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UNETHICAL CONDUCT AND PERFORMANCE OF MICROFINANCE INSTITUTIONS IN (SACCOs) UGANDA

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Savings and Credit Cooperative Societies (SACCOs) are co-operatives of financial nature whose aim is to encourage savings, extend loans and other services of financial nature to its associates and improve their income and living conditions. However, the ability of SACCOs to achieve these roles is influenced by so many factors. This paper, therefore aims at examining the relationship between unethical conduct proxied as excessive lending interest rates, forceful loan recovery practices and coercive lending techniques, and the performance of microfinance institutions; a case of SACCOs in Kumi district, Uganda. The study adopted descriptive design and questionnaires were used to gather data. Data was analyzed by use of inferential statistics. Findings revealed that excessive lending interest rates had negative insignificant association while forceful loan recovery practices and coercive lending techniques had positive insignificant relationship with performance of SACCOs. The study recommends that microfinance regulatory bodies like Uganda Microfinance Regulatory Authority and Association of Microfinance Institutions in Uganda, use these findings to understand factors affecting performance of microfinance institutions so as to promote sound practices among practitioners and industry cohesion.

1.0 Introduction

In a world that is fast globalizing, microfinance seems to clasp the covenant as one of the great levelers. The concept of microfinance has evolved amazingly over the past three decades, starting as a community lending operation in Bangladesh and rolling out as a rectifier to the penniless and disenfranchised hundreds of millions of the world's least well-capitalized people (Navajas *et al.*, 2000). Advocates of microfinance as strategy have laboured with great effort to further the main goal of the movement, that is, distribution of small "micro" loans to poor borrowers scattered all over numerous distant villages in the under developed and undeveloped parts of the world (Diagne and Zeller, 2001). Microfinance has entrenched itself as an essential part of the financial sector of emerging and developing economies in the last few decades. Microfinance has remained one of the most efficacious and adaptable strategies in the tussle against global poverty (Argandoña, 2009). Microfinance should be and can be managed on a large scale so as to respond to the pressing demands of the world's poorest, as it pivots on the virtuous outcomes of financial exclusion (Hudon, 2011).

SACCOs are Institutions of Microfinance that are member based, and their main aim is to advance the culture of saving among its associates, and to translate those savings into credit for its members at equitable and rational rates of lending (Ndiege *et al.*, 2016). The larger part of the populace in developing countries find themselves

denied access to the services offered by orthodox banking institutions because of; higher transaction costs, absence of security, lack of transparency of information and high default risk (Marwa & Aziakpono, 2015). In an effort to narrow the financing vent, SACCOs have become mechanisms for heightened approach to credit that is affordable, including other services of financial nature by the dynamic needy (Ndiege *et al.*, 2016); (Marwa & Aziakpono, 2015). From heightened access to loans offered by SACCOs, the frugally dynamic needy in developing countries are anticipated to join the entrepreneurship world and open up small and microenterprises (Nickson *et al.*, 2015). Although SACCOs have been recognized as mechanisms for promoting socioeconomic well-being of the dynamic needy, SACCOs can further accomplish this if their performance is financially sustainable. For as much as available empirical literature recognizes that a number of factors influence SACCOs performance financially, unethical conduct remains one such factor that fosters financial performance of SACCOs (Basu and Woller 2004).

However, microfinance industry has in the recent past been confronted with honest condemnation, other scholars actually write about “ethical crisis” in MF industry (Hudon, 2011). Discussion about unethical issues in microfinance started back in 2007, after it was unearthed that triumphant stock offering made by Micro Finance Institution in Mexico called Compartamos, originated partly from making poor borrowers pay rates of interest in glut of 100 percent (Rhyne & Guimon, 2007; Lewis, 2008). Many Micro Finance Institutions have taken blame for using techniques of lending that are exploitative, applying practices of loan recovery that are forceful, and propelling the borrowers to “debt traps” (Hulme & Arun, 2011; Dichter & Harper, 2007; Karnani & Bateman, 2011). In the same line, several scholars have questioned the faith that microfinance is an efficacious instrument for reducing poverty, while some call for more factual evidence of the effect of microfinance (Ellerman, 2007; Meyer, 2007). Other censorious scholars have argued that the acclaim of the microfinance movement has all along stemmed from the neo-liberal doctrine, especially its goal to lessen opposition to the liberalization of the financial sector (Bateman, 2010; Weber, 2004).

According to Kleynjans & Hudson (2016) several MFIs have originated and are implementing codes of conduct as they attempt to rejuvenate credence in microfinance as an instrument for development and as well address criticism linked to unethical concerns. Kaptein (2011) as well asserts that codes are intended to tackle the institutional responsibilities and curb behaviour that is unethical. According to the Pocantico (2008) declaration, a grouping of heads in microfinance came to a consensus on the “need to put in place a code of conduct, intended to preside how purveyors of microfinance handle customers, and that the purveyors of microfinance be answerable for plying in line with this code”. After the Pocantico (2008) declaration, a group known as the Consultative Group to Assist the Poor (CGAP), put in place preliminary work for progression and furtherance of familiar concepts and standards, precipitating the major points of subsisting codes of ethics into seven customer defense concepts of The Smart Campaign (2013) (Navajas *et al.*, 2000). Following the introduction of increased lucidity into MF sector, this drive has allayed several processes including drawing, reviewing, and institutionalization of codes of conduct.

In spite of the many attempts by organizations to avert the unfolding of unethical actions, conduct and decisions, it remains set that these incidents will none the less occur (De Cremer, Van Dijk, & Pillutla, 2010). The authors also state that, despite their prevalence, we do not know much how to cope up with and even manage the after-effects of such omissions; worse still they are hardly understood. This study therefore sets to explore the impact of unethical conduct on the performance of microfinance institutions in Kumi district in Uganda, a case of selected SACCOs.

1.1 The Concept of SACCOs

According to Anania, Gikuri & Hall (2015), SACCOs are self-support, self-governing and unique financial co-operatives that are member driven. They are formed, owned and run by their members who often have some familiar relationship keeping them together. The relationship could be; serving the same employer, being members of one social group, labour union, church or engaged in production of the same product, involved in marketing of the same good in a given community. The authors also assert that, being a member in SACCOs is normally open to anybody who has a belonging to the group, irrespective of their gender, religious affiliation, tribe, job status, colour or race. SACCO members normally agree to save money together in a pool and then lend the same money to each other at reasonable lending interest rates as loans. The purpose of charging interest

on these loans is to offset the cost of interest on savings and also meet the administrative costs. Since it is members who are also the owners, they make decisions on how their monies will be used to benefit each other. SACCOs are self-governing institutions and decision making in the institution is in a democratic manner. A board of 5 to 9 members that employs staff to engage in the operational undertakings of the SACCO is elected by the SACCO members. SACCO members as well elect a committee that supervises and performs the internal audit function (Anania, Gikuri & Hall, 2015). SACCOs are also originated to set up economic power to the people by way of mobilization of savings and empowering people by ensuring good manners and etiquette in using loans and savings.

According to Perline R, USAID/Rural SPEED (2009), SACCOs are formed to achieve the following objectives;

- (a) Encourage and promote prudent culture among the members of the SACCO and the public by educating them on how wisely to use their money and efficiently manage their scarce resources.
- (b) Teach the public how to acquire assets that will help act as collateral and security for accessing loans in the future.
- (c) Make finances more easily attainable for its members whenever they want it.
- (d) Develop a link on either side of the rural populace and urban banks so as to broaden the capital base.

According to Perline R, USAID/Rural SPEED (2009), SACCOs have been praised for a number of reasons that include; facilitating flow of finances into the community, they are a secure place to keep savings of the peoples, they are a tool for battling poverty through improvement of social and economic conditions of its associates, empowering those individuals that are powerless from being exploited by institutions or individuals that are powerful. Perline R, USAID/Rural SPEED (2009) further states that SACCOs achieve all these through helping its members and the community to get better access to a number of affordable services of financial nature. It also states that the rationale for formation of SACCOs may differ depending on which country or society, but most commonly preached reason that applies to Uganda as well, is that, SACCOs are formed to promote a savings culture and to offer the same savings to members in form of loans with affordable lending interest rates. SACCOs can be started by individuals who put together their resources, or they can also be started by proponents like; NGOs and donor-funded projects, religious and service institutions, co-operative officers, government, politicians and co-operative societies like dairy and agricultural co-operatives.

1.2 Ethics and Microfinance

Microfinance is widely comprehended to be the furnishing of very small and small loans including other services of financial nature to comparatively poor people and also to the very small and small businesses, in the under developed and developing economies (Cull *et al.*, 2009). Unethical behavior in business circles has as well been used to ascertain the rates of failure or success of business institutions including MFIs. In MFIs, unethical practices and behaviour have of late been seen as the main causes of crises in microfinance in a number of countries in different parts of the world (Hudon, 2011). A case in point, is in Latin America in Bolivia, where there was a crisis in microfinance in and around 1999-2001. This crisis was characterized by competition within the then existing players in microfinance and lenders to consumers, which led to over-indebtedness of customers of microfinance (Constantinou & Ashta, 2011).

Another case is the recently augmented crisis that was noted in India. The crisis in Indian erupted early in October 2010, in Andhra Pradesh (Constantinou & Ashta, 2011). The presence of several MFIs in Andhra Pradesh led to very stiff competition amongst them, this was as well the case for MFIs in Masvingo in Zimbabwe. According to Chakrabarty & Bass (2014), in order to avert this, MFIs need to increase their capital bases through attracting private equity players, launching regular checks for fraud and improve their financial and accounting proficiency so as to build hefty lending positions, services and products. This study therefore, desired to evaluate the impact of unethical conduct on SACCOs' performance as they seek to effectively and efficiently serve the vulnerable poor people in Kumi district in Uganda. In this study we consider three issues that have repeatedly been raised by different scholars as unethical practices that wear away the rationale for the microfinance industry;

High Lending interest Rates

The more notable condemnation of the microfinance industry in neoteric years, has been the relatively soaring lending rates of interest that are charged to the borrowers by the industry. Most of this unethical argument began with the Compartamos stock offering (2007) which was made possible by rates of interest in excess of 100 percent (Lewis, 2008; Rhyne & Guimon, 2007; Rosenberg, 2007). These rates of interest frightened Yunus, who, following an interview, made a comparison of Compartamos to local moneylenders or “loan sharks” (Rosenberg, 2007). According to Rosenberg (2007), this interest rates even frightened the officials of “Consultative Group to Assist the Poor”, a prime donor consortium organized by the World Bank. What most people were demanding to know was if the rates of interest charged by Compartamos were isolated or were the usual practice in the MF industry.

Recent studies have also confirmed that lending rates of interest on micro loans are habitually much higher compared to those given by formal financial institutions, even in less developed economies (Kar & Swain, 2014). High lending rates of interest have the potential to influence loanees to be morally humiliated leading them to default. Alternatively, higher rate of default leads MFIs to raise lending rates of interest in an attempt to cover for the cost. So, the higher the rate of interest charged, the higher the possibility that the loanee will not repay (Godquin, 2004). This means that, the client either takes on projects that are riskier and that may lead to failure or the client may intentionally bear the costs that are associated with failure to pay (Guo & Jo, 2017). Nevertheless, these rough perforating factors submit defeatist externalities and back step the process of repayment (Godquin, 2004; Khalil, Rickwood, & Muride, 2000)

Forceful loan recovery practices

Loan officers are normally assigned to carry out loan disbursement, performance monitoring, loan recovery and evaluation of business proposal. But it is alleged that their behaviour with the successful loanees is like the behaviour of oppressive debt collectors. It is becoming common practice for loans officers to use bizarre and apparently unpleasant methods, like berating or verbal abuse, insults before other members and even captivating the loanees to sell out some of their tangible assets in order to repay the loans due (Ali *et al.*, 2017; Dixon, Ritchie, & Siwale, 2007).

According to De Quidt *et al.* (2016), group-guarantee is a common technique of lending used in the microfinance sector. According to the authors, this lending technique supplements the loan security and as well acts as an effective instrument to achieve ideal repayment. The authors further state that this technique solves the issue of information asymmetry, unfavourable selection and moral threat, as associates will always spur on each other to invest borrowed money sensibly as well demoralize fellow associates from taking too many risks. Morduch & Armendariz (2005) also posit that, pressure from group associates works as an effective instrument for due repayment. Microfinance institutions use peer-groups as their ‘pressure-groups’ (Siwale & Ritchie, 2012) and more often this technique turns into compulsive enforcement that works for guaranteeing consistent repayment (Besley & Coate, 1995; Churchill, 1999; De Quidt *et al.*, 2016; Velasco & Marconi, 2004). All in all, through aforementioned practices, MFIs are able to maximize; repayment of loans, growth of the institution and profit while lagging far behind their initial objective of alleviating poverty. But, these kinds of humiliating handling expectedly ushers in unfavourable realities to the loanees’ lives. So, carrying out an investigation on loanees’ repercussions because of ‘forced loan recovery’ practices is of practical importance.

Coercive lending techniques

Coercive techniques of lending refer to unethical acts that are unfair, deceptive, or fraudulent, done by lending institutions during processes of origination loans (Sane & Thomas, 2013). They include imposing abusive language and unfair loan terms on loanees. According to Karnani & Bateman (2011), while there is some dispute about what does constitute coercive lending practices, several acts are normally cited as such, including; failing to give relevant information to the borrower or giving information that is false to the borrower, loan packing, flipping the loan, lending that is asset-based, among others. These acts, either separately or in concert with one another, bring about a cycle of debts that lead to acute financial destitution on individuals and their families (Hulme & Arun, 2011; Karnani & Bateman, 2011). A lot of the latest dismissive coverage of microfinance by the media has centered on allegations of institutions of microfinance applying techniques of lending that are coercive (Priyadarshie & Ghalib, 2012; Heineman, 2010; Counts, 2008).

The condemnation would be seen to mean that transactions in microfinance are not on the part of the clients fully voluntary (Heineman, 2010).

1.3 History of SACCOs in Uganda

The cooperatives concept in Uganda began way back as a manner of people coming together for one common good. According to Odokonyero (2009), the naming of these cooperatives depended on where it was being formed, for example, in Acholi it was called Kalulu, in Lugbara it was called Asoso, in Buganda it was called Twezimbe, in Alur it was called Kilimba and among the Banyankole/Bakiga communities it was called Biika oguze or Nterera nkuterere, although the incentive was the same across the board. According to Kyamulesire (1988), the cooperative concept formally evolved during the colonial era in about 1913. At the time of their evolution Cooperatives were intended to empower farmers in demanding what was rightly theirs in terms of prices, by dealing away with middle men and shaking the power of monopoly of the private Asian and European companies. The colonial government however, did not legally back the cooperative movement, and this meant that they had to operate informally until 1946 when the operations of the cooperative societies was legalized by the Ordinance, finally giving cooperative societies autonomous power. By the end of the year 1946, there were 75 registered cooperative societies/organizations a majority of them being agricultural marketing cooperative societies (MTTI, 2003).

According to Asiimwe (2013), cooperative movement then flourished smoothly until the 1970s when the upheavals of civil wars hit Uganda which seriously impacted on the activities of cooperative societies. This effect led to most cooperative societies losing their asset stock and membership was also affected through death. The author further states that it is also around this time that the economic crisis that caused the collapse of many cooperatives struck. In 1986 when the Uganda Cooperative Alliance (UCA) was established, cooperatives were revitalized and the UCA mandated with the establishment and management of SACCO's. This was in response to a call by government to provide financial services that are affordable to the economically poor populace in rural areas (UCA, 2004). Through the Rural Financial Program (RFP) SACCO's movement has as well been promoted all over the country. Under this program SACCOs are established in each sub county in each district to provide services to the poor populace living in rural areas (MTTI, 2011). According to ICA-EU national report (2020), by February 2020, there were 21,346 cooperative societies registered in Uganda, having 5.6 million estimated members. This compares with 10,746 registered cooperative societies by January 2011 (Mpiira *et al.*, 2013). However, monitoring of cooperatives in Uganda remains insufficient to provide a complete picture. As an example, it is unknown the number of cooperative societies active on the ground, including the details of their production and employment.

1.4 Performance of SACCOs in Uganda

According to AMFIU report 2014, the number of registered SACCOs has since increased following a policy introduction by the Uganda government to advance SACCOs to increase financial outreach in the countryside, the cooperative department giving the figure as 2,176 registered SACCOs by 2014. The report further states that despite the potential that SACCOs have to improve access to finances to the low-income populace mainly the small-scale farmers, SACCO competitiveness has greatly been interrupted by poor management. AMFIU report (2014) further stated that, financial institutions that are regulated had slightly grown in terms of number of clients while SACCOs have remained the same. Although it may not seem an encouragement given the effort to raise outreach, it remains an indication of institutional maturity because in this case, quality tops quantity. According to the 2008 report by AMFIU, almost 2 out of 3 SACCOs earlier started were non-operational as they either collapsed or remained dormant or for other reasons stopped operating. The report further posits that the drift in the loans value given out by these SACCOs indicated a falloff in 2008. That by 2005 to 2006, the amount of loans rose to 23.15%, while 2006-2007 the amount of loans rose to 26.71%, the amount of loans, however, by 2007-2008 declined to 23.25% (WOCCU Report, 2005-2008). According to the IMF Report (2001), in Uganda SACCOS have been exposed to a sequence of challenges which have befouled their esteem as providers of financial services.

1.5 Statement of the problem

The microfinance concept developed as response to the need to avail very small and small loans together with other services of financial nature to the comparatively poor populace and also to the very small and small businesses, in the under developed and developing economies (Cull *et al.*, 2009). The promoters of microfinance assumed that ingress to microfinance could usher economic and social refinements among the lives of the penurious persons and their lineage (Hudon, 2011). In modern years however, microfinance has developed into a trading undertaking as it has turned out that furnishing penurious people with services of financial nature can be profit-making (Ledgerwood and White 2006). Larger and formal financial institutions like banks are downsizing and are now delivering microfinance services while smaller and informal financial institutions such as Non-Government Organizations (NGOs) are upsizing and turning into banks and for-profit outfits (Marulanda, 2006). As the microfinance sector turns more profit-oriented and commercial, there is the pitfall that clients of the microfinance sector, who may be vulnerable, penurious and illiterate, may be prone to unethical acts such as; exploitation through coercive lending techniques, charging of excessive lending interest rates, forceful loan recovery practices, among others.

Earlier studies conducted on unethical issues in microfinance institutions have established an interaction relationship between ethics and microfinance (Hudon & Sandberg 2013; Cull *et al.*, 2009; Hudon, 2011). These studies, however, were conducted in developed economies, creating a contextual gap. A number of studies in Uganda have inquired into the dynamics of SACCOs in regard to their sustainability, their role in poverty alleviation, their role in resource mobilization for investment and development among the poor. However, most of these studies have not addressed unethical issues in performance of microfinance institutions and specifically in performance of SACCOs. For instance, Kyagulanyi & Newadi (2018) carried out an inquiry on governance systems and economic risk management in microfinance institutions while Sekabira, (2013) did an investigation on the part played by capital structure on microfinance institutions' performance: The Ugandan case. This raises an issue of empirical gap. This is what motivates this study, to enhance the related existing literature by examining the effect of unethical conduct on microfinance institutions' performance, a case of SACCOs in Kumi district in Uganda.

1.6 Objectives of the study

The purpose of the study is to analyze the relationship between unethical conduct and performance of micro finance institutions; a case of SACCOs in Kumi district, Uganda.

The specific objectives of the study are;

- i. To establish the extent to which excessive lending interest rates affect the performance of SACCOs in Kumi district, Uganda.
- ii. To establish the extent to which forceful loan recovery practices affect the performance of SACCOs in Kumi district, Uganda.
- iii. To establish the extent to which coercive lending techniques affect the performance of SACCOs in Kumi district, Uganda.

1.7 Study hypotheses

H₀₁: Excessive lending interest rates do not affect the performance of SACCOs in the district of Kumi, Uganda.

H₀₂: Forceful loan recovery practices do not affect the performance of SACCOs in the district of Kumi, Uganda.

H₀₃: Coercive lending techniques do not affect the performance of SACCOs in the district of Kumi, Uganda.

1.8 The Study Scope

The content of the study is about the impact of unethical conduct on the microfinance institutions' performance, a case of SACCOs in Kumi district in Uganda. In particular, the study intends to manifest the degree to which excessive lending interest rates, forceful loan recovery practices and coercive lending techniques affect the performance of SACCOs in Uganda. The study will be carried out among selected

SACCOs in Kumi district. The district of Kumi was selected for this study because of the comparatively poor SACCO performance, as indicated by the district commercial office that about 50% of SACCOs established collapse within the year of establishment. The study will pivot on unethical behaviour and Sacco's performance amongst selected SACCOs in the district of Kumi, Uganda for the period 2018-2019.

1.9 Significance of the study

To policy makers and regulators of microfinance industry in Uganda, the study findings may instigate revision of policies to suppress unethical conduct and eventually lead to improved performance of Microfinance Institutions and in particular SACCOs, as they regulate microfinance activities.

To the management of SACCOs, the study recommendations may be useful to them in coming up with strategies of taming unethical conduct leading to improvement on their efficiency and effectiveness.

To the academics, the study findings will contribute to the literature that is existing on unethical conduct and microfinance institutions' performance and also help them know and appreciate the context of ethics in the microfinance sector.

2. Literature Review

2.1 Theoretical Review

Agency theory

As stated by Abdullah *et al* (2009), the agency theory tells the relationship between the principal and agent. This theory spins around an individual referred here as the principal deemed to hire the services of another individual also referred here as the agent, and does delegate the authority of decision making to the agent (Jensen & Meckling, 1976). Mitnick (2006), states that in a SACCO set up members who are as well the owners, are the principals and they hire through an election the management board who become their agents. The members/owners as principals entrust the running of the SACCO to the board that manages and the board in turn recruits' managers and vests authority on them (Clark 2004). The agency theory reduces the organization to only two participants; the principals who are the members/owners and the agents who are managers. The members/owners do expect agents to act and make the best decisions to suit their interests as the principals (Ongaki & Otundo (2015). However, sometimes the agents may bow to opportunistic behavior and self-interest, hence violating the agreement existing on either side of the principal's interests and the agents interests (Odhiambo, 2012).

Stakeholder Theory

Stakeholder theory does hold that save for the owners of businesses, there exist other agents including; customers, tax authorities, governments among others, who affect and are affected by the decisions and actions of businesses and that without which businesses would stop existing (Freeman, 2010). SACCOs by their nature of operation, assume responsibilities with several key players whose interests may not be wholly met. Freeman (1984) states that, SACCOs that accumulate better association with most of their key players are better placed to earn substantial returns. For instance, SACCOs perceived to be responsible socially have considerable ability to hire employees who are qualified (Ndung'u & Mutinda (2022). The authors further assert that, SACCOs that are responsible socially raise moral capital amongst their key players and this helps promote safety against loss of the reputation of the SACCOs during certain hard time periods. SACCOs should make management of stakeholders an integral part of their strategy as it makes up among factors that influence performance financially (Berman *et al.*, 1999). According to Freeman (1984), management of stakeholders entails the aptness of the SACCO to recognize who its key players are and what their respective objectives and interests are. The author further states that stakeholder management includes understanding the stakeholder's aptness to control the SACCO, comprehend processes that should be applied by SACCOs in relation to these key players and to identify which decisions permit the key players' interests to be straightened with the processes of the SACCO.

Utilitarian theory

Utilitarian theory alludes to a consequential theory of ethics. Consequential theory proclaims that a business should optimize the "good" and regress the "bad" through a procedure of logical thought in explanation of

findings in computations and actions that seem impartial (Sama & Casselman, 2013). Utilitarian theory holds out that a practice/action is taken to be correct or wrong on the basis of the outcome of the action/practice and its effect on most of the populace (West, 2004). This implies that an action/practice is unethically wrong when it results into more negative outcome as compared to positive ones, to the people affected. The proponents of this ideology are John Stuart Mill and Jeremy Bentham (west, 2004). Utilitarianism, therefore, is moved by the canon that an action/practice is gauged to be ethical on the basis of a set of rules/principles that can present substantial usefulness to considerable number of people (Riley, 2006).

The utilitarian theory is relevant in the analysis of outreach of MFIs in the sense that two clusters are observed. The first cluster is the one that has small MFIs that have a mission of social nature that is intended to reach the poorest of the poor, but are unsustainable. While the second cluster has large MFIs that have a mission commercial in nature that is intended to reach a large number of perhaps slightly poor loanees in a sustainable way (Ejigu, 2012). When this analysis is applied to SACCOs the question naturally to ask is, which SACCO should one choose? On the basis of the utilitarian theory of benefits to the masses, the large MFIs will be preferred while if someone is a believer of moral relativism, then the small MFIs will be chosen (Ejigu, 2012).

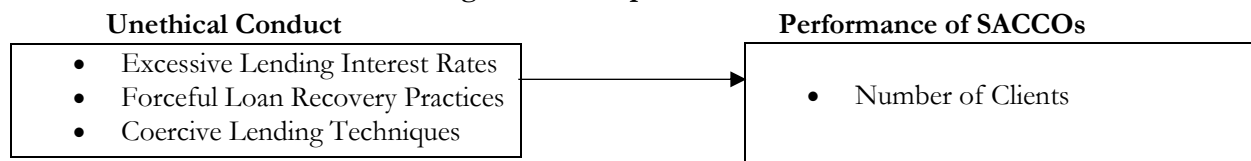
2.2 Empirical Review

Auka & Mwangi (2013) did a study to explore the variables that sway SACCO clients in Kenya, to look for financial services from other financial institutions. The study mainly examined the reasons why SACCO clients sometimes look for financial services from other financial service providers and not from SACCOs where they are members. To realize the study purpose, the study adopted a survey that included a sample size of 100 SACCO members, drawn from 44 different SACCOs that operate within the Central Rift Valley Region. The study selected participants using stratified Random sampling technique. The study collected data by use of a questionnaire from SACCO members. The study adopted both inferential and descriptive statistics methods of data analysis. The study tested hypotheses using regression and correlation analysis. Correlation analysis was applied to test the connection between the predictor and response variables, while regression analysis ascertained the contribution of each predictor variable to the response variable. The study results disclosed that several members of the SACCO borrowed from the SACCOs regardless of a number of factors that come to play, including the level of interest rate charged.

Islam *et al.*, (2018) did a study on “Loan repayment pressure in the practice of microfinance in Bangladesh: An Empirical Study on Grameen Bank, BRAC and ASA. The study adopted a qualitative approach to assess the experiences of borrowers, who were engaged with Building Resources Across Communities (BRAC), Grameen Bank (GB) and Association for Social Advancement (ASA). The study findings revealed that forceful loan recovery practices like issuing final notice to customers to recover a loan is a prevalent practice among financial institutions. The findings further revealed that this process sometimes leads to use of force to recover the loan, which affects the customer’s decisions to take the loan and thereby affecting the performance of the financial institution.

3. Conceptual Framework

Figure 1: Conceptual framework

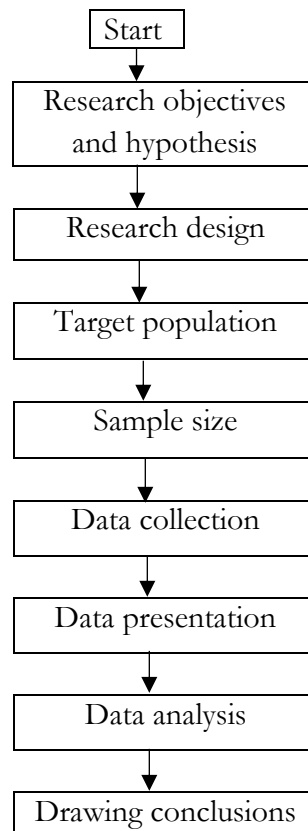


4. Methodology

The study was conducted to examine the relationship between unethical conduct and performance of microfinance institutions, a case study of SACCOs in Kumi district in Uganda. The research problem was studied through the use of descriptive survey research design, which according to Cooper and Schindler (2008) purveys the researcher a chance to apprehend the characteristics of a given population and test hypothesis. The

study used primary data collected from randomly sampled SACCO members and purposively sampled SACCO employees and managers. The study targeted a total of 15 SACCOs, from which 7 SACCOs were randomly sampled. The study sampled a total of 56 respondents broken down into; 6 members, 1 manager and 1 credit officer from each SACCO. Data was collected using a survey questionnaire which according to Kwieciński, Markusiewicz and Pasternakm (2017) is the more commonly used instrument for gathering quantifiable data, convenient and gives assurance to respondents of their anonymity. The questionnaire was formulated using a 5-Likert scale ranging from Strongly Disagree (1) to Strongly Agree (5) to provide information on unethical conduct and performance of SACCOs. The study validated the items of likert-scale using content validity where the questionnaire was availed to people knowledgeable and familiar with the variables/constructs under study and whose comments were incorporated in the final instrument as recommended by (Lam *et al.*, 2018). The final survey instrument was then pre-tested before being administered. The survey questionnaires were distributed to 56 respondents, of which 56 responses were received, reflecting a response rate of 100%. Data analysis was done using inferential analysis (regression analysis) with the aid of SPSS.

Figure 2: Flow chart of research methodology



5. Results

Table 1 Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.242 ^a	.059	-.012	.70260	1.217
a. Predictors: (Constant), CLT, ELR, FLRP					
b. Dependent Variable: NC					

The R-value of 0.242 shows that there was a weak and positive correlation between unethical conduct (excessive lending interest rates, forceful loan recovery practices and coercive lending techniques) and performance of SACCOs (number clients). The coefficient of determination (R^2), measures the goodness of fit of the model or the explanatory power of the model. It gives the proportion of the total variation in performance of SACCOs that is explained by unethical conduct. The findings show that the R^2 value is 0.059, meaning that 6% of the variations in performance of SACCOs are explained by unethical conduct while a greater portion of about 94% is captured by the error term, meaning also that other variables significantly influence SACCO performance in Kumi district, Uganda.

Regression coefficients

Table 2 Coefficients							
Model		Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics	
		B	Std. Error	Beta	T	Sig.	Tolerance VIF
1	(Constant)	2.708	.652		4.151	.000	
	ELR	-.125	.153	-.129	-.816	.419	.947 1.056
	FLRP	.040	.169	.043	.237	.814	.721 1.386
	CLT	.205	.180	.202	1.138	.262	.750 1.334
a. Dependent Variable: NC							

Test for Multicollinearity

The findings shown above indicate that the values of VIF for all the variables under consideration were less than 10 and that the values of Tolerance for all the variables were above 0.1. This implied that the intercorrelation among the independent variables was within the acceptable range which signifies that in this study, there was no threat of multicollinearity. Therefore, on the basis of this finding, the study complied with the regression requirements which made it possible to carry out regression analysis. Accordingly, the statistical significance of the study variables can be relied upon since the p-values were stable and not affected.

H₀₁: Excessive lending interest rates do not affect the performance of SACCOs in Kumi district, Uganda

The findings shown in the table above reveal the coefficient value for excessive lending interest rate to be -0.125. This shows that a unit increase in excessive lending interest rate on average decreases performance of SACCOs proxied as number of clients by 0.125 units. The findings in the table also show that the t-value for the relationship between excessive lending interest rate and performance of SACCOs measured as number of clients was found to be -0.816 with an associated p-value of 0.419 which is greater than 0.05 at 5% level of significance. These results indicate a negative insignificant relationship between excessive lending interest rates

and performance of SACCOs. These findings lead to a conclusion that excessive lending interest rates has a negative insignificant relationship with performance of SACCOs proxied as number of clients. Accordingly, the study fails to reject the null hypothesis that “excessive lending interest rates do not affect the performance of SACCOs in Kumi district, Uganda”.

H₀₂: Forceful loan recovery practices do not affect the performance of SACCOs in Kumi district, Uganda

The findings shown in the table above as well reveal the value of coefficient for forceful loan recovery practices to be 0.040. This indicates that a unit increase in forceful loan recovery practices on average leads to about 1% increases in performance of SACCOs proxied as number of clients. The findings in the table also show that the t-value for the relationship between forceful loan recovery practices and performance of SACCOs measured as number of clients was found to be 0.237 with an associated p-value of 0.814 which is greater than 0.05 at 5% level of significance. These results indicate a positive insignificant relationship between forceful loan recovery practices and performance of SACCOs. These findings lead to a conclusion that forceful loan recovery practices have a positive insignificant relationship with performance of SACCOs proxied as number of clients. Accordingly, the study fails to reject the null hypothesis that “forceful loan recovery practices do not affect the performance of SACCOs in Kumi district, Uganda”.

H₀₃: Coercive lending techniques do not affect the performance of SACCOs in Kumi district, Uganda

The findings shown in the table above reveal the coefficient value for coercive lending techniques to be 0.205. This shows that a unit increase in coercive lending techniques on average increases performance of SACCOs proxied as number of clients by 0.205 units. The findings in the table also show that the t-value for the relationship between coercive lending techniques and performance of SACCOs measured as number of clients was found to be 1.138 with an associated p-value of 0.262 which is greater than 0.05 at 5% level of significance. These results indicate a positive insignificant relationship between coercive lending techniques and performance of SACCOs. These findings lead to a conclusion that coercive lending techniques has a positive insignificant relationship with performance of SACCOs proxied as number of clients. Accordingly, the study fails to reject the null hypothesis that “coercive lending techniques do not affect the performance of SACCOs in Kumi district, Uganda”.

6. Discussion

The effect of excessive lending interest rates on the performance of SACCOs in Kumi district, Uganda.

From the results the coefficient value for excessive lending interest rate is -0.125. This implies that a unit increase in excessive lending interest rate on average decreases performance of SACCOs proxied as number of clients by 0.125 units. It can also be seen that the prob. results are greater than the significance level (0.419 > 0.05). The results of this study can be interpreted that excessive lending interest rates insignificantly affect performance of SACCOs. The study findings are consistent with Khalayi, Alala & Musiega (2014) who in their study on the effect of high interest rates on deposits mobilization among SACCO members, using a comparative approach, found out that interest rates insignificantly affect the growth of SACCO members and SACCO deposits. The study findings however, are not accordant with Anania, Gikuri & Hall (2015) who in their paper stated that high interest rates are among the internal factors significantly affecting members' expectations and hence obviously affecting the performance of Microfinance Institutions. The authors further stated that SACCOs are sometimes charging excessive interest rates than other financial institutions, hence reducing the rate of borrowing among the members. Nyangarika & Bundala (2020) as well stated that interest rate among other factors affects the growth and performance of SACCO deposits and clientele and hence need to be addressed by the respective stakeholders. Murage, Muya & Mogwambo (2018) and Mutai (2016) in their respective findings report that interest rate has significant influence on financial performance of SACCOs.

The effect of forceful loan recovery practices on the performance of SACCOs in Kumi district, Uganda.

The results show the value of coefficient for forceful loan recovery practices to be 0.040. This implies that a unit increase in forceful loan recovery practices on average leads to about 1% increases in performance of SACCOs proxied as number of clients. It can as well be seen that the prob. results are greater than the significance level ($0.814 > 0.05$). The results of this study can be interpreted that forceful loan recovery practices insignificantly affect performance of SACCOs. These findings are in agreement with Kinyua (2023) who in his study on 'Examination of recovery strategies on repayment performance of revolving funds in Kenya' revealed that loan recovery implementation and collection strategies have insignificant effect on repayment performance in that loan collection and recovery implementation strategies do not affect repayment performance and hence performance of the institution. The findings however, do not agree with Kar & Swain (2014) who in their study on "Interest rates and financial performance of Micro Finance Institutions; Recent Global Evidence", stated that loan delivery and recovery methods have a significant impact on financial performance of micro finance institutions. The results as well are not accordant with Anania, Gikuri & Hall (2015) who in their findings stated that poor loan recovery prevents SACCOs from meeting members' expectations. Bwoma, Muturi & Mogwambo (2017) indicated that loan collection policies has significant effect on the performance of DTS in Kisii County, Kenya. Katula & Kirininya (2018) also in their study on "loan repayment and financial performance of deposit taking SACCOs" revealed that loan follow up procedures significantly relate with financial performance of deposit taking SACCOs.

The effect of coercive lending techniques on the performance of SACCOs in Kumi district, Uganda.

The results show the coefficient value for coercive lending techniques to be 0.205. This implies that a unit increase in coercive lending techniques on average increases performance of SACCOs proxied as number of clients by 0.205 units. While it is also seen that the prob. results are greater than the significance level ($0.262 > 0.05$). This study results can be interpreted that coercive lending techniques insignificantly affect performance of SACCOs. These findings are consistent with Imeokpararia (2013) who in his study on 'Loan management and the performance of Nigerian banks: An empirical study' observed that failure by financial institution to have sound lending techniques does not have significant effect on the performance of financial institutions in Nigeria. The results are however, in disagreement with Bakar, Abdul Rahman & Ibrahim (2020) who in a study on "Client Protection and Sustainable Performance in Microfinance Institutions", revealed that debt collection/recovery process has a significant influence on the level of sustainable performance, and additionally the findings are not consistent with Islam *et al.*, (2018) who stated that the use of forceful loan recovery practices like issuing final notice sometimes affects the customers decisions to take the loan and thereby affecting the performance of the financial institution. Kilika, Namusonge & Sakwa (2019) indicated that lending methods had a significant effect on the financial performance of deposit taking MFIs, while Namutenda & Muturi (2017) also in their study revealed that lending policies correlate strongly with financial performance of MFIs.

6. Conclusion and Recommendations

On the basis of the study findings, the study concludes that unethical conduct proxied as excessive lending interest rates, forceful loan recovery practices and coercive lending techniques, does not significantly affect performance of SACCOs measured as number of clients. The study therefore, rejects the null hypotheses. The findings of this study will be useful to micro finance regulatory bodies in Uganda like Uganda Microfinance Regulatory Authority (UMRA) and Association of Microfinance Institutions in Uganda (AMFIU), in understanding the factors affecting performance of micro finance institutions and hence be able to promote sound practices among practitioners and industry cohesion. On the basis of the study findings that have indicated that a part from excessive lending rates, forceful loan recovery practices and coercive lending techniques other factors significantly influence (94% influence) SACCO performance, this study recommends that future researchers could explore investigating which other factors influence SACCO performance.

7. Managerial Implications, Suggestions and Acknowledgments

Managerial implications

The inferences from this study are that administration of SACCOs needs not be monopolized by friends and members of the family. There is need for other members of the SACCO to participate actively as independent members, this will help make sure that inclinations that lead to exorbitant rates of interest and forceful recovery practices such as over approximated expenditure, digression of funds of the SACCO, inefficiency and overspending are constricted.

Management of SACCOs have to make sure that their establishments advance sound actions including crafting policies to oversee delinquency and delayed repayment in order to deter loan recovery practices that are forceful. Administrators of SACCOs as well need to surveil manners of loans officer's in handling clients and also revise the mechanism used to give incentive, for example giving incentives to loans officers based on the level of their disbursement and collections. This incentive forces loans officer's to use unethical practices to increase their disbursements and collections

Administrators of SACCOs should put emphasis on evaluation of the creditworthiness of customers, to diminish the rate of indebtedness which will check on loan recovery practices that are forceful. Management should also craft sound framework of managing risk so as to be able to recognize and control risks including default risk/credit risk, and in general enhance quality risk management.

Savings and credit cooperative organizations' management ought to make sure that officers responsible for loans are trained with service conveyance channels to aid hamper lending techniques that are coercive and practices of loan recovery that are forceful. Administrators of SACCOs should also make certain cyclical examination of the system of internal controls so as to halt fraud by loans officers who lend to non-existent borrowers and embellishing disbursements.

Management and board members of SACCOs should make certain that they remunerate themselves in a transparent manner and that their remuneration should be accounted for based on the progress of the establishment. Since the founding mission of microfinance was service to its members, thus both management and the board should not have the advantage of ludicrous emoluments to the detriment of their penurious members as this can lead to imprudent interest rates and other unethical practices.

Management and board members of SACCOs should understand that unethical conduct is one of the factors affecting performance of microfinance institutions and therefore they should strive to promote sound practices among practitioners and the industry in general. They should put in place policies to combat unethical practices, including establishing a detailed framework for ethical loan recovery.

Suggestions

Savings and credit cooperative organizations ought to contemplate collaborating with formal finance establishments by way of reinforced linkages in order to dilate SACCO operations and broaden the default risk. SACCOs should recruit people with experience/knowledge in banking to their management and boards. There should as well be furnishing of subsidies to the penurious so as to lower the cost of credit.

Savings and credit cooperative organizations ought to heed to the fullness the specifications purveyed by regulatory bodies relating to interest charged, rules and regulations of lending and recovery applications. Savings and credit cooperative organizations should venture into lowering veiled costs including processing fees and penalties which make credit costly and in consequence escalating default risk which also leads to practices of loan recovery that are forceful.

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