International Journal of Scientific Research and Management (IJSRM)
||Volume||12||Issue||04||Pages||6097-6111||2024||
Website: https://ijsrm.net ISSN (e): 2321-3418
DOI: 10.18535/ijsrm/v12i04.em05

Navigating Loan Recovery Process from SMEs: Identifying Critical Challenges for Microfinance Institutions in Tanzania

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Abstract
The purpose of the study is to examine the loan recovery challenges facing Microfinance Institutions (MFIs) and Small and Medium Enterprises (SMEs) in Tanzania. The study took place at Nuru Financial and Business Services (NFBS), the Self-Microfinance Fund (SMF), and Ameic Microcredit Limited (AMC). These are among the microfinance institutions found in Dar es Salaam. The researchers employed a descriptive research design and used NFBS, SMF, and AML as study cases. The study involved 50 respondents, including credit officers, obtained through simple random sampling. In the data collection, the study used semi-structured questionnaires to gather primary data. Also, the study used secondary data from documents available at NFBS, SMF, and AML. Data were analysed using simple descriptive statistics with frequency, percentages, and mean. The study found that loan recovery was a challenging task and faced several obstacles, such as insufficiency of capital to cover recovery costs, the presence of weak internal controls on loan recovery, higher interest rates, and facing an extraordinary event during the loan recovery process. Others are getting into bitter relations with customers during loan recovery due to the incompetence of staff to address loan recovery processes. Finally, the study recommends the government provide financial support or subsidies to microfinance institutions to cover recovery costs, such as grants, low-interest loans, or financial assistance programmes. Establish and enforce regulatory standards for internal controls within microfinance institutions. Implementing policies to regulate interest rates charged by microfinance institutions to ensure fairness and transparency. Establish a legal framework to handle extraordinary events during the loan recovery process. Microfinance institutions should explore partnerships with international development organisations, impact investors, or donor agencies to secure additional funding for loan recovery efforts. Loan officers should be trained in cost-effective recovery strategies, and SMEs should engage in responsible borrowing practices to minimise the risk of default.

1.0. Introduction

Loans play a crucial role in both business and personal finances, providing essential capital for growth and development. The source of capital for businesses and individuals can vary depending on the requirements and qualifications. In the context of small and medium enterprises in Tanzania, microfinance institutions are among the most preferable financial sources for business development (Lwesya & Mwakalobo, 2023). Accessing funds from microfinance institutions can be welcoming and pleasurable; however, getting acquainted with terms and conditions can be bitter and challenging, and this is vindicated by customer defaulting.

The emergence of customer (borrower) defaulting has necessitated a focus on loan recovery processes. Loan recovery refers to the strategies and actions taken by financial institutions to retrieve outstanding loan amounts from borrowers who have defaulted on their payments (Nininahazwe, 2023).

As the above context presents, it is overt that loan recovery is a critical aspect for financial institutions, especially microfinance institutions (MFIs), as highlighted by Sikira (2021). In Tanzania, MFIs face unique challenges in loan recovery due to their operational nature, making it imperative for them to establish formal and efficient recovery processes to ensure sustainability and financial viability.

In this study, the concepts of the loan recovery process and the challenges faced by microfinance institutions (MFIs) are significant. The effectiveness of loan recovery processes is crucial for the financial sustainability and growth of MFIs, as it directly impacts their ability to manage credit risk, maintain profitability, and support the economic empowerment of individuals and small businesses. The connection between the loan recovery process and the challenges faced by MFIs is evident in the need to address high levels of non-performing assets (NPAs) and the impact of insolvency on the financial soundness of banking institutes (Mulatu, 2020).

Furthermore, understanding loan recovery is essential for the sustainability of microfinance institutions and the availability of credit for borrowers. The use of proper redress of NPAs and recovery of bad loans in countries such as India rests on pertinent credit assessment and recovery framework reforms, as evidenced by the improvement in bank recovery after the implementation of the Insolvency and Bankruptcy Code, 2016 in India (Wafula et al., 2023).

It is well known that issuing loans can be a jovial and interesting moment; however, loan recovery can be bitter and challenging, and thus MFIs, like other financial institutions, face loan recovery difficulties at this juncture. Many microfinance institutions are experiencing challenges regarding loan recovery globally, as evidenced by the practices presented below.

Starting with the European experience, loan recoveries in Southern European countries illuminate the difficulty of the loan recovery process complicated by the COVID-19 pandemic (Casquilho-Martins & Mauritti, 2022). Loan recoveries were difficult since the pandemic brought unemployment, increased poverty among people, and led to social exclusion due to the lockdown, which ultimately affected individuals's ability to mobilise resources for loan repayment.

In Asian countries, loan recovery practices are crucial for the financial stability of institutions. Research shows that there has been abnormal loan growth that can have a significant impact on systemic risk in Asian banks (Soedarmono & Sitorus, 2016). The higher loan growth was later affected by financial crises in East Asian countries, which also affected loan repayment. This in turn necessitated structural banking reforms to address non-performing loans and enhance governance, which emphasised the importance of the recovery process (Xue & Taylor, 2018). Apart from the policy and structural approaches to address loan recoveries, countries such as Bangladesh employ unfriendly approaches to recovering loans, such as the use of the forced loan recovery technique, whereby people are compelled to pay by all means (Islam et al., 2018).

In Africa, Ghana presents a loan recovery practice that has been a subject of interest due to its implications for the financial performance of banks and microfinance institutions. Studies have shown that non-performing loans have a significant impact on the financial performance of banks in Ghana, leading to higher lending rates to compensate for the risky nature of loans (Ninson et al., 2021). In the microfinance sector, the effects of loan default on the sustainability of institutions have been noted in cases such as Express Savings and Loans Limited in Ghana (Gbadago, 2016). Operational flaws have also been identified as impacting the performance of microfinance institutions in Ghana, highlighting the need for improved operational efficiency in loan recovery processes (Gyimah et al., 2020).

The experience of Kenya's microfinance institutions has been commended for their effectiveness in providing financial services to small and medium-sized enterprises (SMMEs) across various economic sectors (Worku & Muchie, 2019). Nevertheless, loan default remains a significant challenge to the profitability and sustainability of microfinance institutions in Kenya (Kaua et al., 2021). Factors such as credit policies, loan recovery procedures, and loan appraisal processes have been identified as crucial factors influencing loan delinquency in microfinance institutions in Kenya (Gatimu, 2014).

Apart from Kenya's experience, loan recovery processes in Tanzania pose a significant challenge for microfinance institutions due to the unique characteristics of the market and borrowers. Research has shown that microfinance institutions in Tanzania encounter difficulties in recovering loans, which are further complicated by the methods and processes they utilise (Sikira, 2021). These challenges are exacerbated by factors such as business losses, payment delays from debtors, and issues in managing group members to attend loan centres (Kitomo et al., 2020). In Tanzania, loan recovery has been burdensome to some financial institutions to the extent that a notable portion of recovered funds is allocated to loan recovery efforts (Kasoga & Tegambwage, 2021). Therefore, it is vital to explore the depth and width of loan recovery challenges facing microfinance institutions in Tanzania.

2.0. Literature Review

2.1. Challenges Facing MFIs

Microfinance institutions (MFIs) have a pivotal role in contributing to the economic development of their members, society, and countries in general. Since the introduction of the Development Policy and Financial Act in 1991, some reforms intended to improve savings and the cooperative sector have been noted. Massalu (2018) conducted a study in the Korogwe district, Tanga region to examine the challenges facing MFIs, and the following challenges were found: limited capital, severe financial challenges in terms of capital, and inadequate capital to run businesses. Other challenges include a lack of competence among team members in effective management of the financial business. Unstable interest rates tend to fluctuate, and members tend to fail to submit their repayments on time. Inadequate internal control is a situation whereby some financial decisions are made without following proper channels and also due to the existence of a limited range of products. This means they rely on loan issuance only as a product in business and hence become at risk during turbulent times when that product may underperform. This puts the whole institution at risk.

One of the major challenges facing MFIs in Tanzania is the difficulty of expansion. It has been noted that there are enormous needs for microfinance services, especially for poor rural people who are mostly not covered by these services. Studies show that most microfinance services are found in urban areas as compared to rural areas. Findings revealed the reasons behind this situation as poor infrastructure, which discourages many service providers from extending their services. Also, high operational costs in rural areas call for the establishment of many expensive systems, as well as high risks due to the nature of customers who are poor, such that the security of money is not guaranteed due to the nature of the rural environment (Kalemera, 2008).

Some microfinance institutions in Tanzania are non-governmental organisations (NGO), and others are community-based SACCOS while few are privately owned. Apart from private companies which depend on their shareholders for capital, the rest is depending on donor support for their capital to run lending business or services to its customers. The study by Kipene (2007), which was conducted in Morogoro provides an essential finding that running of microfinance institutions is reliant on donor support. Whenever this support is withdrawn, the services suffer a lot and even collapsed. Other challenges noted apart from donor dependence are the attitude of members who get credit on specific terms but tend to believe that the loan is just a donation for their up keeping hence fail to repay. Also, there is a serious lack of capable leaders to offer competent leadership and management skills on financial and personnel management in their organisation.

The successful business organisation must possess strategic management business approaches. This is to say, there should be a sensible strategic action embodied in the strategic objectives aligned with a useful organisation structure with competent people to achieve the dream. However, studies in Tanzania show that most microfinance organisations do not have a sense of strategic planning as explained by Mwambola (2008) in his study on the contribution of microcredit on poverty alleviation that there is lack of strategic objectives and strategic planning in general among microfinance institutions. Furthermore, they fail to scan risks and also lack sound strategic management practices. In general, they operate the business, but are blind on where they are going.

The general challenge facing most micro finances in Tanzania is related to loan repayment and loan recovery. This has been discussed in many studies by highlighting factors contributing to this. However, it should be prudent to present that this challenge is the one carrying the burden to most MFIs in such a way that many close their business because of this. Makorere (2014) who examined factors affecting loan repayment in Tanzania found that there is a severe problem of loan repayment and loan recovery facing MFIs in such a way that it is threatening their existence. As a result of low loan repayment and difficulty in loan recovery, most MFIs have been asking for government intervention to address the situation.

Another common business challenge, especially in third world countries, is political intervention. This challenge has not left microfinance institutions safe as well. It has been noted that sometimes microfinance institutions are facing the challenge of political intervention as discussed by Sungwacha et al. (2014) in their study on factors affecting loan repayment in Kenya. The study used survey design with 20 groups as sample size whereby it was found that some politicians influence some members of groups not to pay their loans based on their political motives. This nature of political intervention may appear in different forms as support to the citizen by a politician who seeks political office or wants to consolidate a position and to seek mass support such as influence on loans taken can emerge.

Customers' level of literacy is among challenges facing microfinance institutions in their effort to administer credit services to clients. Studies have shown that most customers who are served by these MFIs have limited understanding first about the business they are doing and secondly about the loans extended to them. This situation creates many problems related to the repayment of loans and even the closing of the business. In a study conducted in Kenya by Nyamboga et al. (2014) on the influence of literacy on loan repayment, the study came with exciting findings that there is a positive relationship between the level of literacy and loan repayment. This means credit organisations are likely to face some challenges on issuing loans to customers with a low level of literacy. In such a circumstance, credit organisations must invest heavily in providing continuous training and support to customers as well as business advice in a precise manner. Failure to do so will lead to the problem of loan repayment, which can negatively affect business growth.

In a study by Gatimu and Kalui (2014) which was conducted in Kenya regarding factors for defaulting, it was thereafter noted that institutional factors are connected to the basis of all challenges emanating during loan recovery. The study clearly provided that loan recovery procedures are problematic as they are unclear and unfriendly. This makes the whole recovery exercise to be chaotic and sometimes unsuccessful mainly because credit officers are required to abide by loan recovery procedures during the recovery process.

Furthermore, the experience of Ghana which is also applicable in other African countries is the issue of loan regulatory framework. There are notable inadequate regulatory frameworks and high default rates which contribute and complicate the challenges faced by microfinance institutions in loan recovery (Ebenezer et al., 2020).

Sarma and Borbora (2014) provide useful information to illuminate sufficient details on loan recovery among microfinance institutions in India. The study provided that loan officers face many challenges when it comes to loan recovery. One of them is low payment in comparison to the area of operations. The study clearly revealed that credit officers are given big areas to execute loan services but with little payment. Hence, they become less motivated, and this affects loan repayment and loan recovery due to limited follow-ups. Furthermore, the study noted the issue of time to be another major challenge facing loan recovery. Most MFIs offer very limited time for payment, hence affecting customers as well as credit officers in terms of following up on the repayment.

The loan recovery, as noted in previous literature, has been challenging to the extent of making loan officers use unethical techniques to influence debtors to pay their loans in MFIs. This has been evident in India as pointed out in a study by Kar (2013) that loan officers tell lies to customers that credit officers have paid their loans so they will lose their salaries and other benefits. Therefore, the loan beneficiary has to do her best to repay.

Furthermore, efforts to address loan recovery challenges are crucial for the sustainability of microfinance institutions. Efficient loan recovery mechanisms, such as those observed in microfinance banks in Nigeria, can help ensure the availability of microloans for potential borrowers, particularly those in agriculture (Okwara et al., 2019). However, the issue of collaterals remains a major challenge for clients of microfinance institutions (Gyimah et al., 2020).

The literature review above makes it sufficient to present that the loan recovery itself is a big challenge facing most microfinance institutions not only in Tanzania but even in other countries such as Kenya, Ghana, Nigeria, India and others (Makorere, 2014). In the process of loan recovery, challenges can extend from those attributed by presence or absence of systems, processes such as lack of strategic plan (Mwambola, 2008) and procedures such as internal controls (Massalu, 2018) to those challenges experienced directly by loan officers in the field. Other challenges are based on customers themselves, such as lack of education or training Nyamboga et al. (2014). Additionally, there are political challenges as pointed out in the discussion by Sungwacha et al. (2014).

The review of challenges faced by MFIs on loan recovery has noted that, challenges mainly emanate from customers, politicians, procedures and processes. However, the challenges experienced by MFI staff have not been explored. In addition to exploring other challenges, this study focusses into personal challenges felt and experienced by microfinance staff.

3.0. Methodology

In the course of implementing the study, which was conducted in Dar- es-Salaam, the researchers employed several research methods and techniques. Starting with the research design, the study employed a descriptive research design. The population for the study was the employees of Nuru Financial and Business Services (NFBS), Self-Microfinance Fund (SMF), and Ameic Microcredit Limited. A sample size of 50 employees was chosen, which is 59.5% of all staff, and in the sampling design, simple random sampling was utilised to ensure equal participation. The study utilised both primary and secondary data collection methods to gather information on the challenges faced by MFIs in loan recovery. Primary data were collected through questionnaires, which were used for both qualitative and quantitative data. Secondary data were collected from other sources, such as client details, policies, literature, and reports. The collected data were coded and analysed using descriptive statistics, using SPSS Version 27. The qualitative data were analysed using content analysis, generating descriptions of the setting, people, and categories. The study ensured reliability and validity by following established procedures. Data collection tools were prepared, pre-tested, and approved. Validity was ensured by a triangulation approach, including questionnaires and interviews, which were pilot-tested with employees, management staff, and non-management staff. Cronbach's alpha was used to confirm the reliability and validity of the questionnaire tool. Finally, ethical considerations were followed during the research process, including seeking data collection clearance for approval from the organisation's management and consent from respondents. This ensured confidentiality and clarity in the information collected and the report written.

4.0. Findings

4.1 Challenges Facing MFI on Loan Recovery Procedures

In this objective, the study is intended to explore the related challenges that MFIs face in loan recovery. The researcher employed a semi-structured questionnaire in which both qualitative and quantitative data were collected. Thereafter, the analysis was conducted using simple statistics and content analysis. The study, in its findings, noted that MFIs face challenges such as insufficiency of capital (mean 1.7800) and weak internal control (mean 1.9600), which were noted to be the main challenges to loan recovery. Also, the incompetency of staff (mean of 5400) was among the notable challenges in loan recovery. Other challenges noted include the interest rate (mean 1.8400), occurrences of extraordinary events, which were noted by respondents (mean 1.8000), and getting into bitter relations, which were supported by respondents (mean 1.4600). Another issue of getting into bitter relations with customers was previously thought by the researcher to be a recovery challenge. Lastly, the incompetency of staff, which had a mean value of 1.4600, means that it was neutral and respondents did not support whether it was a challenge or not, as highlighted in Table 1.

The study employed a three-point Likert scale that represents disagree, neutral, and agree, with a mean score close to 0 indicating a predominantly negative attitude or disagreement with the statement. A mean score of around 1 suggests a neutral stance or mixed opinions on the statement, and a mean score close to 2 reflects a predominantly positive attitude or agreement with the statement. Therefore, in this study, the classification chosen is mean score < 0.5: disagree, $0.5 \leq$ mean score < 1.5: neutral, and mean score ≥ 1.5: agree.

Table 1: Challenges Facing MFI on Loan Recovery

S/N	Obstacles	Mean	Interpretation
1	Presence of weak internal controls on loan recovery	1.9600	Agree
2	The interest rate is a bottleneck in loan repayment	1.8400	Agree
3	Facing an extraordinary event during the loan recovery process	1.8000	Agree
4	Insufficiency of capital to cover recovery costs	1.7800	Agree
5	Incompetency of Staff to address loan recovery processes	1.5400	Agree
6	Getting into bitter relations with customers during loan recovery	1.4600	Neutral

Source: Field Survey (2020)

4.1.1. Presence of Weak Internal Control on Loan Recovery

In the process of analysing the data, the study found that among all the loan recovery-associated challenges, the challenge of weak internal control was the primary one faced by loan officers when executing their tasks as compared to other challenges. This challenge was the most pinpointed among the respondents as compared to the rest of the challenges. The analysed data confirm further that the selected microfinance institutions face the problem of weak control, as shown in the 1.9600 mean, which means respondents agreed about the presence of weak internal controls on loan recovery among the selected microfinance institutions.

This study reveals that, among the selected organisations, there is a clear challenge in internal controls, which are weak. This affects the loan recovery, as noted in the above table of findings. This finding, therefore, implies that the internal controls at NFBS, SMF, and AML are problematic, and therefore, if they miss, they heavily contribute to poor loan recovery. It is specifically advised that the management has to re-work its internal control system as a critical issue for a deeper understanding.

4.1.2. Interest Rate as a Bottleneck in Loan Repayment

Typically, interest rates have been said to be among the factors affecting SMEs in repaying their loans. In this study, the interest rate was found to be the second challenge for loan recovery, as seen in Table 1. It was therefore confirmed that the interest rate is a bottleneck for customers to repay their loans, hence creating possibilities for defaulting.

Respondents in both organisations generally agreed that the interest rate is the challenge (mean of 1.8400). Comparatively, the majority of members in both organisations had the same feelings regarding interest rates.

The findings above reveal that interest rates among the selected microfinance institutions are higher. That affects the repayments of loans, which ultimately creates a challenge in loan recovery, as highlighted by respondents.

This finding implies that the interest rate is among the significant challenges that affect the repayment of loans, such that the higher the interest rate, the greater the possibility of higher challenges in loan recovery. It is therefore vital for microfinance institutions to reconsider their interest rates in order to reduce the burden on SME's.

4.1.3. Facing Extraordinary Events During Loan Recovery Process

In the loan recovery process, it is expected to experience an unusual event from defaulting customers. These extraordinary events can leave a lifetime memory for loan officers, which can be reflected on and shared for others to learn from. In this study, extraordinary events constitute the fourth challenge facing MFIs in loan recovery.

Furthermore, respondents shared some events that they experienced during loan recovery. Some encountered conflicts that led to injuries; some were taken to the police; and some were chased by dogs. Otherwise, some life-threatening acts include being threatened with guns, clients trying to commit suicide, and other similar related events.

With a mean value of 1.8000, the findings revealed that loan recovery is a challenging task among MFIs. This implies that MFIs need to be well prepared when it comes to loan recovery, as any uncertain event can occur.

4.1.4. Insufficiency of Capital to Cover Loan Recovery Costs

The study noted that NFBS, SMF, and AML have insufficient capital to cover loan recovery costs. This was noted as a third challenge that affects MFIs in loan recovery.

According to this finding, it has been revealed that NFBS, SMF, and AML do not have sufficient capital, as supported by the 1.7800 mean value, which confirms acceptance of the statement. Comparatively, the challenge is the same for all organisations. The lack of capital is reflected in their budget to support loan officers in recovering loans. This implies that MFIs need to have sufficient capital and set a budget sufficient to support the loan recovery exercise because it is expensive. Failure to do so will lead to failure to recover loans.

4.1.5. Incompetency of Staff to Address Loan Recovery

It is a fact that loan business requires some competencies by the team in order to administer loan issues properly. Some of those competencies include business skills, communication skills, strategic thinking, and analysis. This being the case, it is so important for staff at NFBS, SMF, and AML to possess some skills. In this view, the study intended to inquire on the same. The details in Table 1 indicate that respondents agreed with the statement that there is incompetency of staff regarding proper skills to address loan recovery issues, as confirmed by the mean of 1. 5400.This implies that the selected organisations lack capacity in their dealings with loan recovery. In this regard, staff need knowledge, skills, and attitudes that can be sharpened by a training programme to develop their capacity. Furthermore, lack of competency implies a risk to NFBS, SMF, and AML, and that can be among the reasons for losing cases to customers during a legal battle.

4.1.6. Bitter Relations with Customers During Loan Recovery

Getting into bad terms with customers during loan recovery is something that would have been expected in the loan business. However, in some situations, the relationship can become bitter to the extent of leading to life-threatening confrontations. As presented by the mean value in Table 1, the findings show that fewer respondents agreed that they have been on bitter terms with clients during loan recovery.

According to the above findings, it is revealed that getting into bitter relations with a customer during loan recovery is not a big challenge, as supported by the 1.4600 mean value, which means respondents were neutral on whether bitter relations with customers were a challenge, as confirmed by respondents in Table 1 above. Based on the above findings, it can be concluded that NFBS, SMF, and AML are doing their best to avoid bitter confrontations with customers, as many loan officers have never allowed or entertained bitter confrontations. They would rather use diplomatic or final legal remedies to deal with customers.

This implies that, even if there are bad experiences between customers and MFIs, that should not be allowed to reach higher levels of bitter relations because it can always tarnish the image of the business. It is, therefore, essential to be professional and avoid confrontations, as that can cause harm or even death.

4.1.7. Other Challenges Faced During Loan Recovery

Researchers asked respondents through an open question in the questionnaire to mention any other challenges they experienced during loan recovery processes. The respondents, therefore, mentioned some general challenges, such as the absence of cooperation from defaulters and conflicts between recovery officers and customers. Apart from that, other challenges are the recovery exercise being costly financially, a lack of financial support from the office, and situations where the loan recovery process consumes a lot of time. Additionally, some assets are challenging to sell; management delays addressing loan recovery issues, while some customers’ residence areas are inaccessible. Finally, the issue of the COVID-19 outbreak made it difficult to meet the sales target for loan recovery. This finding means that loan recovery is such a challenging exercise and has many difficulties. Microfinance should develop strategies to reduce some challenges experienced during loan recovery.

5.0. Discussion

5.1. Challenges Facing MFI on Loan Recovery Procedures

This study is intended to explore the challenges that MFIs face in loan recovery. The researchers employed a semi-structured questionnaire whereby both qualitative and quantitative data were collected. Thereafter, the analysis was conducted using simple statistics and content analysis. The study, in its findings, noted that MFIs face challenges, including the presence of weak internal control as the main challenge to loan recovery. Other challenges include interest rates, insufficiency of capital, occurrences of extraordinary events, and incompetency of staff. Also, the fear of getting into bitter relationships with customers was not a challenge for loan officers.

5.3.1. Presence of Weak Internal Control on Loan Recovery

In the process of analysing the data, the study found that, among the loan recovery-associated challenges, the challenge of weak internal control was the primary one for loan officers when executing their tasks as compared to other challenges. This challenge was the most pinpointed among the respondents as compared to the rest of the challenges. The findings based on the selected organisations of NFBS, SMF, and AML indicated that the respondents agreed there are weak internal controls on loan recovery.

Weak internal controls in banks and microfinance institutions can have significant implications for loan recovery processes. Studies have shown that when internal control weaknesses are present, lenders tend to react by adjusting loan terms, such as decreasing the use of financial covenants and increasing loan spreads (Hasan, 2021). Additionally, poor internal controls can lead to higher levels of non-performing loans, affecting the financial stability of institutions (Ozili, 2019). In microfinance institutions specifically, weak internal controls have been linked to issues such as poor corporate governance, incompetent management, and high levels of fraud and loan defaults (Babajide et al., 2017).

Kumar (2019) revealed that the issues of internal control are challenging in most MFIs, especially in third-world countries. The study recommends, furthermore, that MFIs must work harder to ensure that internal systems are operating and thus enhance complete internal control, which in turn supports loan recovery. The findings imply that internal controls are important components, as failure to adhere to them may lead to poor loan recovery. Thus, it is specifically advised that the management has to re-work its internal control systems as a critical issue for a deeper understanding.

5.3.2. Interest Rate as a Bottleneck in Loan Repayment

Typically, interest rates emerged as among the factors affecting SME's ability to repay their loans. In this study, the interest rate emerged as a second challenge facing loan recovery, as seen in Table 1. It was therefore confirmed that the interest rate is a bottleneck for customers to repay their loans, hence creating possibilities for defaulting.

Interest rates are a crucial factor in loan repayment dynamics, especially in microfinance and small-scale lending. High interest rates have been identified as a significant obstacle in the loan repayment process (Kuye & Edem, 2019). Research has shown that an increase in loan interest rates leads to higher borrowing costs, making it harder for borrowers to meet repayment obligations (Ahmad, 2023). Additionally, borrowers often struggle to meet loan deadlines due to the burden of high interest rates, impacting their ability to repay loans effectively (Zahid & Rao, 2022).

In Tanzania, some MFIs used to charge higher interest between 20% and 30% per month but also give a short time for repayment, hence making the clients' capacity to repay impractical.

The findings above, as supported by the literature, reveal that interest rates among many microfinance organisations are higher. This affects the repayments of loans and ultimately creates a challenge in loan recovery, as highlighted by respondents. The findings imply that the interest rate is among the significant challenges that affect the repayment of loans. As such, the higher the interest rate, the greater the greater the possibility of higher challenges in loan recovery. It is therefore vital for microfinance institutions to reconsider their interest rates in order to reduce the burden on SME's.

5.3.3. Insufficiency of Capital to Support Loan Recovery Costs

The study indicated that NFBS, SMF, and AML have insufficient capital to cover loan recovery costs. This was noted as a third challenge that affects MFIs in loan recovery. This is justified by the responses of respondents who agreed that NFBS, SMF, and AML do not have enough money to cover the loan recovery costs.

The availability of sufficient capital is crucial for ensuring the successful recovery of loans in microfinance. Studies have highlighted that the lack of adequate capital can hinder the ability of microfinance institutions to recover loans effectively (Zahid & Rao, 2022). Insufficient capital may lead to difficulties in providing loans on favourable terms, such as reasonable interest rates and flexible repayment schedules, which are essential for enhancing loan repayment performance (Zahid & Rao, 2022).

Another study by Offiong and Egbuka (2017) highlights that loan recovery is very expensive, and most MFIs are not able to cover such costs, which may reflect losses on their side. Those costs relate to daily costs to support personnel, paying the lawyer, and involving the police as well as recovery agents.

The findings revealed that loan recovery is expensive, and most MFIs cannot provide such capital to support recovery costs all the time, as per the experience of NFBS, SMF, and AML. This implies that a financial institution needs to have sufficient capital to serve its customers through the issuance of loans. Failure to do so will lead to a business crisis.

5.3.4 Facing Extraordinary Events During the Loan Recovery Process

In the loan recovery process, it is expected to experience an unusual event from defaulting customers. These extraordinary events can leave a lifetime memory for loan officers and can be reflected on and shared for others to learn from. In this study, extraordinary events form the fourth challenge facing MFIs in loan recovery. This was evident when the respondents agreed to have experienced such events in their work.

Furthermore, respondents shared some events that they experienced during loan recovery. Such events include conflicts that led to injuries, police arrest, being chased by dogs, life-threatening acts such as being pointed with guns, clients trying to commit suicide, and other related events.

The above findings are in line with the findings by Kathure (2016), who asserted that a loan recovery is a life-threatening event to loan officers sometimes as they face hardships and difficulties in reaching clients. Additionally, sometimes lenders intimidate bank officers, legal officers, and even judges in such a way that it becomes a problem for lending institutions (Gregory et al., 1989).

In addition to emotional challenges, loan recovery staff may also encounter interpersonal difficulties and conflicts with borrowers, further adding to their stress and anxiety levels (Charrier et al., 2021). These difficulties can hinder effective communication and collaboration, impacting the overall success of loan recovery efforts.

The findings in this study have revealed that loan recovery is a very challenging task among MFIs as it threatens the lives of those loan officers. This implies that MFIs need to be well prepared when it comes to loan recovery, as any uncertain event can occur.

5.3.5. Incompetency of Staff to Address Loan Recovery

It is a fact that the loan business requires some competencies for the team to administer loan issues properly. Some of those competencies must relate to business skills, communication skills, strategic thinking, and analysis. This being the case, it is so important for staff at NFBS, SMF, and AML to possess some of these skills. The current study further revealed that respondents agreed that staff have the incompetency challenge to deal with loan recovery issues.

The lack of competency among staff in addressing loan recovery can significantly impact the efficiency of the recovery process. When staff members do not possess the required skills or expertise for handling loan recovery, it can lead to delays, inefficiencies, and ultimately lower recovery rates. Studies have indicated that staff incompetence in dealing with loan recovery can contribute to an increase in non-performing loans and financial losses for institutions (Semusu & Turyasingura, 2023).

The current study revealed that employees of the selected organisations in this study do not possess the required competencies. This condition is likely to affect many microfinance organisations, as elaborated by Mpinge (2014) and Anioke (2012). Staff in lending institutions ought to possess the required skills, knowledge, and attitude to recover loans properly.

This implies that the selected organisations use their staff for loan business but invest little in their capacity development. In this regard, staff lack knowledge, skills, and attitude, which calls for a training programme to address the problem. Furthermore, a lack of competencies implies risk to NFBS, SMF, and AML, and that can be among the reasons for losing cases to customers during legal battles.

5.3.6. Bitter Relations with Customers During Loan Recovery

Getting into bad terms with customers during loan recovery is something that would have been expected in the loan business. However, in some situations, the relations can become bitter to the extent of leading to life-threatening confrontations, as justified by Okwara et al. (2019), who assert that the strained relationships and negative interactions with customers can create a hostile environment, leading to increased stress and emotional strain for the officers involved. These challenging relationships can hinder effective communication, negotiation, and conflict resolution, making the loan recovery process more arduous and less efficient (Okwara et al., 2019).

According to this study, it has been revealed that few respondents commented that they have never been on bitter terms with customers as a result of the loan recovery process. In line with the above findings, the issue of cultivating good relationships with customers in the microfinance business is also advocated by Kaaya (2015) in a study on microcredit loans. The study stressed that a fair and trusting relationship with customers could enhance the success of microfinance businesses.

The study further revealed that getting into bitter relations with the customer during loan recovery is not a challenge, as confirmed by respondents in the study. Furthermore, the literature insists on cultivating good relationships with customers. This implies that, even if there are bad experiences between customers and MFIs, they should not be allowed to reach higher levels of bitter relations because this can always tarnish the image of the business. It is, therefore, essential to be professional and avoid confrontations that can cause harm or even death.

5.3.7 Other Challenges Faced During Loan Recovery

Apart from the above challenges, the researcher asked respondents through an open question in the questionnaire to elicit any other challenges they experienced along the loan recovery process. The respondents, therefore, mentioned some general challenges, which include the absence of cooperation from defaulters and conflicts between recovery officers and customers. Apart from that, other challenges relate to the recovery exercise being costly financially, a lack of financial support from the office, and the loan recovery process consuming a lot of time. Additionally, some assets are challenging to sell, management delays in addressing loan recovery issues, and some customers’ residence areas are inaccessible. Finally, the issues of the COVID-19 outbreak and the difficulty of meeting sales targets were among the challenges noted during loan recovery.

Other researchers, such as Kathure (2016), Gregory (1989), Mpinge (2014), and Saleh (2013), also presented similar challenges, which means that loan recovery is a very challenging task. This finding means that loan recovery is such a challenging exercise and has many difficulties. Microfinance should therefore develop strategies to reduce some challenges experienced during loan recovery.

6.0. Conclusion

The study sought to examine the challenges facing microfinance institutions in loan recovery from SME’s. The study was conducted in Dar Es Salaam - Tanzania at micro finances, namely NFBS, SMF and AML. The study revealed some issues related to loan recovery in microfinance institutions. In light of the findings of this study, it can be concluded that loan recovery is a very challenging task for microfinance institutions. Loan recovery means using extra money to get back the loaned money. It means getting prepared for conflicts and even getting to a court of law. It also means getting denied cooperation from people who came to lend money to address their core problems. In brief, it is about holding collateral, which you may sometimes fail to sell. Finally, the business is profitable, but it is synonymous with stress, which otherwise may hurt the health of the person doing it.

7.0. Recommendations

In this study, researchers opted to offer recommendations categorically for the government, microfinance institutions, SMEs and loan officers as follows;

i. *Insufficiency of Capital to Cover Recovery Costs*

Government: The government should consider providing financial support or subsidies to microfinance institutions to cover recovery costs. This can be in the form of grants, low-interest loans, or financial assistance programmes to ensure that microfinance institutions have the necessary capital to cover recovery costs.

Microfinance Institutions: Microfinance institutions should explore partnerships with international development organisations, impact investors, or donor agencies to secure additional funding specifically earmarked for loan recovery. They should also consider diversifying their funding sources to include grants and donations for recovery efforts.

Loan Officers: Loan officers should be trained in cost-effective recovery strategies to maximise the impact of the available recovery funds. This may include training in negotiation skills, alternative dispute resolution, and effective communication to minimise the cost of recovery efforts.

SMEs: SMEs should engage in responsible borrowing practices to minimise the risk of default, thereby reducing the burden on microfinance institutions for recovery costs. They should also seek financial literacy training to better manage their finances and improve their ability to repay loans.

ii. Weak Internal Controls on Loan Recovery

Government: The government should establish and enforce regulatory standards for internal controls within microfinance institutions. This can be achieved through the implementation of regulatory frameworks and regular audits to ensure compliance with best practices in loan recovery.

Microfinance Institutions: Microfinance institutions should invest in robust internal control systems for loan recovery, including the use of technology for data management, risk assessment, and monitoring of loan portfolios. They should also prioritise staff training on ethical and effective loan recovery practices.

Loan Officers: Loan officers should adhere to the internal control policies and procedures set by the microfinance institutions. They should also receive training on the importance of ethical conduct, transparency, and adherence to regulatory requirements in the loan recovery process.

SMEs: SMEs should maintain accurate financial records and engage in transparent communication with microfinance institutions. They should also be proactive in addressing financial difficulties and seek assistance from microfinance institutions to avoid default.

iii. Higher Interest Rates

Government: The government should consider implementing policies to regulate interest rates charged by microfinance institutions to ensure they are fair and transparent. This may involve setting interest rate caps or providing incentives for microfinance institutions to offer lower interest rates to SMEs.

Microfinance Institutions: Microfinance institutions should explore alternative funding sources to reduce their reliance on high-interest loans, which can be passed on to SMEs. They should also consider offering financial literacy programmes to SMEs to help them understand the implications of high-interest rates and make informed borrowing decisions.

Loan Officers: Loan officers should transparently communicate the terms and conditions of loans, including interest rates, to SMEs. They should also advocate for fair and reasonable interest rates within their institutions to support the financial sustainability of SMEs.

SMEs: SMEs should compare loan offerings from different microfinance institutions and seek financial advice to understand the total cost of borrowing, including interest rates and associated fees. They should also explore alternative sources of funding, such as grants and equity financing, to reduce reliance on high-interest loans.

iv. Extraordinary Events During the Loan Recovery Process

Government: The government should establish a legal framework that provides guidance on handling extraordinary events during the loan recovery process, such as natural disasters or economic crises. This framework should outline the rights and responsibilities of both microfinance institutions and SMEs in such situations.

Microfinance Institutions: Microfinance institutions should develop contingency plans to address extraordinary events that may impact the loan recovery process. This may involve creating flexible repayment schedules, offering temporary relief measures, or collaborating with relevant stakeholders to support affected SMEs.

Loan Officers: Loan officers should be trained to identify and respond to extraordinary events that may affect SMEs' ability to repay loans. They should exercise empathy and flexibility in working with SMEs to navigate through such challenging circumstances.

SMEs: SMEs should communicate promptly with microfinance institutions in the event of extraordinary events that may impact their loan repayment. They should provide relevant documentation and seek assistance to explore available relief options.

v. Bitter Relations with Customers During Loan Recovery

Microfinance Institutions: Microfinance institutions should prioritise customer relationship management and invest in training for staff to handle difficult situations with empathy and professionalism. This can help prevent bitter relations and improve the overall recovery process.

Loan Officers: Loan officers should be trained in conflict resolution and effective communication to handle challenging interactions with customers during the recovery process. Building trust and maintaining respectful communication can help mitigate bitter relations.

SMEs: SMEs should maintain open and transparent communication with microfinance institutions, especially in cases of financial difficulty. Proactive engagement and willingness to address challenges collaboratively can help prevent bitter relations during the recovery process.

vi. Incompetency of Staff to Address Loan Recovery Processes

Microfinance Institutions: Microfinance institutions should invest in comprehensive training programmes for staff involved in the loan recovery process. This training should cover ethical practices, legal compliance, negotiation skills, and customer relationship management to ensure competency in addressing loan recovery processes.

Government: The government can support microfinance institutions by providing resources for training and capacity building programmes aimed at improving staff competency in loan recovery processes.

Loan Officers: Loan officers should actively seek professional development opportunities to enhance their skills in loan recovery processes. Continuous training and upskilling can improve their competency in addressing the challenges associated with loan recovery.

SMEs: SMEs should engage constructively with loan officers and provide necessary documentation and information to facilitate the recovery process. Clear communication and cooperation can help mitigate the impact of staff incompetency on the loan recovery process.

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