pandey (2000), financial management; 8<sup>th</sup> Edition, New Delhi publishers Report; OxfordUniversity  
press.

Pandey (2000), financial management; 8th Edition, New Delhi publishers Report; Oxford

Pandey M (1995), Financial Management and policy; ~ Edition London.

Retrieved 30 June 2014. Narnara, A (2005); the role of lending policy and the access to  
credit by small and micro enterprises in Uganda. An MBA research dissertation to  
Makerere University, Kampala, Uganda.

Sewagudde Eva (2000) the management of loan portfolios and performance of  
indigenous commercial banks in Uganda: A case study of Uganda Commercial Bank  
and centenary rural development Bank, MBA thesis Makerere University Kampala.

## **APPENDICES**

### **APPENDIX I: QUESTIONNAIRES**

Dear respondent,

I am NABAASA DOUGLAS KACURIZA a student of Uganda Christian University Mukono pursuing a bachelor's degree in Business Administration, carrying out research on the relevance of loan recovery on micro finance institution performance. A case of pride micro finance. my humble appeal is that you kindly and honestly fill in this questionnaire without hesitations to enable me acquire vital information for the study. That information will be considered purely academic and will be treated as confidential as

possible.

Your assistance and cooperation are highly appreciated. Thank you

**BIODATA**

**A: Background of Staff**

1. Gender

a) Female ( )

b) Male ( )

**2. Age**

a) 18 – 25 ( )

b) 26 – 35 ( )

c) 36 – 45 ( )

d) 46 – 55 ( )

e) 56 AND ABOVE ( )

4. Department: .....

5. Educational background: .....

**Note:** In the subject column, use the scale provided in the box of the

questionnaire to indicate your opinion. NB: 5=Strongly Agree, 4=Agree, 3= Not

Satisfied, 2=Disagree and 1=strongly disagree.

**NB: 5=Strongly Agree, 4=Agree, 3= Not**

**SECTION B: TO EXAMINE THE PRACTICE OF CREDIT ASSESSMENT IN PRIDE MICRO FINANCE LIMITED, MUKONO BRANCH**

	Questions	Responses
--	-----------	-----------

NO.	STATEMENTS	5	4	3	2	1
1	Client Identification and Verification:					
2	Credit history evaluation					
3	Income assessment					
4	Loan purpose assessment					
5	Collateral evaluation					

**Section C: challenges faced in loan recovery at pride micro finance.**

	Questions	Responses				
NO.	statement	5	4	3	2	1
1	Poor client's assessment procedures					
2	There is a challenge of high inflation rates					
3	Fraud and misrepresentation					
4	Inadequate support services					
5	Failure to react in a timely manner to repay loan					

**Section D: Relationship between loan assessment and recovery**

	Questions	Responses				
NO.	statement	5	4	3	2	1
1	Credit assessment helps in identifying potential risks associated with a borrower					
2	Assessing a borrower's repayment capacity ensures that they can meet their financial obligations without undue hardship					

3	Proper assessment of collateral helps ensure that the assets securing the loan are of sufficient value					
4	A comprehensive credit assessment often involves understanding the borrower's financial habits and business practices					
5	Credit assessment can identify early warning signs of potential repayment issues					

**APPENDIX II: INTRODUCTORY LETTER**



**UGANDA CHRISTIAN  
UNIVERSITY**

A Centre of Excellence in the Heart of Africa

**SCHOOL OF BUSINESS**

12<sup>th</sup> Aug, 2024

**TO WHOM IT MAY CONCERN**

Name: **NABAASA DOUGLAS KACURIZA**

Reg. No **J23B05/054**

A bachelor's student who is seeking permission from your office to collect data for her dissertation titled

**Relevance Of Loan Recovery On Micro Finance Institution Performance: A Case Of Pride Micro Finance.**

We shall be grateful if you could render assistance to him in collecting the necessary data for his dissertation

The Uganda Christian University School of Business thanks you in advance



.....Mukisa

Simon Peter Research  
coordinator