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Loan Management and Performance of Microfinance Institutions, a Case Study of Pride Microfinance, Nansana Branch, Wakiso District.

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Abstract: *This research was done to look at how microfinance institutions handle their loans and perform. An analysis of the Nansana branch of the Pride Microfinance Institution. To investigate how record keeping impacts financial markets' profitability, particularly Pride microfinance, Nansana branch; to ascertain how debt payment affects those organizations' operating efficiency, particularly Pride micro - finance, Nansana branch; and to decide the connection between loan monitoring and financial management at those organizations, particularly Pride micro - finance, Nansana branch. According to study results, administration practices in lending banks impact default rates. Institution factors account for 30% of survey respondents. Out of 25 respondents, 15 (or 50%) said it was difficult to obtain a loan from one of the Pride Microfinance banks. This proves that there are no administrative hurdles in the way of clients taking loans and repaying them. Nevertheless, 30% of respondents said there were some inconsistencies in acquiring these loans, particularly because Pride Microfinance occasionally required security, which they did not have. The idea that loans may be utilized for other reasons should not be disregarded by planners. Both MFIs and cooperatives must comply with this. The notion that it is feasible to direct funding to particular activities that one may believe to be the most fruitful and helpful for beneficial projects is unfounded. Credit shouldn't be considered a resource with an either a direct or indirect impact on output, similar to seed or fertilizer. Instead, the lenders should make sufficient arrangements and commitments to guarantee that the money was put to its intended purpose. Hence, investors should make sure that lenders engage in ventures they view as fruitful.*

Keywords: **loan management and performance**

Background of the study.

Mohammad Yunus, a founder of finance in Bangladesh, created the concept to help low-income women and men create microbusinesses for their growth in the economy. Political agendas around the world are becoming more and more concerned about poverty because of the persistence of poverty, even in the richest countries, and the growing impatience with it (Mwangi et al, 1998). Small farmers in rural areas of many developing countries have been receiving credit subsidies from governments as well as foreign aid donors. Several reduced persons were able to obtain financial services because to these private loans from donor Non-Governmental organisations (NGO's).

In most communities across Africa, microfinance, formerly referred to as conventional savings, is the primary source of funding for rural areas. The African history, as according Aghion and Morduch (2009), implies that MFIs have drawn on pre-existing informal processes (among the many examples given are pride finance) to establish workable routes for capital injections from informal sector banks, donors, and governments. As a result, all payment MFIs have forged closer relationships with established commercial banks and other non-bank financial institutions operating in the regulated market. Because their client bases are so very varied, banks and MFIs work well together. While MFIs provide financial assistance to underprivileged and rural households as well as often-formalized small business owners in Africa, banks primarily lend money and collect deposits from the country's tiny formal private sector.

International companies are recognizing that MFIs, especially in programs aimed at alleviating poverty and intimate knowledge of the needs and interests of the poor, are genuine and effective avenues to assure program implementation efficacy (Chakravarty &shahriar;2010). In mid-1996, the Sustainable Banking with the Poor project (SBP) of the World Bank projected the existence of over 1,000 financial institutions operating in over 100 countries, each with a minimum of 1,000 clients and three years of expertise. In a survey of these organizations from 2006, 73% were NGOs, followed by 13.6% credit unions, 7.8% banks, and the remaining saving unions

Statement of the problem.

One of the most well-known financial entities in the nation is the micro finance sector. According to Tom Thunstrom (2021), there are more over 10,000 microfinance organizations worldwide. The Wakiso region of Nansana municipality is home to roughly 20 of these institutions.

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Despite the fact that microfinance have helped advance goals for sustainable development like gender equality by empowering women through microfinance (Lock and Lawton Smith, 2016) and by providing financial resources to support long-term and all-around growth in the economy (Zapalska et al., 2017), strategically speaking, microfinance institutions play a role for the poor in creating their own microbusinesses in order to escape poverty.

Although MFls are highly useful to the underprivileged people, many of these institutions have difficulties that have an impact on their production and operation (ousoombangi, 2018), including theft and abuse by lenders in Uganda's microfinance marketplaces (Csm Duggan, 2016), Challenges that microfinance experienced in 2016 included high transaction costs, a lack of accessibility, and expensive outreach costs. To offset the significant risk of lending money to the poor and to address sustainability and growth concerns, microfinance organizations charge high interest rates on their loans. People in Nansana municipality, Wakiso district, are affected by this. The aforementioned difficulties make it necessary for the investigator to do study on the performance and loan management of microfinance organizations using a case study.

Specific objectives of the study.

1. To examine the effects of record keeping on the increased profitability of microfinance institutions especially Pride microfinance Nansana branch.
2. To determine how loan repayment affects the operational efficiency of microfinance institutions especially Pride microfinance Nansana branch.
3. To identify the relationship between loan monitoring and Financial management of microfinance institutions especially Pride microfinance Nansana branch.

Research Questions

1. What are the effects of record keeping on the profitability of microfinance institutions?
2. How does loan repayment affect the efficiency of microfinance institutions?
3. What is the relationship between loan monitoring and productivity of microfinance institutions?

Methodology

Research Design

The study involved both male and female clients with various demographic features, using cross sectional and descriptive methods. As a result, the study examined several groups of people in greater detail based on a variety of traits in a sizable population. In order to comprehend the research problem better, it used both qualitative and quantitative data collection techniques. administers structured questionnaires for the purpose of gathering quantitative data on the independent and intermediate variables. Using qualitative techniques, in-depth data was collected from informants. The Pride Microfinance loan officers participated in the focus group talks. Each groups provide the investigator with details about the intermediary factors, according to Nansana Branch (credit methodology, group guarantee and administration). Extensive review of relevant sources of information in institutional credit (MFIS) and non-institutional credit (informal lenders) was done with specific reference to loan management.

Sample size and sampling Design.

The study sample of 30 respondents was derived from the accessible population of 33 respondents using Sloven's formula specified in Amin (2005)

The sample size was calculated using Slovene's formula as follow; $n=N/1+N\,(e)^2$

Where n=sample size N=Total population $(e)^2$ = margin of error therefore,

$n=N/1+N\,(e)2$

Where, $n=33/1+33(0.05)2$

$n=33/1.125$

$n=30$

Figure 1: population of the proposed study.

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Category of respondents	Population
Bank Employees	07
Clients of the bank	23
Total	**30**

Source: field survey, 2021

Sampling Techniques and procedures
The researcher used sampling methods like probability sampling, Non probability sampling and purposive sampling.

Probability sampling

Because it uses random sample, you can draw significant statistical conclusions about the entire group.

Every member of the population has a possibility of getting chosen when sampling using probability. In quantitative studies, it was mostly employed.

The researcher chose sampling techniques because it is the most reliable method for producing data that are representative of the entire population.

It was applied by breaking the population up into smaller groups, but each subgroup had to share the same traits as the entire sample.

The risk of systematic bias was reduced by random selection, but the process might be tedious and time-consuming.

Non-probability sampling

Here, the people were chosen using quasi criteria, so not everyone had an equal chance of getting chosen. Quasi sampling was more accessible and less expensive, but there was a greater chance of sample bias.

Through the use of their knowledge, the researchers selected a sample that would be most beneficial to achieving their goals. It was employed because the researcher preferred to learn in-depth information about a particular phenomenon versus drawing general conclusions from statistics.

Despite its high levels of bias and low dependability, the purposeful approach was time and cost-effective.

Data collection instruments
A questionnaire

Is an instrument for research, which consists of a list of questions, along with the choice of answers, printed or typed in a sequence on a form used for acquiring specific information from the respondents

It was employed to guarantee that a broad range of the subject is addressed. Primary data were gathered using a self-administered questionnaire that included both open-ended and closed-ended questions to gather information from the study participants. The survey was self-filled by the respondents. Using this questionnaire tool, information from Pride Microfinance Bank workers was gathered. The technique was adopted because it offered a high level of secrecy and allowed study participants to respond to the questions whenever it was appropriate for them. By making these surveys available to members, employees, and some supervisory committee members, this process was made easier. And as a result, this contributed to the study's data collection. Interviews was given to the credit officers in the loans department both in group loan banking section and business loans section, other departments that interface, customer care advisor and management to ensure that particular question are answered and this was carried out by use of face to face interviews.

The researcher faced the following challenges in using this instrument; Dishonest answers, un answered questions, Differences in understanding and interpretation, hard to convey feelings and emotions.

Observation

It is a method of getting data through observing behavior, events, or noting physical traits in their natural environment. These techniques of data collecting were selected for their ease of use and high likelihood of producing data that was somewhat accurate.

It was chosen as it does not rely on participants' willingness or capacity to provide accurate information; as a result, the interviewers' bias is either eliminated or significantly reduced. So, data gathered by observation are often more accurate and objective.

The following obstacles have to be overcome by the research scientist: it is more costly; it is impossible to witness something, such attitudes.

Research procedure

The researcher respect human dignity by not revealing the identity of the respondents in the study. The letter of introduction was got from the University seeking permission to conduct the study after being directed by the supervisor to do so. This letter was also presented to the Branch bank manager (Pride Microfinance, Nansana) for permission to conduct the study. The researcher was given the permission to collect data and thereafter was able to write the final study report.

Data analysis

Data was analyzed using the Pearson's coefficient of correlation since there was an existence of a relationship between loan management and performance of microfinance institutions that was bi-variant analysis using SPSS because of the variables that were involved; independent variable -Loan management and Dependent-performance of microfinance institutions.

RESULTS

Findings on gender of respondents

Table 1: Showing Gender Respondents

Gender	Frequency	Percentage
Female	17	57
Male	13	43
Total	**30**	**100**

Source: Primary Data 2021

Table 1 above reveals that 57% of respondents are female and 43% are male. This illustrates that women continue to outnumber men in positions of responsibility in financial institutions and other businesses. Compared to men, more female respondents (57%) said that financial firms are willing to lend money to women. This can be explained by the fact that credit programmes explicitly target struggling female farmers and businesspeople who, in contrast to their male counterparts, are more willing to repay their debts. A female borrower will never miss her deadlines for making loan payments. One of the Kls responded by saying, "Male lenders are liars; they flee with the money, however the female lender is good.

Findings on Age of Respondents

Table 2. Showing Age of Respondents

Age	Frequency	Percentage
25 and below	6	20
26-36	6	20
37-47	8	27
48-58	10	33
Above 58	00	00

Total	**30**	**100**

Source: primary Data 2021

Table 2 shows that above 33 % of the respondents were aged 48 years and above and others were aged between 26 and 36 (20%), 37-47 (27%) and 25 and below (20%). By implication, majority of the respondents being mature meant that they were informed and knowledgeable about the Loan management and operation of Microfinance Institution in Uganda. This can be interpreted that repayment is based on the fact that upon completion of loans, the borrowers can access other loans. The more elderly a borrower is; the more importance he/she attaches to a loan as can be reflected in 33% of the age group above 48-58 years for both institutions.

Table 3: Showing marital status of the respondents

Respondents	**Frequency**	**Percentage**
Married	19	63
Single	11	37
Total	**30**	**100**

Source: Primary Data, 2021

From Table 3 above, 19(63%) of respondents were married and 11(37%) we're single respondents. This implies that pride microfinance institution has more married clients than single ones. ln an interview with some customers they argued that family responsibilities and needs drive them to interact with financial institutions to make ends meet thus loans according to study' establishment went to married clients because they cannot easily leave their homes to avoid loan repayments and in case one partner fails to pay, the other one is liable of payment more so other items like deposits are made most often by married persons compared to single ones.

Findings on duration of the service of the respondents

Table 4: showing the duration of the services of the respondents

Period	**Frequency**	**Percentage**
Below one year	06	20
1-2 years	04	13
Above 3 years	20	67
Total	**30**	**100**

Source: Primary Data, 2021

Table 4 shows that 67% of the respondents indicated that they have been engaged with their respective department for a period of 3 years and above while others were engaged with 20 Departments below 1 year (20%) and 1-2 years (13%). ln all, majority, 67% indicated that they have been engage with the institution for the last three years.

Table 5: Showing education levels of the respondents

Education level	Frequency	Percentage
Primary	05	17
Secondary	10	33
Tertiary	08	27
University	07	23
Total	**30**	**100**

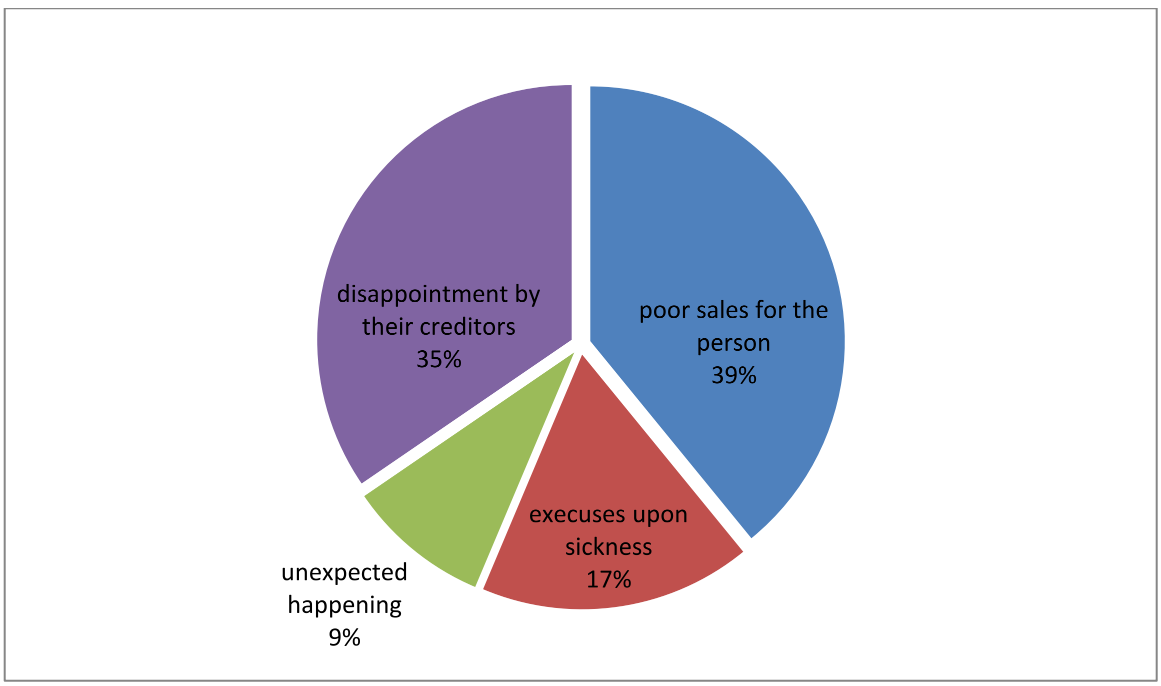
Source: Primary Data, 2021

The bulk of participants, as shown in Table 5, had undergraduate and graduate levels, with the least number coming from elementary and undergraduate levels of study. This is represented by 05 (17%) respondents who completed primary school; they were primarily clients of Pride Microfinance Nansana. 10 (33%) participants who completed secondary school were also clients of Pride Micro - finance - Nansana. More specifically, 08 (27%) respondents completed tertiary education, and 7 (23%), graduates with degrees; they were primarily staff members of the organization and a small number of clients. This demonstrates that Pride Microfinance Nansana has educated workers who can implement the institution's policies for effective processes that result in the delivery of superior services, ensuring a secure competitive position in the market.

The factors responsible for loan default management by clients of microfinance institutions

This deals with interviews conducted with a sample questions to elicit information from clients as to various reasons that account for their inability to repay their loans on time. Below is the figure for various reasons clients assigned for default on payment.

Figure 2: Showing the reason for loan default from clients



Source: primary data 2022

Figure 2 gives some of the reasons for default of payments. It is exposed that poor sales for the period was assign as the prime reasons for default, disappointments by creditors of clients is also a major contributing factor, excused upon sickness or bereavement, unexpected happenings and goods of clients. It is evident that, unexpected happenings are the least among the major's contributors of default of payments due to the fact that, it is the least to happen as it does not regularly happen as the other factors.

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Table 6: Trend of loan losses and default management

Trend	Frequency	Percentage
Increasing	24	80
Decreasing	5	17
Constant	1	3
Total	**30**	**100**

Source: Primary Data 2021

Table 6 shows that 80% of the respondents indicated that there was an increasing trend in the rate of loan losses and default. The respondents who indicated that the rate of loan losses and default was constant and decreasing respectively were not actively involved in the loan administrations and therefore had scanty information about the Loans department

The factors responsible for loan default by clients of microfinance institutions

Analysis of the study findings revealed that there are many factors that affect loan management. Many of the factors presented in this chapter include socio-economic background of clients and causes of loan default like institutional, client related, Geo environmental and market related factors.

Table 7: showing the factor responsible for loan default by clients of microfinance institutions

Loan default factors	Frequency	Percentage
Institutional factors	15	50
Clients related	06	20
Geo environmental	06	20
Market related	03	10
Total	**30**	**100**

Source: Primary Data 2021

According to study results, administration practices in lending banks impact default rates. Organizational factors account for 30% of survey respondents. Out of 25 respondents, 15 (or 50%) said it was difficult to obtain a loan from one of the Pride Microfinance banks. This proves that there are no administrative hurdles in the way of clients getting loans and repaying them. However, 30% of respondents said there were some inconsistencies in acquiring these loans, particularly because Pride Microfinance occasionally required security, something they did not have. The following FGD explained this well: "Even though the group guarantee method is employed, residents pay for one another, but the defaulters fail to pay the group, some products must be obtained from them to be sold to.

Relationship between loan management and MFI performance at Pride Microfinance

Table 8: Showing if there is a relationship between Loan default and MFl performance at Pride Microfinance

Response	Frequency	Percentage
Yes	27	90
No	03	10
Total	**30**	**100**

Source: Primary Data 2021

As illustrated in the table 8 above, all the study respondents 50(100%) were able to indicate that there is a relationship between loan Default and MFI Operations at Pride Microfinance as none of respondents was in a disagreement with the same statement. And a yes or no response question was administered According to findings majority of respondents argued that the relationship existed hence responded yes to the examination question. However, these same respondents argued that the kind of relationship as either positive or negative depending on how customers are managed as revealed in Table 9.

Table 9: Table showing the relationship between loan default and MFI performance at Pride Microfinance

Response	**Frequency**	**Percentage**
Goods supervision and monitoring	13	43
Peer pressure also minimizes default	09	30
Cost effectiveness of group lending	08	27
Total	**30**	**100**

Source: primary data 2021

Out of the respondents who asserted that good supervision comprised of frequent visits the majority 43% were from Pride microfinance institutions. This partly explains why formal financial institutions have better repayment rate than informal ones.

Conclusion

Lenders will never have complete knowledge of the traits of their customers or maintain complete control over their behavior. For MFIs, this is true. However, there are times when reimbursement is dependent on elements under the control of the lending institutions, such as dependability, the level of service provided for the loan, the clarity of the repayment expectation communicated, administrative effectiveness, and the growth of a close, almost personal relationship with the client.

Loan defaults and loses were happening more frequently. This was caused by the high bond yields, the type of the businesses that sought for loans, and their awareness of those rates. Pride Micro banks risk being left behind for their loan portfolio to rivals if strategic actions are not taken to reverse this trend.

In order to get around the constraints of the most simple organisations, it is essential to promote the emergence of these organizations at the lowest levels and to strengthen the coordination and links between organizations, as well as between the formal and informal sectors. For Pride showed a strong organizations, this is accurate. In contrast to MFIs, cooperatives are more focused on its members, which results in stronger member ties. Cooperatives are, thus, a superior borrowing option than MFIs.

Recommendations

Participants should make sure that heavily discounted interest rates are eliminated because they have an impact on loan repayments. The borrowers frequently take this subsidy as a sign that the credit is a gift or welfare transfer that does not need to be returned. For instance, governments can purchase political support by providing subsidized credit to local elites. These loans have a stronger relationship to political rewards than to financial entities.

The idea that loans may be utilized for other reasons should not be disregarded by planners. Both MFIs and cooperatives must comply with this. The idea that it is feasible to direct funding to specified activities that one may believe to be the most fruitful and helpful for beneficial projects is unfounded.

Credit should not be seen as an input, similar to seed or fertilizer with direct casual effect on production. Rather, there should be sufficient commitment and arrangement by the lenders to ensure that the loan was used for the purpose it was meant. Hence stakeholders should ensure that borrowers invest in activities that they consider productive.

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