Loan Recovery Performance of Credit Officers in Microfinance Institutions: A Case of Assam

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Abstract: *In microfinance institutions, credit officers play a pivotal role not only in granting loan, but also recovery of such loans, which have a future operational implication. This paper seeks to promote better understanding of loan recovery performance of credit officers both qualitatively and quantitatively. The qualitative methodology demonstrates their problem regarding recovery and contextual solution with limited regulatory environment. On the other hand, the quantitative part focuses on the determinants of their recovery performance where it is found that collection time has a positive relation with recovery performance.*

Keywords: microfinance institutions, credit officer, loan recovery, north east India, tobit regression

1. Introduction

Financial exclusion is considered one of the greatest constraints in elimination of poverty. In recent times, most of the nations, especially, developing and underdeveloped have been trying to achieve the goal of poverty eradication through a number of contextual policies, where inclusive finance is a common goal for all. Microfinance is considered as one of the significant tools in achieving the objective of inclusive finance due to a couple of reasons. First, it can tackle the problem of information asymmetry that faced by lending institutions by mixing both relationship lending[i] and credit scoring[ii] [1, 2, 3, 4]. Secondly, the strength of microfinance lies in its mechanism of credit provision, where social collateral, intra-monitoring among the group members, screening by the peer members is its in-built features [5, 6, 7].

Microfinance is a credit plus approach, which provide not only credit but more financial services such as insurance, transfers, savings, etc. In Indian setting; the most popular operating model of microfinance is Microfinance Institution (MFI) model and Self-Help Group Bank Linkage (SBLP) model. While SBLP model demonstrates larger outreach, MFI model is presently gaining impetus. It is reported that as of December 2010, 3652 MFIs reached about 200 million clients, of which, 66.99 percent were among the poorest when they took their first loan [8]. However, microfinance outreach is still limited, because a vast majority of the regions in the world cannot access financial services [9] although poverty is acute and widespread [10]. Therefore, it implies that microfinance has to make larger outreach to achieve the goal of access to finance.

However, microfinance has now-a-days faced the challenge of achieving triple goal of outreach, impact and sustainability, and as a result the *critical microfinance triangle* has become a concern for microfinance practitioners [11]. Since, both institutional and financial sustainability has lately become priority, the microfinance institutions therefore, emphasis on repayment of loans. Repayment performance is a key variable, which is demonstrated as a prime performance indicator by the MFIs to attract donors and international funding and, which help in achieving financial sustainability [12]. Credit officers[iii] are key factors in achieving higher loan repayment performance of an MFI. Nevertheless, research itself particularly ignores the role of credit officers at the interface with the poor and for attaining institutional sustainability [13, 14, 15, 16]. In the absence of concrete microfinance regulation,[iv] it is intricate for a credit officer to maintain higher recovery of loans since a number of issues and problems concerned with the work credit officers [17].

With this backdrop, the paper focuses on the problem and solution related to recovery from qualitative perspective and examines quantitatively the factor behind the recovery performance of credit officers. The paper is organized in five sections. Apart from the introduction in section 1, section 2 describes the database and methodology. Section 3 focuses on the problems and solutions related to recovery from the qualitative perspective which is followed by the assessment of factors behind recovery performance of credit officers in section 4. Finally, section 5 concludes the paper.

2. Data and Methodology

The study is based on primary sources of data. Both qualitative and quantitative data were collected through administration of a semi-structured questionnaire. In this endeavour 56 credit officers across 28 branch offices of two selected MFIs of Assam, namely, RGVN(NE) and ASOMI were interviewed. The sample represents three categories of credit officers- better performer (more than 90% of recovery record), average performer with 75-89% of recovery record and under performer (less than 75% of recovery record).

Since the problems faced by credit officer and their solutions are qualitative in nature, therefore, open-ended questions were administered to capture the situation. Besides, a Tobit regression model is also constructed to examine the factors behind the recovery performance, which is detailed in the section 4 along with results.

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3. Loan Recovery and Credit Officer: A Qualitative Perspective

In microfinance operation, credit officers basically target to collect timely repayment. However, it is not an easy task to maintain 100 percent recovery rate, since some of the borrowing group members may create a number of problems with different circumstances. This section glimpse into the problems related to recovery of loan and their temporary solutions, which is based on their field-level experiences of credit officers.

3.1 Type and Reason Regarding Non-recovery of Loan

Microfinance borrowers generally create a number of problems with varied reasons. The following types of problems were faced by the credit officer of sample branch offices, which were created by clients regarding microfinance repayment installment.

a) Some members remained willfully absent on the scheduled day of repayment and as a consequence, other members, who present on the day, deferred the payment to a future date. The co-members are reluctant to pay the default member's part and eventually the amount become default.

b) There are also some members who refuse to repay due to inadequate income and as a result, the other members, even they have repayment installment, deferred the scheduled payment to a future date. No member helps the problematic one.

c) One of the common problems of a default borrowing group is that the co-members indicated the problem associated with the default borrower, and therefore, they are reluctant to pay not only for the defaulter, but also for the self, until and unless the default borrower agreed to repay the loan amount.

d) It was reported by credit officers that the problem of non-repayment is considerably higher with SHGs than the JLGs. Since SHGs consist of large numbers of members, therefore, if somebody fails to pay the installment, others are not willing help her.

All the above problems indicate the problem of non-repayment at borrowers end. The problem of non repayment is guided by some reasons as indicated by credit officers.
Reasons against Non-Repayment
The following reasons of non-repayment are reported by credit officers.

a) Credit officers observed that non-repayment was sometimes willful. It actually happens when the default borrowers receive other sources of borrowing.

b) Non- repayment is also due to a dearth of proper orientation and training to credit officers. As for example, when a credit officer joined a branch office, the orientation of the programme is inadequate, for which they had incomplete regulatory information. Moreover, they are not well trained for field-level works.

c) It is reported by the credit officers that some members found it strenuous to repay loan at weekly schedule due to inadequate and improper flow of business income. This is because those borrowers, who were engaged in small business like vending, dairy and cultivation, found it difficult to repay because some part of their working capital remains locked due to selling the commodities at credit.

d) Since a credit officer covers a substantially large geographical area for group formation and for collection of instalment, they failed to offer sufficient time to groups for necessary motivations. As a consequence, credit officers remain unaware of some small, but important information about the group members.

e) Non- repayment is reportedly occurred due to blockage to the flow of business, family-related problem and for idiosyncratic risks.

f) Erratic group formation also creates a repayment problem. If the interval between group formation and loan disbursement is too small, it may aggravate non-repayment.

g) Credit officers were also not able to execute some stringent measure in the way of legal notice, since a number of alternative credit sources such as moneylender, SHGs and other MFIs co-exist in the operation area.

h) One important reason associated with non-repayment is multiple-borrowing from unusual sources with different supported needs, which ultimately makes the borrower indebtedness.

i) In some areas such as Dimu, Dowak and Balisatra under Koniha branch office of RGVN(NE), the inter-group information sharing was considerably high. When one group failed to repay, the information speedily transmitted to the adjacent area. Consequently, the whole area remains default. This type of phenomenon is termed as Domino Effect and was observed in Burkina Faso [18].

3.2 How Problems are handled? A Practical Approach

Credit officers of different branch offices faced serious problem of non-repayment. Some credit officers failed to mitigate the problem, while some partially solve the problems. The followings are some of the qualitative techniques applied by the successful credit officer in mitigating the problem.

a) In some instances, default members were threatened of legal action that will be taken by Reserve Bank of India (RBI). Although RBI does not have such regulations for the microfinance sector in India, the borrowing members were unaware about it and thus result in recovery of the default amount.

b) Successful credit officers make a frequent visit not only to their house but also to the villages of borrowers.

c) Once some part remains default, the credit officer advised to use common-fund for repayment of loan. Common-fund is a mutually agreed saving fund maintained within the group. When some members borrow from common-fund, they are required to pay interest on it.

d) Repeated visit along with threatening of legal action results sometimes in a small repayment amount.

4. Factors behind Loan Recovery Performance of Credit Officer

In the previous section, the field-level experience of credit officers demonstrates that they generally face numbers of

problems with varied magnitude. The solution to the problems as mentioned above are neither a thumb rule nor pre-dictated by their supreme management. This is just due to their attachment to the members and understanding towards locality.

This section examines quantitatively the factors behind recovery performance of credit officers. In this connection, a number of operational and financial information were gathered to construct a simple econometrical model with a few feasible but instrumental variables. Since theoretical literature on recovery performance of credit officer is scant in nature, therefore both theoretical understanding and common practices of credit officers are applied in constructing the model. The empirical strategy focuses on testing whether or not particular variables are associated with repayment performance.

The model is depicted in equation 1by introducing one dependent and six independent variables apart from random error term.

$$RECOV_i = \alpha + \beta_0 EXP_i + \beta_1 CURCLNT_i + \beta_2 OPAREA_i + \beta_3 COLTM_i + \beta_4 NOGR_i + \beta_5 LNAMT_i + \varepsilon_i \qquad (1)$$

In this framework, recovery (RECOV) is a censored variable with value ranging from 0 to 1. Therefore, variable $RECOV_j$ has both upper and lower limit. Since dependent variable is truncated at one (complete recovery), using Ordinary Least Squares (OLS) results in biased and inconsistent parameter estimates even asymptotically [19]. The Tobit regression model is one of the methods that used to overcome such problems [20]. Description of the variables and descriptive statistics is incorporated in table 1.

Table 1: Descriptive Statistics and expected sign of the variables used in tobit regression model

Variable	Description	Mean	Standard Deviation	Expected Sign
RECOV (in %)	Recovery rate	0.87	0.0637	
EXP (in months)	Experience	25.71	14.622	+
CURCLNT	Current client size	298.93	110.235	+/-
OPAREA (in km^2)	Operational area	270.28	152.715	-
COLTM (in minute)	Collection time	15.71	10.821	+
NOGR	Number of group	31.14	24.414	+-
LNAMT (in Rs.)	Loan amount	858221	322063	-

Source: Calculation done by authors

It is found that mean recovery rate per credit officer is approximately 87 percent with minimum degree of dispersion. The mean loan amount per credit officer is about 8.5 lakhs, while mean client and group sizes are 299 and 31 respectively. The mean client size is less than global average according to MixMarket online database portal. It is interesting to observe that mean operational area is 270 km^2 with a higher degree of variation. The wider operational area may have a negative implication on recovery rate. This is because, as the area of operation increases, the required time for motivation of the group and collection time decreases. In our estimation, collection time is calculated at about 16 minute per group.

Table 2: Determinants of loan recovery performance of credit officer

	LR chi^2(6) = 35.6	
	Prob > chi^2 = 0.0000	
Log likelihood = 78.2887 Pseudo R^2 = -0.2942		
Dependent Variable: **RECOV**		
Independent Variable	Coefficient	t-value
EXP	0. 0001751	0.32
CURCLNT*	0.0010022	3.84
OPAREA	-0. 0000675	-1.22
COLTM*	0.0042692	5.86
NOGR *	-0.0022841	-5.11
LNAMT*	-0.0000003	-3.81
_cons*	0.8647788	10.56
/sigma	.0482173	

* Significant at ≤ 5 percent
Source: Calculation done by authors

The result of tobit regression is depicted in table 2, where it is found that four out of six independent variables are significant at ≤ 5 percent level. Although the variables experience (*EXP*) and operational areas (*OPAREA*) are as per expectation, they are not statistically significant. It is found that increase in current client size (*CURCLNT*) significantly increases the recovery rate. An increase of 10 clients, increases recovery rate by 1 percent. Similarly, collection time (*COLTM*) also positively relates to recovery performance. It is interesting that increase in loan amount (*LNAMT*) has a negative impact on recovery rate. A similar relationship is also observed in case of number of borrowing groups (*NOGR*).

5. Conclusion

Credit officers are the frontline worker of microfinance industry. However, literature shades less light on this important component of microfinance industry. Using a mix of qualitative and quantitative method, this paper explores limited facets of loan recovery by credit officers. The results importantly identify some areas, such as, collection time and loan amount, which require definite policy to enhance recovery rate and thereby achieving both institutional and financial sustainability. It is also noteworthy that the management must motivate and train their credit officers in a strategic way which will in turn help the credit officers to maintain a recovery performance in their future endeavour.

Notes:

1) Relationship lending is a long term process by which credit officers comprehends and evaluates creditworthiness of clients.
2) Credit scoring is a process, where a lending institute evaluates potential borrowers on the basis of their personal and business characteristics.
3) Credit officers are frontline employees of MFIs, which have several titles such as: field staff, credit officers, or field workers and loan officers. The paper uses the term credit officers as used by ASOMI and RGN-NE.

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4) Although Microfinance Regulation and Development Bill, 2012 has been tabled in the both lower and upper house of parliament, due to change in political government in 2014, it may show the same result as it was with Microfinance Bill, 2007. However, Reserve Bank of India has some sort of common regulations, which is just not sufficient to safeguard the interest

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