Credit Management as a Predictor to the Sustainability of Microfinance Institutions: a portfolio quality analysis

Teneng Hippolyte NKENG

Higher Institute of Management and Entrepreneurship, Center for Research, Entrepreneurship, Manager and Innovation in Africa (CREMIA) Cameroon, tenengh675@gmail.com

Enna Nuobia KEHDINGA

Department of Accounting and Finance, Faculty of Economics and Management, University of Dschang, Dschang, Cameroon, k.nuobia98@yahoo.com;

Abstract

Purpose: This study was carried out to understand the relationship between credit management and the financial performance of Micro Finance Institutions, taking a sample of 43 MFIs administrators in the towns of Dschang, Mbouda and Bafoussam of Cameron.

Method: The study applied a quantitative research design, where questionnaires were used. Data was collected from both primary and secondary sources. Data was processed and analyzed using formal, tables, pie charts, multiple linear regressions, and Anova, chi-squared, Cronbash's Alpha, Pearson tests were carried out to understand the relationship between credit management and financial performance Microfinance Institution in Cameroon. A total of 43 respondents were considered out of the entire population.

Findings: Findings indicate that credit policies, debt recovery technique mechanisms are significant and positively related to the portfolio quality of MFIs in Cameroon. More specifically, good lending policies such as proper study of the loan documents, group liability, monitoring repayment frequency would increase financial performance. In addition, recovery techniques such as constant customer reminder, prolonging recovery period, penalties etc, enabled MFIs to perform financially well.

Originality value: This study explores and shed light on an important factor responsible in majority for the unpaid installment debts in the Cameroon context; the MFI itself through the personal and friendly relationships with clients. Thus, we provide practical strategies for the recovery of these debts till the last franc. In addition, we show that these strategies increase MFI's sustainability across their profitability.

Key words: Debt recovery, Debt policy, Recovery techniques, Profitability, Sustainability

La gestion du crédit comme prédicteur de la pérennité des institutions de micro finance : une analyse de la qualité du portefeuille

Teneng Hippolyte NKENG - Enna Nuobia KEHDINGA

Résumé

Objectif : Cette étude a été réalisée pour comprendre la relation entre la gestion du crédit et la performance financière des Institutions de Micro-Finance, en prenant un échantillon de 43 administrateurs d'IMF dans les villes de Dschang, Mbouda et Bafoussam du Cameroun.

Méthode : L'étude a appliqué une conception de recherche quantitative, où des questionnaires ont été utilisés. Les données ont été recueillies auprès de sources primaires et secondaires. Les données ont été traitées et analysées à l'aide de tableaux formels, de camemberts, de régressions linéaires multiples et de tests telles que l'Anova, le chi 2, l'Alpha de Cronbash et Pearson ont été effectués pour comprendre la relation entre la gestion du crédit et la performance financière des IMF au Cameroun. Un total de 43 répondants a été considérés sur l'ensemble de la population.

Résultats : Les résultats indiquent que les politiques de crédit, les mécanismes techniques de recouvrement de créances sont significatifs et positivement liés à la qualité du portefeuille des IMF au Cameroun. Plus précisément, de bonnes politiques de crédit telles que l'étude appropriée des documents de crédit, la responsabilité du groupe, le suivi de la fréquence de remboursement augmenteraient la performance financière. En outre, les techniques de recouvrement telles que le rappel constant des clients, la prolongation de la période de recouvrement, les pénalités, etc. ont permis aux IMF de bien performer financièrement.

Valeur originale : Cette étude explore et met en lumière un facteur important responsable en majorité des dettes d'échéances impayées dans le contexte camerounais ; l'IMF elle-même à travers les relations personnelles et amicales avec les clients. Ainsi, nous fournissons des stratégies pratiques pour la récupération de ces dettes jusqu'au dernier franc. De plus, nous montrons que ces stratégies augmentent la pérennité des IMF à travers leurs rentabilités.

Mots clés : Recouvrement de créances, Politique de crédit, Techniques de recouvrement, Rentabilité, Pérennité

Introduction

Business markets in Africa, and in Cameroon in particular, have witnessed a series of event-based shocks in the past 10 years. Borrowers at the bottom of the pyramid are particularly vulnerable to such shocks. Events like the NOSO crisis[1], Insecurity in the North (Boko Haram insurgencies), Covid 19, have made it difficult for the repayment of multiple outstanding debt installments. Hence, their repayment behaviors have experienced a dramatic negative impact leading to a period of volatile collection process for Microfinance Institutions (MFIs henceforth).

The volatility in the process of debt recovery has resulted in a relatively slow rate of growth and has also kept the cost of credit high. The difficulty MFIs have in recovering debt from clients makes it difficult for them to always have funds available to lend. This leads to a slower rate of growth than would have been desired by the institutions (Obeng and Yao Krah, 2016). This sector works as a facilitator for achieving sustained economic growth through the provision of efficient monetary intermediation (Paudel*,* 2005).

Debt recovery is a very important component of the financial sector as it plays a key role in ensuring that the main objectives of the MFIs results into the desired outcome of making a margin out of the loan advanced. Debt recovery is the process of pursuing loans which have not been repaid and managing to recover them by convincing borrowers to repay their outstanding loans. Normally, this role of recovering loan is not an easy task as borrowers would go out of their way to prove inaccessible to the lender.

It is evident that the debt recovery puts pressure to the borrower to pay up else they get the dreaded calls from MFI officers through the debt recovery unit (Bennet, 2008). Debt recovery unit is involved in the day-to-day role of ensuring that the loans issued to the customers are been repaid as per the schedule of contract signed by the customer and the institution. The Key Performance Indicator (KPI) is the most used indicator when it comes to debts collection. However, this indicator is used to evaluate a Financial Institution’s success in reaching its targets. It uses operators such as: outstanding day’s payment (DSO), collector effective index (CEI) right part contact (RPC) and many more. The better the recovery strategy, the better the profitability of the MFI.

In recent years, lending risk and recovery strategies have gained focal importance because of huge financial losses faced by big international financial organizations (Nikolaidou and Vogiazas, 2014). The commercial banking sector and MFIs have adopted additional steps since the financial crisis to avoid any future financial losses caused by mismanagement in loan allocations and credit recoveries. Commercial banks were the most affected. Such problems can be addressed using credit risk management. In today’s financial institutions, lending policy is an essential part of a comprehensive risk management strategy (Arora and Kumar, 2014). The ability to control client credit lines wisely and profitably is a critical requirement for viable risk management. MFIs must have a better awareness of their client’s budgetary quality, financial assessment history, and shifting installment designs to limit the introduction of awful debt, over-saving, and liquidation (Nkusu, 2011). An agreement’s credit management will continue until the final installment is paid in full (Moti and al., 2012). In other words, the bank’s loan policies may alter in response to shifting financial conditions. Even though numerous studies have been done on credit risk management, this problem has rarely been examined from a Cameroonian viewpoint. Appropriate lending policies and recovery measures have a significant impact on financial performance, and this is becoming increasingly apparent.

[1]The North West and South West crisis is an Anglophone crisis that started in November 2016, where the Anglophones (Ambasonians) are claiming separation from the West of Cameroon.

Commemorated in the year 1990 following the great financial crisis in the sub region in the 80s, MFIs, which has as principal mission to reduce poverty, has become today a true deception to lots of Cameroonians. Because it is created today and tomorrow it is no more in an alarming rhythm. In July 2007, Godly Businessmen Fund (GBF) opened the door of bankruptcy. On the 21st of February 2011, was declared bankrupt. A similar case in August 2012 with the FIFA Bank, not leaving out the case of COMMECCI and Crédit Mutuel in the year 2017 and 2019.

At the same time, however, there remains variety in MFIs in terms of their financial sustainability. According to Per Cull and al., (2016), only half of the MFIs listed in the so-called MIX Market dataset are financially sustainable[2]. The number of financially sustainable MFIs is probably even smaller since the existing dataset may be biased towards more profitable and established MFIs. In most cases, these are larger, mature, regulated and relatively well-known MFIs according to the Deutsche Bank's report in 2007. The non-profit NGOs are still the main type of MFIs, representing almost half of the total number of MFIs (D'Espallier and al., 2017). The median level of financial sustainability does not differ much between non-profit and/or non-governmental organizations on the one hand and for-profit or microfinance banks on the other hand (Cull and al., 2016). The remaining group of MFIs consist of smaller, start-up organizations, which are still far from being financially sustainable and are therefore (heavily) dependent on subsidies.

Due to such high dead rate of MFIs in the Cameroon context, still living behind the less privileged households and very small enterprises without loan opportunities because the ones existing are not effectively capable of following and recovering to the last installments of the debt, this study brings insight and practical tips that will go a long way to help 2nd and 3rd degree MFIs to remain sustainable. The main objective of this piece of work is to understand how credit management can affect the portfolio quality of MFIs in Cameroon. In other words, how does the lending policies and debt recovery techniques put in place by MFIs affects their profitability.

The remainder of this study is structured as follows. The next section outlines theoretical and empirical research, followed by the research question of this study. The section thereafter introduces a framework and details the research design and statistical methods are then detail, followed by the results and analysis. The final section presents the conclusions, directions for future research, and limitations of this study.

2. Literature review and research questions

Over the past thirty years, MFIs have emerged as a viable development program by providing small loans[3] to the underprivileged people, who are written off by the commercial banks as being un-credit worthy and unprofitable (Armendáriz and Morduch, 2005; Yunus, 2017). MFIs mainly assists the destitute rural population to scale up their economic conditions by creating self-employment (Yunus, 2007). This provisional financing system is proven to have positive impacts on the poverty reduction scheme, household wellbeing as well as sustainable development (Agbola, Acupan, and Mahmood,

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[2] The MIX market is a global web-based microfinance information platform. It provides financial data, organizational data and profiles of more than 2,000 MFIs located in over 100 countries around the world. See the following webpage: www.mixmarket.org

[3] The loan size ranges from USD 50.00 to several hundred (BRAC, 2016; Rosenberg, 2010)

2017; Doocy, Teferra, Norell, and Burnham, 2005). Because it deals with three specific issues, such as poverty, labour mobility and repayment (Armendáriz and Morduch, 2005).

One of the greatest challenges affecting MFIs is profitability and hence sustainability. The performance of MFIs possesses a lot of difficulties pertaining to the fact that it is out to alleviate poverty. They concentrate on poverty alleviation more than their financial well-being. This notion of performance has been the bone of contention between the Welfarist school of thoughts who to them the MFI should stick to its objectives of poverty reduction and not take into consideration who bears the cost or not, and the Institutionalist school who stipulate that MFI should look for a means of financial self-sufficiency to sustain its operation and not to depend always on the government and donor aids.

Most of the financial institutions utilize debt in different ways to influence the investment made on their assets which influences the return on equity. This influence the amount of debt equity and is considered significant in influencing the investment riskiness; the higher debt per equity, the riskier the investment is. For both financial institutions, individuals and companies, this increased risk can lead to poor performance/results, as the cost of servicing the debt can develop beyond the repay capacity due to internal difficulties or due to poor resource management or income loss (Swason and al., 2008). Ideally, debt recovery techniques have been used as a legitimate and necessary organizational activity where collectors and creditors can take reasonable steps and procedures to secure payment from businesses or customers that are bound legally to repay the cash which they owe.

Debt recovery in MFIs plays a very important role in the strength and survival of the Institutions. It has been established that while most debts are declared bad and unrecovered by the institutions, some of the debtors on their part explained that the MFIs did not show serious commitment in recovering the debts, and that is why debtors are not keen in repaying. Also, recent happenings have indicated that a large portion of MFIs bad debts was in current through loans backed by director and top executives of the institution, loan given out on the terms of confidence and connivance relationship. Mostly, the customers on their part in their quest to receive loans from the MFIs bring up business plans which are not very realistic and the asymmetric information from the customers and their credibility is undefined. This notion of giving out loans to clients based on relationship scheme is questionable at the level of the institutions performance.

The demand of loan at the end of the year 2012 contracted by SMEs and households towards MFIs increased greatly by 12.8% in average. Despite this increase, the supply of loans experienced a decrease of 5% in average. Others attributed this bad performance to the nature of small loans given out characterize by a high cost of follow up. This follow up is necessary to resolve the problem of asymmetric of information, but its intensive utilization enriches the debt rate and aggravates the problem of rationality of credit (Stiglitz and Weiss, 1981). It should be noted that the problem of asymmetric information is mostly the cause of delinquency in repayment. This is because the customers mostly divert the purpose of the loan. Loan deviation does not occur after the loan has been given out but it exists at the back of the customers mind even before he goes to obtain the loan.

Debt recovery is the process of pursuing loans which have not been repaid and managing to recover hem by convincing the loamiest to make attempts to repay their outstanding loans. Normally, this role of recovering loans is not an easy task as clients will go out of their way to prove inaccessible to the lender. The MFI in most cases has a debt recovery unit which oversees following up loans and make attempts to recover the loan. To recover their debts effectively and efficiently, most institutions under the financial sector including MFIs, apply a set of strategic techniques.

Nzotta (2004), opined that loan management greatly influences the success or failure of an MFI and other financial institutions. This is because the failure of deposit is influenced by the quality of credit decisions and thus the quality of the risky assets. He further notes that credit management provides a leading indicator of the quality of the deposit credit portfolio. A key requirement for effective credit management is the ability to intelligently and efficiently manage customer credit lines. To minimize exposure to bad debt, over reserving, and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns. This work of Nzotta is limited to the fact that it looked at loan default only from the client's perspective and not taking in account the hidden information from loan officers. Loan officers at some instance due to their personal relation with the clients, cover up the clients in order to aid them get the loan.

Various studies done on debt recovery includes the works of Elias and Gert (2018) on time regime in debt collection and mediation showing the impact of time on debt collection. This work was based mainly on the effect of time in the temporal collection of debt. This work used only time as a factor of recovery. Nzongang and al., (2010) in the determinants of loan delinquency in urban MFIs: the case of MUFFA (Financial Cooperative of African Women) in Cameroon elaborated the factors that determine loan delinquency in MFIs. This work only looked at customers, and ignored the fact that loan default could also generate from the loan officers themselves due to poor management of information, over confidence in the customer's information.

However, one factor or indicator cannot single hand the financial performance of an MFI. In other words, we cannot base our conclusion of financial performance by just looking at one indicator. The Cameroon MFIs sector, as any other financial sector in the world, deals highly with risk in its everyday management because there are factors that are not under the control of managers such as globalization, world changes or market variables like price changes or stock exchange trend**.** Historically, the financial sector in Cameroon has always been subjected to risks. These risks have led many financial institutions to difficult situations (COFINESS, FIFA COMMERCI, CREDIT MUTUEL…). The careful management of this risk has always led to the survival in the financial sector. Many Cameroonian financial houses handle these risks daily in order to grow encounter rapid changes. Therefore, risk must be understood and carefully manage for a proper decision making in the Cameroonian financial system.

2.1. Theoretical foundations

This phenomenon is explained by the Modern Portfolio Theory developed by Markowitz (1959). At the heart of this theory is the notion of risk and return. The MPT holds that risk and return are directly linked, meaning that an investor must take on higher risk to achieve greater expected returns. Also, this theory looks at the idea of diversification as a tool of ensuring security of various types, this may reduce the overall risk of the institution's portfolio. If an investor is faced with two portfolios which offers the same expected return, the rational decision is to choose the portfolio with the lower amount of total risk. The modern portfolio theory explains that different components of portfolios which plays different roles in expanding the overall value of the total portfolio. The specific value gained from each component of the portfolio includes the ratio of contribution to the portfolio outputs like the resale value, safety, reliability and comfort. It also includes the value that customers get from a product in relation to inputs like the price and running costs that customers must convey in exchange. The derived value of efficiency can be understood as the customer's return investment. Therefore, the debts that

have created products offering a maximum customer value are like other alternatives which are efficient and experience little possibilities of default and vice-versa (Breaker and Myers, 2005). In other words purpose of the loan and the nature of the customer will determine its defaults risk or not.
This theory suggests that debt recovery techniques from the perspective of the debtor, is determined by the value that the debt has added to the existing portfolio of investments. Since the 1980s, companies have productively employed a portfolio theory that is modern to market risk. Many companies are now using value at risk models to control their market and interest rate exposures. Unfortunately, however, although credit risk remains the biggest risk challenging most organizations, the duty of applying modern portfolio theory to credit risk has lagged (Lough, 2009). Financial institutions recognize how debt recovery techniques can adversely impact the performance of financial institutions. Due to this, most of the financial institutions are aggressively employing different approaches to debt recovery.

2.2. Empirical review

Olokoyo (2011) in his study on determinants of commercial bank's lending behavior in Nigeria considered the effectiveness of loan appraisal in assessing the borrower's character and behavior before advancing the loan facility and how it influences financial performance of the commercial banks in Nigeria. The study suggested that commercial banks should focus on mobilizing more deposits as this will enhance their lending performance through the liabilities they receive where proper appraisal could help identify liabilities to be used in making quick return on investments to positively influence on financial performance of these banks. The study showed that there was a gap of lack of credit appraisal methods before loans were advanced.

Olomola (2002) observed that the increased number of financial institutions over- stretched their available human resources capacity which resulted into many problems such as poor loan appraisal system, financial crimes, and accumulation of poor asset quality which led to increase in the number of distressed FIs. The study showed that proper decision making, and adherence of credit appraisal was not prudently followed as stipulated. However, it should be noted that in the quest to gain popularity and more market shares, MFIs goes out its way and under apply the loan appraisal policy.

Sheilah (2011) commented that, the ability of commercial banks to promote growth and financial performance depends on the extent to which financial transactions are carried out with trust, confidence and least risk. This requires sound and safe loan appraisal to assess and unearth the financial character of the loan applicant before any step is undertaken. This will dictate on the conditions to be applied on the loan covenant to help curb bank–customer relationship that may have positive influence on financial performance of the commercial banks in Uganda. Sheilah is of the view that proper and adequate loan appraisal is the key to controlling or managing the level of income interests hence return on assets as well as return on equity therefore positively influencing on financial performance. The study established that loan appraisal didn't adequately assess the value of assets to be invested on customers apart from return on equity to guide the execution of appropriate credit decision.

According to Nyorekwa (2014), on the study of effectiveness of lending policies on financial performance of the banking sector in Tanzania observed that before lending out money, a bank has to assess all important factors that have a bearing on the financial soundness of the customer as well as the returns expected to be generated from the loan assets prime focus being the purpose and need of the credit and ability of the borrower to repay the credit advanced as per the terms of the loans. The borrower's character, experience, and competence to manage the business and to utilize the funds for the purpose for which they are lent are normally taken into accounts. The project or activity proposed for financing should be capable of generating sufficient income so that the loan is serviced and repaid to have targeted return on assets invested by the banks. There was a gap with how the loan appraisal could be conducted to establish if the bank's lending could be too little or too much in relation to the need so as to cause problems.

In a study by Nagarajan (2011), it was observed that the time taken to appraise the MFI's clients is very important to identify the return on deposits. This influences the MFIs financial performance. This reflects the bank management's ability to utilize the customer's deposits to generate profits. Moreover, Dhankal (2011) added by saying that the challenge with this policy is attractiveness of the MFIs to customers to frequently make deposits and to offer incentives on delayed deposits so as to make use of these deposits to generate more revenues towards improved financial performance of these MFIs. However, the study identified a gap in that this does not just involve only collection procedure details provided by the MFIs but also the procedure on how the lawful collection should take place.

Owino (2012), in his study on effects of lending policies on loan defaults on MFIs said that the purpose of loan appraisal was to assess the likelihood that the loan asset to be offered to customers has higher interest margin that drives increased return on assets hence financial performance of the MFIs. It includes assessing the borrower's needs and financial conditions that identifies the borrower's character, capacity, collateral, capital etc. Interested lenders will expect the loan applicant to have contributed from their own assets and to have undertaken personal financial risk to establish the business before advancing any credit. The study identified that the hindrance of loan appraisal is information asymmetry that spells doom on the success of fully assessing the loan applicant due to hidden information and history of the borrower that could have helped in proper appraisal of the client before loan advancement to avoid loss of returns on loan assets offered to the market.

Ochieng (2012), in his study to assess determinants of financial performance among the commercial banks found out that loan appraisal is very important in influencing financial performance of commercial banks. He said that banks are regarded as firms that emerge because of some sort of market imperfections; hence they bring about a certain degree of inefficiency with respect to perfect competitive outcome that can influence on financial performance of these banks. He suggested that through loan appraisal, banks can cushion the effects of changing interest rates on profits by altering the business practices, perhaps through higher fee income or by adjusting their loan loss provisions. He therefore concluded that, proper appraisal by the bank management and its entire staff on effective interest rates on loan assets let to customers and effective asset allocation will probably influence financial performance through increased income interest margin, return on equity, and dividend pay-out ratio to the shareholders and consequently financial performance.

However, the study showed that commercial banks have failed many a times to identify the correct clients for loan advancing. Also, the lending policy looks at the means of repayment. A MFIs loan can have three sources of repayment i.e. the cash flows of the borrower, security in the form of a fixed or floating charge on the borrower's assets and a guarantee from a third party, such as a holding company (Simonson and al, 1986). According to Weber and al (1998), MFIs commonly looked for at least two of these sources of repayment for any loan they make. It would be irresponsible for an MFI to advance funds without taking adequate and proper security unless the creditworthiness of the customer is beyond reproach. In the case of a corporate borrower, MFIs will expect loans to be repaid normally out of operational cash flows of the company. Securities taken must be perfected in terms of documentation, authorization and registration. Taking security such as a charge on assets of the borrower is a fall-back source of repayment. However, as experience has shown, MFIs can be inadequately protected against credit risk, even when loans are secured. This happens when the value of the secured assets falls below the amount of the loan.

Goodluck Charles and Neema Mori in 2016 looked at the effects of collateral on loan repayment. They examine the effect of the collateral informal lenders use to ensure loan repayment. Specifically, they measure how the use of movable and immovable assets affects loan repayment and delinquency rate and assess the extent to which guarantorship and relationship-lending act as collateral to improve loan repayment. With a dataset of 835 individual borrowers drawn from an informal lending institution, we run descriptive and econometric models. The results suggest that movable assets increase the likelihood that borrowers perceived to be less creditworthy will obtain loans from informal sources and repay them.

2.3. Development of hypotheses

2.3.1. Lending policy, an influential factor on portfolio quality.

The first step in limiting credit risk involves screening clients to ensure that they have the willingness and ability to repay a loan. MFIs use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000). The 5Cs help MFIs to increase loan performance, as they get to know their customers better. The 5Cs model consists of character, capacity, capital, collateral, condition. These are the principal characteristics of giving out loans. Key Credit controls used in MFIs to recovery debts include loan product design, credit committees, and delinquency management. (Churchill and Coster, 2001). There are various policies that an organization should put in place to ensure that credit management is done effectively. One of these policies is a collection policy which is needed because all customers do not pay the firms bills in time. Some customers are slow payers while some are non-payers. The collection effort should, therefore, aim at accelerating collections from slow payers and reducing bad debt losses (Kariuki, 2010).

According to Karanja (2009), most of the local MFIs failures in Kenya involved extensive poor analysed lending, where it could not establish the net interest income to be realized from assets lent out therefore, affecting the return on assets and consequently its influence on financial performance. For Gopal and Saundarjya (2012), the role of credit officers is not only limited to granting of loans but extends to the follow up of this loan till recovery. However, from their finding which was both quantitative and qualitative, they found out that the means of giving out loans influence the rate at which this debt is being recovered. The circumstances affecting the granting of loans to customers cannot be underestimated when it comes to recovering it back. This circumstance is what has guided us to the hypotheses below.

H1: there exist a positive relationship between the lending policies and the portfolio quality of MFIs in Cameroon.

2.3.2. Debt recovery techniques and portfolio quality, a call for concern?

The MFIs has its own set of rules which it puts in place to recover the loans granted to its clients, this is because recovering helps them to have more funds and to maintain its stand in poverty reduction. According to Montana (2012), debt recovery is assuming an alarming trend as its growth is looking almost unstoppable. This growth can mostly be attributed to a poor economy which affects both consumers and markets around the world. SACCOs are individually devising new techniques and strategies to improve their debt recovery. He recommended debt recovery measurers, which are likely to help increase their debt collection success; flexible repayment plans for customers experiencing financial difficulty, well formulated hardship programs for borrowers that are late on their repayment, extend or lower payments, interest rates, or lower fees when you anticipate customer payment problems, create communication channels where customers can openly discuss their issues.

Despite the microfinance industry's progress on prioritizing client protection, there is a surprising lack of shared information on what happens when the contractual relationship breaks down between the lender and the borrower. While there are many studies on the causes of over-indebtedness, there are far fewer on the consequences. A multitude of decisions occur between the time when the MFI first observes a delinquency and when it makes the determination that the lender borrower relationship is irreparably broken and terminates contact with the client. For Laseinde and Olokoyo in their research finding in 2018, they discovered that the strategies put in place to recover loan has effects on the customer supplier relationship which end up affecting the performance of FIs. Many factors put together attest to the financial performance of MFI given the fact that it is out to curb poverty. However, loan technique recovery is not left out as a determining factor of FP in MFIs.

***H2*: debt recovery techniques *have a level of significance on portfolio quality of MFIs* in Cameroon.**

3. Method

3.1. Research approach, sample, data collection tool and methods of analysis

Our work is a quantitative study based on the hypothetico-deductive approach since it moves from a particular to a general case and due to the abundant literature in the domain. This approach enables us to formulate hypotheses and to verify if the independent variable has a significant influence on the dependent variable in other to accept or to reject the hypotheses. Consequently, we adopt a positive paradigm on the epistemological posture because it tries to explain a phenomenon and starts from the presumptions of knowledge (hypotheses) that will be verified empirically. The population of our study comprises of MFIs of various categories in Cameroon. The survey took place in Dschang, Bafoussam and Mbouda major towns of the west region and the data collection instrument is a semi structured questionnaire. We submitted a total of 120 questionnaires to the administrators of 70 MFIs of category 2 and 3. These administrators were made of the loan committee and the debt follow up committee. Upon codifying the data of the questionnaire, we notice that only 43 of them were accurately filled and could be used.

The collected data is analyzed using descriptive statistical tools such as frequency, mean and standard deviation. The analysis of the relationship between variables is done using the multiple linear regression models. A pre-testing was done, and the reliability test was carried out using the Cronbach alpha to test the reliability and internal consistency of items. The Cronbach alpha test result is given on the table below.

Table 1: reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.875	.632	23

Source: SPSS

The value obtain for alpha is 87.5% which indicates that the construct of our questionnaire is reliable.

3.2. Description of variables

Our study stresses on two variables that is debt recovery (independent variable) and the financial performance (dependent variable). We derived three independent variables and one dependent variable. The independent variable are lending policies and debt recovery techniques and while the dependent variable is financial performance. Therefore, the items in the questionnaire are those relating to lending policies and debt recovery techniques and financial performance measured by the profitability ratio. From the questionnaires, each independent variable is given a reasonable position, and each research statement has three potential responses from the Likert scale.

3.2.1. Measurement and econometric presentation of variables

Table 2: Measurement of variables

Concepts	Variables
Debt recovery	Lending policies (LP) the 5C's of lending loan document
	Recovery techniques (RT) Internal productivity (IP) handling deliquency before it occurs (proactive strategies) legal means (justice)
Financial performance	Profitability
	Efficiency and productivity
	Portfolio quality (PAR)

Source: authors

3.2.2. Specification for the econometric model

We result to bringing out a functional relationship from the elements of the questionnaire. This relationship shows the effect of debt recovery on the financial performance in the Menuoa, Mifi and Bamboutos divisions of Cameroon.

The dependent variable is Financial Performance denoted as FP, which is measured by portfolio quality (PQ) and two independent variables given as lending policy (LP) and recovery techniques (RT). The second dimension can be further sub-divided into internal productivity (IP), proactive strategies (PS) and justice (J). From the variables, our econometrics model which is the relationship between financial performance and debt recovery is given as follows.

$$= \beta 0 + \sum i\ \beta 1\ Xi + \varepsilon i\ FP$$

Where:

FP = financial performance X_i = independent variables.

β_0=constant

β_1= regression coefficient ε_i= error term

The simplified form of this model can be written as,

$$PQ = \beta_0 + \beta_1 DR_i + \varepsilon_i \equiv PQ= \beta_0 + \beta_1\ LP + \beta_2 RT + \varepsilon_i$$

The complete empirical form of the model which permits to verify the relationship between financial performance and debt recovery is given as:

$PQ = \beta_0 + \beta_1 LP + \beta_2 (IP+PS+J) + \varepsilon_i$

Where β_0 is a constant term, $\beta_{1,}$ and β_2 are model coefficient denoting the impact of debt recovery on financial performance while ε_i is the error term or a random variable introduced to accommodate the effect of other factors that affects the financial performance of MFIs other than debt recovery for instance customer's satisfaction and internal control.

3.3. Techniques of data analysis

Social Package for Statistical Science (SPSS) version 20 and EXCEL 2016 were established to record all data collected in the aggregate form in other to project anonymity. The first set of data was descriptive in nature while the second set used inferential statistics to verify the hypotheses. Since the study is explanatory in nature, the regression technique was applied to get the estimates from various variables. The respondent characteristic was analyzed using the frequency counts and percentages and presented on tables and pie charts. Data for research questions were analyzed using frequency counts and percentages. The significance of the estimates was ascertained with the use of chi square test and the pseudo R^2 statistics was applied to ascertain the overall significance of the study.

3.3.1. Estimation and validation of the techniques

To carefully examine and answer the questions earlier formulated, several tools were used. As statistical tools, descriptive analysis was used to present the demographic variables; Pearson's correlation coefficient called inferential analysis was used to verify the research hypotheses. In other to make predictions about the dependent variable, we use the multiple linear regression to show the linear combination between variables.

4. Results and discussions

4.1. Results from descriptive analyses

4.1.1. Demographic characteristics

This analysis is seen in the table 3.

Table 3: Demographic information linked to the respondent

Variables	Modalities	Effectives	%
Gender	1- male	29	67.4419
	2- female	14	32.5581
Age	1- very young	28	65.1163
	2- young	15	34.8837
post occupied	1-general manager	1	2.32558
	2-regional manger	3	6.97674
	3- chief of agency	13	30.2326
	4- credit risk analysis	6	13.9535
	5-credit manager	10	23.2558
	6-customers' manager	10	23.2558
level of			

education	1-A' level	4	9.30233
	2- Degree/ HND	23	53.4884
	3- other	16	37.2093
Duration	1- less than 5 years	14	32.5581
	2- [5-15[	27	62.7907
	3-[15-25[	2	4.65116

Source: SPSS

From the table above, we can say that amongst the 43 persons who responded to our questionnaires, 29 were males against 14 females. This difference in the sex attest to the fact that the male sex mostly occupied key positions in institutions due to their high level of education. For the female sex, they hardly have that opportunity to push through with education because of some gender factors such as marriage, childbearing and gender inequality.

4.1.2. Loan characteristics

This sub-part looks at the loans given out by MFIs. The nature by which MFIs give out loans to their members is a vital issue. This sub-section is made of ten items, these items are the type of loans given out by the MFI, the duration of the loan, the sector of activity financed the nature of collateral retention, and the group of persons financed. This sub-part is better explained by the values of the table in the appendices.

From the table, we can see that the type of loan given out by MFIs to its customer are both the individual and the group loan. Also, the duration of these loans is more of short term and medium term with a percentage of 93.233% while just a few MFIs give out long term loan. This duration shows that the MFI is more in to a short- and medium-term loan which will grant them more funds within a shortest time possible. The sector of activity highly financed by MFI is the commercial sector followed by the agricultural sector while artistic, rearing, and other sectors are not welled financed. From the table, the nature of the collateral retention always depends on the volume of the loan. Here, it should be recalled that the MFIs expects a guarantee three times more than the amount of the loan so that the customers will be constraint to repay back the loan. From our research work, we found out that males constitute a greater percentage of MFIs clients. This high percentage of males to females is justified by the fact that males are mostly involved in activities than females hence, the need for them to solicit for loans is based on their involvement in activities.

4.1.3. The descriptive analysis of lending policies

This sub-section looks at how well MFIs give out loans to the members. In order words, it analysis the conditions for obtaining loans from an MFIs. Here, we have a set of five questions which are; the customer should have a saving account before obtaining loan, savings as a concrete element to obtaining loans, a proper study of loan documents before giving out loans, guarantee presented by the customer should be in function of the loan and lastly, in the case of sickness of a client can lending be prolonged. Findings on this point are presented on the table on the appendices.

From our findings, we discovered that category 2 MFIs do not oblige their customers to have a savings account. This is simply because they trade with members and non-members. From the table, we discover that only 10 out of 43 MFIs abides to the fact that customers should have a savings account of at least a year before obtaining loans giving a percentage of 23.2558%, against 76.7442% who just gives out loans without the notion of a savings account. It should be noted that since the MFIs market is a very competitive one, this may be the reason for the absent of these obligations. This shows that for category 2 MFIs, they are interested in financing and not in creating savings account though they encourage their members to have such accounts.

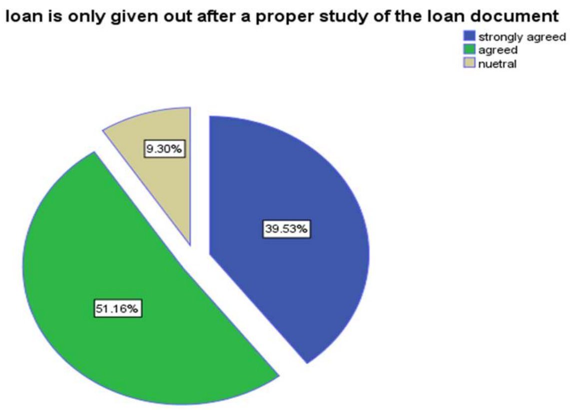
Looking at saving as a concrete element of giving out loan, most category 2 MFIs do not see savings as an element of giving out loans. To this effect, only 9.30233% agrees that savings is a concrete element of giving out loan whereas, 90.66977% of our sample size do not give a priority to savings before granting out loans. However, this attitude of category 2 MFIs can be backup by the simple fact that they are out to finance both members and non-members. In other words, the savings account is obliged to the members and while for the non-members they simply look at their activities or the project which they want to finance.

The perfect study of the loan documents is what is of great importance and interest to the MFIs, 83.7209% agrees to the fact that the loan is only given out to customers after a perfect study of the loan document, while 16.2791% disagrees to this fact. Also, the disagreement by some of the MFIs is because customer-supplier relationship and familiarity is mostly put up at the fore front, putting the image of the institution at risk. It should be recalled that MFIs are interested in financing projects and activities, and they can only accept to do that after a proper study of the loan document.

The nature of guarantee presented should be in function of the loan, 83.7209% of our sample size are okay with this notion while 16.2791% disagrees. The guarantee in case of an immovable, should not just be in function of the loan but it should be very accessible and should not a joint property for instance a family house. The guarantees presented in most cases are 3 times the amount of the loan. In a situation where the customer lacks a physical movable and immovable as a collateral retention, they place their salaries as collateral and this is properly followed up so that the clients do not divert their salaries to another MFI. This is done by the MFI in other to be certain about recovery.

Lastly, the prolonging of lending deadline in case of sickness is not taken into consideration by all the MFIs. From the table, 13.9535% of MFIs will prolong lending in case of sickness while 86.0465% will not do that. Here, the prolonging of lending can be if the client solicits for it and with a proper justification of their health situation. In case where the clients had placed his salary as collateral, he does not need a prolongation since his salary keeps passing.

In most cases, the MFIs resort to an endorser to cover up the loan. However, we can conclude the lending policy which provides MFIs with a greater guarantee of recovering debts is the proper study of loan documents. This is justified by the percentage on the figure below.



<u>Source:</u> SPSS

4.1.4. Description of the techniques of debt recovery

The description of recovery techniques simply looks at the means of recovering the loans given out to customers. This sub-divided into 3 sub-sections, which are the internal productivity, proactive strategies and then justice.

4.1.4.1. The internal productivity

The internal productivity simply looks the measures put up by the MFIs in other to maintain a healthy recovery rate of the loans it gave out. In this sub-section of our work, we were interested to see how the strategic set up of the MFI will help them in recovering loans. The questions here were mostly centered around the customer supplier relationship.From our finding, we realized that the nature of contact that is to say the familiarity which exist between the customers and the suppliers influence reimbursement only to a minimal percentage.

From the table, we noticed that the nature of contact between the borrower and the lender enhances the reimbursements of loans. This technique is very good at 51.1628%, good at 32.5581% and 16.2791% who are average. This shows that the familiarity between both parties favors reimbursements this can only be so if the relationship remains strictly professional and not misinterpreted by the clients.

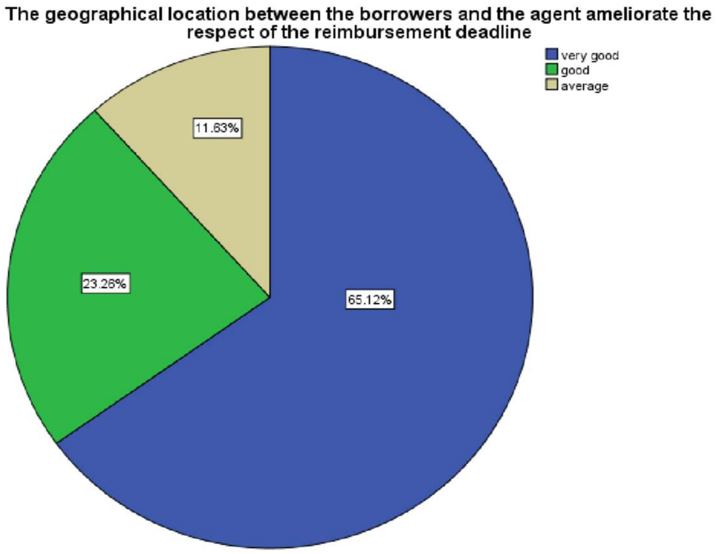
The frequent visits to the borrower ameliorate the reimbursement performance. 51.1628% affirms this fact as very good, 37.2093% good against 11.6279% who were neutral. This is because this visit will help to remind the customers of their situation and it will help the lenders to be certain that the purpose of the loan has not been deviated.

Also, the location of the borrower and the lender ameliorates performance, for 65.1163% this affirmation is very good while 23.2558% is good this is against 11.6279% who are just average about this affirmation. It should be noted here that one of the key elements on the clients‟ documents is a localization plan. In order words, the MFIs knows where to find their clients in case need arises. This factor also helps the follow-up of the loans and this is what favors the reimbursement performance.

As far as having a saving account of at least 1 year is concern, it facilitates recovery but not to a greater extend. This can be seen in its results which is given as 11.6279% very good,
13.9535% good, 9.30233% average, 34.88372% bad and 30.23256% very bad. This can be justified by the fact that loan is not given out based on the customer's savings accounts.

Also, a constant visit to the customer will not help to ameliorate reimbursement performance but will rather make the customer fill uncomfortable. However, the geographical; location between the customer and the supplier facilitate the reimbursement performance. This is the reason why it is one of the documents needed to apply for a loan.

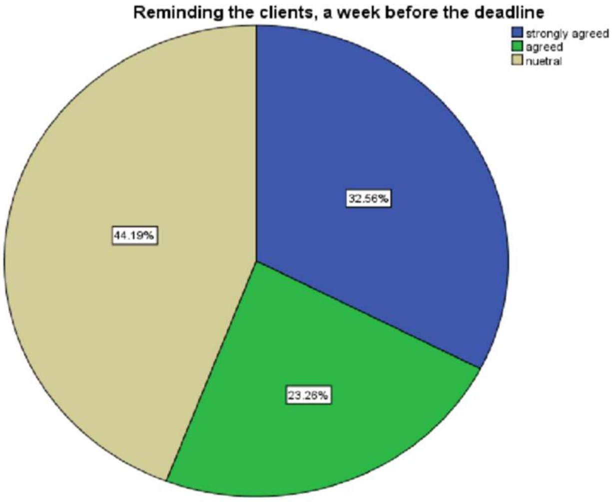
We can conclude that the geographical location of customers has a greater effect on the techniques of recovery. In other words, when the institution begins to sense default in its clients, it has to follow up the clients even at the expense of going to the client's premise. This is also well represented on the figure below.



Source: SPSS

4.1.4.2. Proactive strategies

The proactive strategies of MFIs are simply its measures to handle delinquency before it occurs. We noticed that category 2 MFIs don't oblige their members to have a savings account of over a given periods of time before the can be granted loans but ratter look at the purpose of the loan. This is explained by 11.8279% agreed against 88.3721% disagreed. From the table, we noticed that guarantee put up by the customers helps them to reimburse the loan. This is because the worth of the loan is three times more than the volume of the loan obtained. However, reminding clients a week of a few days to recovery is a good proactive strategy because it shows some level of seriousness from the institution, and which also help to awaken the customers. This is justified by our findings which shows a 90.6977% agreed and 9.30233% disagree. This percentage of disagreement can be attached simply to the deviation of the purpose of the loan and other unforeseen circumstances. This is represented as follows.



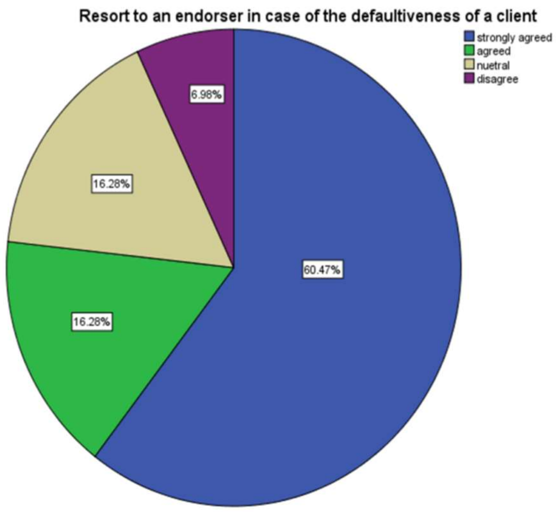
Source: SPSS

Also, the guarantee propose by the customer is a clear indication of his intensions to pay back the loan. This attains to the reason why it greatly influenced reimbursement performance. This is seen with the percentage of the following options 30.2326% very good, 60.4651% good, 2.32558% average 6.97674% bad. This result shows that there exist some customers who will be favored at the level of obtaining loans due to the nature of the relationship he has with the administrators of the MFIs and this will be a challenge to the MFI on the day of recovery. Another tool or technique of recovery is to remind the customer a week before the date of recovery. This tool is a great one as a produce the following results: 79.0698% very good, 18.6047% good and 2.32558% average. This call serves as a reminder to the customer and to get them prepared. Constant visit to the clients to ensure that the purpose of the loan is not deviated is also a tool of recovery because if the purpose of the loan is deviated, the clients risk defaulting being at the end of the day. The results gotten from this affirmation is given as 18.6047% very good, 69.7674% good and 11.6279% average. This result shows the importance the purpose of the loan when it comes to obtaining loans. As far as the proactive strategy is concern, the reminder of customers is very necessary in debt recovery.

4.1.4.3. Justice

This is the last option when all other measures have failed. When all the measures put up by the institution to recover its loan has failed, it starts looking at the legal actions. The MFIs also put in some measures when they begin to have instinct of default from their customers. When a customer default at deadline it should be noted that the institution cannot go ahead to claim their savings account in other to recover the loan unless it was stated in the loan document. This can also be only in a situation where the client has a savings account. The results gotten are 4.65116% very good, 6.97674% good, 20.9302% average, 48.83721% bad and 18.60465% very bad. It should be noted that in case where the clients have a savings account, and has defaulted the institution stop his account, in other words the account no longer generates interest. Prolonging lending in case of sickness can only be possible if the client makes full proof of his health situation which is justifiable. This tool produced the following results. 2.32558% very good, 37.2093% good, 39.5543% average, 13.95349% bad and 6.976744% very bad. This tool can help MFIs to recover their loans in the future and it will be of much benefit to the clients since he will not be placed on a penalty. In case of a socio-economic effect, the institution might decide to accord a morality to its customers. This morality helps to strengthen the relationship which exists between both parties. The result obtained from this tool is 4.65116% very good, 58.1395% good, 16.2791% average, 13.95349% bad and 6.976744% very bad. In some cases, the MFIs instead of giving a morality, will stop charging the customers and even remove penalties.

The above techniques of recovery are made up of the secured and the unsecured techniques. Looking at the legal technique, the resorting to justice in case of the dead of a client is simple done in other to have access to the client assets placed as collateral. The results show 46.5116% very good, 25.5814% good, 13.9535% average, 11.62791% bad and 2.325581% very bad. This tool is not all round successful since in most case, to claim the asset is a problem most especially in the case of immovable. It is mostly at the verge of claiming the asset that institution realizes that the asset in question was not an individual asset. Another legal action is resorting to an endorser. At this level, it should be recall that some institutions prefer an endorser to justice. This tool produced the following results 60.4651% very good, 16.2791% good 16.2791% average 6.97644% bad. This result shows that resorting to an endorser will help the institution recover their loans in the case of death or the default of customers. In most cases, the institutions prefers that the endorser be a member of the family since in the quest to main a good family name and status, the customer will do all he can to repay the loan.



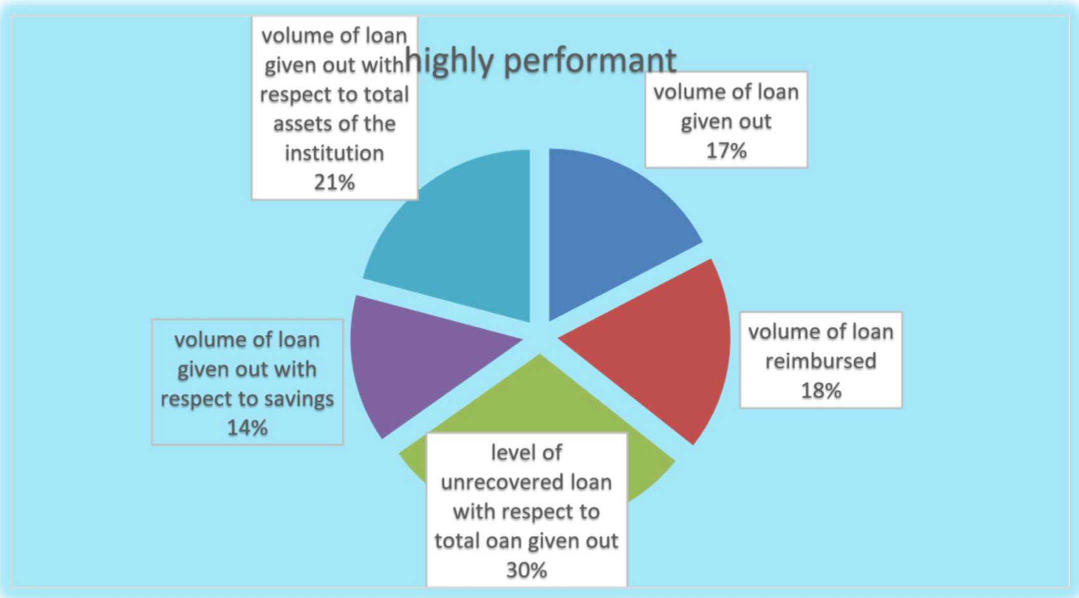
Source: SPSS

Looking at table 7.3, we can say that incase a customer has a savings account, the institution cannot withdraw money from there to cover up the debts but will instead stop charging the account and continue swelling up penalties on the customer. Extending the lending period to facilitate reimbursement as well as according a morality depends on the plea of the customer. MFIs mostly prefers that the endorser of a loan be a close family relative or a friend this is to make sure that the loan is remain in due cost and fully.

Justice as a technique of recovery debt can only be implemented when the other two options has failed. And the best means of justice is resorting to and endorser. Reasons why the MFIs sometimes prefers that the endorser be a closer family relative or a friend.

4.1.5. Description of financial performance

This sub-section is interested on financial performance. Here, our focused is based on the reaction of portfolio quality following the type of lending policy put in place and the techniques used to recover the debts. This sub-section comprises of five questions which are mainly centered around the volume of loan given out, the volume loan reimbursed and the volume of unrecovered loan with respect to the total loan given out, the volume of loan given out with respect to savings and the volume of loan given out with respect to the total asset of the institution. The results obtained are elaborated on the chart below.



Source: SPSS

From the chart, we can clearly see that the institutions have a good portfolio quality. This is explained by the fact that we have a highly performant level of unrecovered loan. In other words, the 30% of unrecovered loan on the chart shows how much the institution can recover its debts. This goes a long way to reduce default risk and to increase the PAR, which is given as the volume of outstanding loan overdue/ total loan given out. Looking at the values on table 8 of our appendices, we realized that there is an unfavorable outcome of few institutions within our sample size. Haven descripts the outcome of our research work we will then proceed to hypothesis testing in the following section.

4.2. Results of explanatory analysis

This section of the work aims at testing both the dependent and the independent variables of the hypothesis. The hypothesis will be tested using the correlation coefficient which will permit us to understand the relationship which exists between the dependent and the independent variable, the chi square test shows the relationship between the variables and the multiple regression analysis, and enables us to know the sign of the results.

4.2.1. Lending policy and profitability

The procedure in which MFIs uses to give out loans to their customers will determine whether the clients will pay back on time. The policy put in place to give out loans to customers are many but the main one is a proper study of the loan documents, while the portfolio quality is measured using PAR that is the outstanding loan overdue. This hypothesis is tested using the chi 2 and it generated the following results.

Table 3: Chi-Square Tests for H1

	Value	df	Asymp. Sig. (2-sided)

Pearson Chi-Square	31.840a	2	.000
Likelihood Ratio	37.984	2	.000
Linear-by-Linear Association	27.635	1	.000
N of Valid Cases	43		

a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is .88.

The table above shows the chi square statistics test which asymptotically is formed from the observed and expected cell counts. For each cell the difference between the observed and expected counts is found and squared. This positive number is then divided by the expected count to account for different sizes of cells. Having constructed this value for each cell, the values are summed across all cells to give our test statistic which here is 31.840. This statistic follows a chi-squared distribution under the null hypothesis with degrees of freedom equal to (rows-1) x (columns-1) which in this case equals 12. The statistic is then compared with the appropriate Chi-Squared distribution, and this results in an asymptotic (2-sided) p value which has value .000 (reported as $p < .01$). Here we see that the p value is less than 0.01 and therefore we can reject the null hypothesis which state that the policies of giving out loans is not correlated to the portfolio quality of the MFIs. In other words, the better the lending policy, the better the portfolio quality of the MFI since there exist linearity between the variables. This is in conformity with the Pearson correlation coefficients (r), which show the nature of the relationship which exists between the explicative and the explained variable. From our r=0.3183, this implies there exist a strong positive correlation between lending policy and portfolio quality. In other words, an increase in the lending policy will lead to an increase in the portfolio quality all things being equal. This means that ***lending policy has a significant impact on the financial performance of MFIs in Cameroon.***

The results obtained above shows the lined which exist between lending policy, recovery techniques and the financial performance of MFIs in Cameroon. This research findings are in conformity with various study earlier carried out which are related to this topic. The work of Omucheyi and Willy (2017) which was based on the effect of lending policies on the FP of MFIs. This study found out that financial performance has strong correlation with lending policies which include joint liability (0.754), loan monitoring policies (0.859) and regular loan repayments (0.758). Lending policies explain 76.8% of variance in financial performance. Financial performance improves when lending policies are complimented with other credit risk management approaches as shown on regression model; between financial performance and lending policies Y= -0.158+0.298X1+2.265X2-1.062X3. The study concludes that lending policies namely, group liability, monitoring polices and repayment frequency improves the financial performance of MFIs. The study recommends that these policies be reviewed regularly to fit them to the dynamic lending business. This is in conformity with our finding which shows the positive relationship between lending policy and financial performance. Also, the work of Florence and Daniel (2014) on the factors influencing loan repayment in MFIs in Kenya revealed that business characteristics which influence loan repayment are the length of the operation management and the type of the business. While the lenders characteristics were, the criteria used to evaluate the credit worthiness, group handled, periods taken to qualify new members. From these factors, lending policy has an impact on the repayment of loans and hence leading to an impact on the financial performances. This finding is in line with the asymmetry information theory. This is because the more there are no hidden information, the better the lending policy a hence financial performance.

4.2.2. Debt recovery techniques, an influential factor on the portfolio quality of MFIs

The essence of MFIs is not only to have a large volume of loan given out but it is to recover the large amount for loans given within the deadline. Recovery techniques are important in that it enables the institutions to strengthen their customers-supplier relationship. However, the technique applied here is that of reminding customers a week before reimbursement. The results are presented on the table below.

Table 4: Chi-Square Tests for H2

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	21.121a	4	.000
Likelihood Ratio	7.161	4	.128
Linear-by-Linear Association	1.434	1	.231
N of Valid Cases	43		

a. 7 cells (77.8%) have expected count less than 5. The minimum expected count is .05.

From the table, reminding the clients a week before the deadline has an asymptotic (2-sided) significance of .000 (reported as p<.01). From this result, we see that the p value is less than 0.01, which means that it is significant 1%. Here, we reject the null hypothesis which states that there is the absence of correlation between techniques of recovery and the portfolio quality. Hence, we conclude that the techniques of recovering debts have a significant influence on the portfolio quality of MFIs.

The result of our research work is in line with the work of Islam and al., (2018). Their research work was tilted towards force loan recovery techniques of MFIs and its impact on the borrower. This finding shows that force as a means of recovering loan is not the best technique since it does not help to reduce poverty but only keep the customers entangled by multiple lending. This work shows that for MFIs to achieve its aim of poverty alleviation it should not use force to extend but rather it should use peaceful techniques in recovering it loans. The theory of customer-supplier relationship is used to better explained and understand this result. This is because a good relationship between the creditor and debtor would permit the creditor to look for another means to recover its debt and not to force it down the throats of their customer even at the expense of their life.

The chi 2 conducted above only help us to see the level of significance which the independent variable is having on the dependent variable. In other to obtain or to get the signs of these hypotheses test, we will carry out the multiple regression models.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.814a	.663	.646	.34902

a. Predictors: (Constant), lending policy and debt recovery

The table above presents the statistics of the goodness of fit, whose aim is to show how much portfolio quality will change, due to a change in the lending policies of the MFIs also the techniques applied by the MFIs to recover loans after giving them out. These techniques do not spring up only from the moment when the institutions sent delinquency from its members, but right from the moment when the loans are given out. R^2 takes its values between 0 and 1. Deducing from the adjusted R^2 (coefficient of multiple determination), 64.6% of variations in portfolio quality can be explained for by the variations in the lending policies and the techniques of debts recovery. The remaining 35.4% of variations in profitability are accounted for by variations in other variables different from lending policy and recovery techniques. These other variables are the size of the institution, the loan default management, financial literacy of both the administrators and the customers and even size of the institution.

Table 6: Variance Analysis Table (ANOVA)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	9.593	2	4.796	39.373	.000b
1 Residual	4.873	40	.122		
Total	14.465	42			

a. Dependent Variable: The level of unrecovered loan with respect to total loan
b. Predictors: (Constant), loan is only given out after a proper study of the loan document, Reminding the clients, a week before the deadline

This table permit us to verify if our research hypotheses are at the level of significance defined at 1%. We notice that the model is significant globally. The Fisher's F test is used. Given the fact that the probability corresponding to the level of significance is lower than 0.01, it therefore implies that we will be taking a risk less than 0.01% in, the null hypothesis which states that debt recovery has no influence on the financial performance of MFIs in Cameroon is wrong and, hence rejecting it. We can therefore conclude that lending policy and the technique of recovering loan has a significant influence on the financial performance of category 2 MFIs in Cameroon.

Table 7: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.014	.210		.068	.946	-.411	.439
	Lending policy	.935	.108	.801	.8642	.000	.717	1.154
	Recovery techniques	.089	.113	.073	.783	.438	-.140	.318

a. Dependent Variable: portfolio quality

This table gives details on the model. The intercept (often denoted as the constant) is the expected mean value of Y when all $\boldsymbol{X = 0}$. Everything being constant, financial performance will increase by 0.946. On the other hand, there will be a positive financial performance in the cause by the lending policies and the recovery techniques this is given by the significance of the t-statistic test value of 0.68.

5. Discussions

The type of lending policy put in place by MFIs has a positive effect on the financial performance at a 95% confidence interval. An increase in the lending policy by one unit will cause financial performance to increase by 0.935, with a significant level of 0.000. Concluding from the significance of the t statistics, we will be taking a 0.01% risk in if the lending policy of an institution has no influences on the portfolio quality which is less than 1%. Therefore, we can conclude that the lending policies of an institution have a strong significant effect on its financial performance.

The techniques of recovering the debts have a positive and a significant impact on the financial performance of category 2 MFIs at 95% confidence interval. For a unit increase in the debt's recovery techniques, financial performance will increase by 0.089 with a significance level of 0.438. Deducing from the significance of the t statistics, we will be taking a 1% risk if we assume that techniques of recovering loans have an insignificant level on the financial performance. There. We conclude that the techniques of recovering debts have a significant positive influence on the financial performance of category II MFIs in Cameroon. We can conclude generally by completing our regression model earlier formulated. This model which is given as:

FP = β0 + β1 LP +β2 RT +εi

Replacing the coefficients with their value we have

FP= 0.14+ 0.89LP + 0.935 RT +ε_i. From this model, we can see that an increase in the lending policy of an MFI and the techniques put in place to recover debts will lead to a positive impact on the financial performance of the institution.

6. Conclusion

This paper had as main objective to understand the impact of credit management on the financial performance of MFIs in the Cameroon context. From this, we could bring out two specific questions, which were to know the effect lending policy had on portfolio quality and the influence debt recovery techniques had on the portfolio quality of MFIs. To be able to bring elements of answer to these questions, we formulated two hypotheses with basis from the literature.

Various analysis techniques and statistical tests permitted us to validate our hypothesis. From the analysis, findings revealed that good lending policy such as Proper study of the loan documents, group liability, monitoring repayment frequency would increase financial performance. This is given by the positive value of beta 0.89. This also is in conformity with the frequency of response given as 44.186% and 55.814% strongly agreed. In addition, recovery techniques such as constant customer reminder, prolonging recovery period, penalties etc, enabled MFIs to perform financially well. This is seen by the positive coefficients of beta given as 0.935 and a frequency of 79.0698%, 18, and 6067% and 2.32558% for very good, good and average respectively.

Findings of this piece of work has shown the existence of an important relationship between debt recovery and financial performance of MFIs in Cameroon. Thus, this study permit MFIs to be acquainted with the effect of lending policy on their financial performance. This is because most at times the officers of MFIs are carried away by the “man-know-man” relation when it comes to granting loan. Moreover, this study helps them to know the best strategy to be effective, efficient and productive in debt recovery.

Nevertheless, our research work presents some limits. Firstly, is the small sample size and its limitation to the West Region of Cameroon. This may lightly pose the problem of generalization of results. Secondly, the data collection was a great challenge. Our main difficulty was the complete refusal by some MFIs to answer our questionnaires. Only 43 questionnaires were used. Many MFIs deliberately refused to receive us due to the fear of creating more competitors in the MFI market.

From this study could be inspired several open doors for future research. This work left out other policies of lending such as the 5 C’s of lending, the effect of guarantee on the lending policy, the effect of forceful debt technique on the recovery rate. We recommend that further study be conducted toward this direction. These variables should be studied in detail to provide a broader insight on the impact of debt recovery on the sustainability of MFIs. Furthermore, we suggest that similar topic be revisit from different perspective, specifically, from a qualitative point of view. This is to provide a framework susceptible to bring an appropriate explanation while taking into consideration contemporary factors impeding the process of debt recovery. Also, we propose that another study be conducted using another indicator of financial performance other than portfolio quality.

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Appendices

Demographic information linked to the characteristics of the loan

Variables	Modalities	effectives	%
type of loan	1-individual	10	23.2558
	2- group	0	0
	3- both	33	76.7442
Duration			
short term	1-yes	40	93.0233

	2-no	3	6.97674
Medium	1- yes	40	93.0233
	2-no	3	6.97674
long term	1-yes	18	41.8605
	2-no	25	58.1395
sector of activities financed			
Commercial	1-[0-25[=lowly	1	2.32558
	2-[25-50[=averagely	11	25.5814
	3-[50-75[=high	28	65.1163
	4=[75-100[=very high	3	6.97674
Agriculture	1-[0-25[=lowly	21	48.8372
	2-[25-50[=averagely	21	48.8372
	3-[50-75[=high	1	2.32558
	4=[75-100[=very high	0	0
Rearing	1-[0-25[=lowly	42	97.6744
	2-[25-50[=averagely	1	2.32558
	3-[50-75[=high	0	0
	4=[75-100[=very high	0	0
Artistic	1-[0-25[=lowly	42	97.6744
	2-[25-50[=averagely	1	2.32558
	3-[50-75[=high	0	0
	4=[75-100[=very high	0	0
Others	1-[0-25[=lowly	42	97.6744
	2-[25-50[=averagely	0	0
	3-[50-75[=high	0	0
	4=[75-100[=very high	1	2.32558
nature of the guarantee	1-always	37	86.0465
	2-sometimes	5	11.6279
	3-never	1	2.32558
percentage of loan given to	1-[0-50[=low	0	0

males			
	2-[50-100[=high	43	100
percentage of loan given to females	1-[0-50[=low	37	86.0465
	2-[50-100[=high	6	13.9535