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CREDIT RISK MANAGEMENT AND PRACTICES OF CREDITORS AND BORROWERS IN COLLECTION POLICY: A COMPARATIVE ANALYSIS

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ABSTRACT

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The study examines the global economic challenges in 2024 and focuses on the recovery of the Philippine economy, stressing the importance of credit risk management and practices in communities supported by the University of Bohol. It shows that microfinance institutions (MFIs) can help improve financial health by offering better credit management and practices in collection policy, especially for borrowers with limited financial knowledge and inconsistent incomes. The results show that both borrowers and creditors are satisfied with the collection policies, but improvements are needed in payment options, debt recovery, and financial education. It is recommended to simplify payment processes, improve collections, offer ongoing training, and gather feedback to align policies. These changes will help strengthen credit risk management and practices to improve the community's financial stability.

INTRODUCTION

In 2024, the World Economic Situation and Prospects update the state of the world economy. Global economic crises threaten the progress of the Sustainable Development Goals (SDGs). While the growing global economy has increased the demand for financial resources, it also raises risks and vulnerabilities that require stronger financial support and stability to manage effectively. Financial conditions are affecting global trade and industry. The analysis predicts that global GDP growth will decrease from 2.7% in 2023 to 2.4% in 2024, meaning slow growth will continue (United Nations, 2024). Recovery from pandemic losses is particularly difficult for developing countries, where many people have high debt and limited investments.

Growth and development analysts are encountering various challenges due to the recent performance of the Philippine economy. Since the debt crisis in the mid-1980s, the country has been labeled the "sick man of Asia" ((Balisacan & Hill, 2003)). However, over the past ten years, the economic outlook has improved significantly, positioning the Philippines as a leading performer in Asia's growth rankings. It has also been featured on several lists of promising emerging economies, such as Time Magazine's "PINEs," Goldman Sachs' "Next-Eleven," and Turner Investment Partners' "TIMPs" (Turkey, Indonesia, Malaysia, Philippines) (Tuaño & Cruz, 2023).

Microfinance is the financial services that provide small loans and financial assistance for those people facing financial challenges, for those who don't have traditional access to banking.

In the communities supported by the University of Bohol, people need to learn how to manage credit risk to enhance their financial health. Good credit risk management allows them to pay back loans without falling into excessive debt. Many people who take out loans to start small businesses face difficulties because they lack financial knowledge and have inconsistent incomes. For financial institutions, effective credit risk management is essential as it guides their lending decisions, impacting both their profitability and stability.

Financial literacy means understanding and using financial skills effectively. As part of the social responsibility of the University of Bohol, the adopted communities of the university lessen the problem of poverty by educating the community members to manage their finances as well as fulfilling their credit obligations to microfinance institutions as well as leading them in the effective use and management of economic capital.

Based on the study's findings, an enhancement program will be developed to improve credit management and practices for community members. These recommendations will empower each community to overcome specific problems while at the same time taking advantage of the emerging community growth and opportunities. Ongoing evaluation will help improve management practices and overall performance among community members.

The goal of this study is to assess the credit risk management and practices of creditors and borrowers in collection policy of the adopted community members in University of Bohol. This will help create a program to improve their quality of life.

THEORETICAL BACKGROUND

Cost Theory. Ferris (1981) claims that trade credit benefits buyers because it offers financing and helps sellers cut costs. It indicates that trade credit can decrease the expenses related to paying bills.

Cognitive Theories. Jean Piaget (1930) believed that learning happens through two processes: assimilation (incorporating new experiences into existing knowledge) and accommodation (adjusting our understanding to fit new experiences). The interaction between these two processes leads to short-term learning and long-term growth, the main focus of Piaget's cognitive theory (Scott & Cogburn, 2023).

Hierarchy of Needs Theory. Abraham Maslow (1943) created the "Hierarchy of Needs," a model that ranks human needs from the most basic to the most advanced. Maslow asserted that basic needs are the base of the hierarchy of needs before individuals can concentrate on higher-level needs. However, he noted that one can only complete some of their basic needs to progress in the pyramid. For example, someone may be a little hungry and still able to learn, but being constantly hungry can interfere with that ability (Maslow, 1943).

Agency Theory. Jensen and Meckling (1976) created agency theory, which states that when a company is first established, the owners often serve as its managers. As the company grows, the owners hire managers to operate it. The owners expect these managers to act in their best interests, forming an agency relationship (Jensen & Meckling, 1976).

Related Literature. According to Ross et al. (2008), credit management has its specific control option; several organizations, especially those within the same industry, may use the same decision template.

Credit management policy is an operational document defining several operating rules for the credit sales process to be followed by the whole organization when granting credit to customers (Muritala & Taiwo, 2013)).

Analyzing credit information and scoring provides different insights into a prospective customer's creditworthiness, which affects the quality of customers so a firm can extend credit (Ifurueze, 2013).

Microfinance institutions provide financial services to low-income individuals, the unemployed, and groups lacking access to traditional banks. Their goal is to alleviate poverty, increase awareness, and assist those in need, contributing to sustainable development (Perways & Krishna, 2017).

The Cambridge Dictionary defines credit risk as the evaluation of whether a borrower or company can repay a loan from a bank or other institution.

Financial risk management focuses on current and potential risks, while institutions aim to reduce poverty, raise awareness, and empower disadvantaged people to support sustainable development (Perways & Krishna , 2017).

Financial risk management involves identifying existing and potential risks and finding ways to reduce them. It includes raising credit score requirements or diversifying investments. Minimizing high-risk investments is essential for a strong risk management strategy.

Related Studies. According to Mbah and Wasum (2019), a study titled "Microfinance Survival: The Impact of Credit Management on the Sustainability of Microfinance Institutions in Cameroon". They found a shortcoming, including high provision, inadequate recovery procedures, credit officers' lack of practices and knowledge to a relevant degree, manual loan execution, slow credit management procedures, consumers acting in bad faith, and inadequate loan follow-up.

Mwangi (2021) in the study "Effect of Credit Management on Asset Quality of Microfinance Institutions in Nairobi Metropolitan" found that there is a strong connection between the asset quality of microfinance institutions and how well they manage credit collection. Therefore, it is recommended that they avoid implementing stricter credit policies to improve their asset quality.

According to Ndichu (2021), a study titled "Effect of Credit Management Practices on Loan Performance in Help Groups in Kenya (Doctoral dissertation, KCA University)" found out the conclusion of the study emphasized credit terms like credit period, interest rate and fees, payback schedule, and information about penalties should be established by SHG leaders in Kenya to minimize default of borrowers. Furthermore, the Self-Help Group (SHG) leaders in Kenya should carefully assess the client's ability to repay the loan to ensure timely payment.

Sola (2021) conducted a study titled "Impact of Credit Management Strategies on Loan Performance Among Microfinance Banks in Nigeria." He found that banks in Nigeria should implement strict client appraisal procedures to improve loan performance.

According to Karanja and Simiyu (2022) in their study titled "Credit Management Practices and Loan Performance of Microfinance Banks in Kenya," they found that the credit policies and decision-making of microfinance banks impact loan performance. They recommend developing and implementing effective credit risk management practices, particularly by using credit risk management information systems.

Hassan and Mago (2023) In their study titled "Determinants of Credit Management Practices and Their Effectiveness for Small and Medium-Sized Enterprises (SMEs) Sustainability in UAE". Found that they emphasize the need for a robust credit management strategy that can adapt to changing market conditions. The researchers point out the importance of keeping track of and collecting overdue credit sales to maintain enough current assets. Their findings will help UAE SMEs adopt better credit management practices and improve their performance.

According to Gichuki (2023) in the study titled "Innovative Credit Management Practices as a Catalyst for Financial Performance: Evidence from Savings and Credit Cooperative Societies in Nyeri Central Sub County, Kenya," he found that collections policy, credit risk control, credit appraisal, and delinquency management are key factors affecting economic performance and has significant positive relationship between these factors and financial performance.

Maina and Njeru (2023) study titled "Influence of Credit Risk Management Practices on Loan Recovery Performance of Registered Digital Credit Providers in Kenya." Found a strong positive correlation in various factors, in credit procedures which significant influencing loan recovery performance. The results indicated that the independent variables predict loan recovery performance (ANOVA results: $F=4.691$, $p < 0.0005$). Specifically, a one-unit increase in credit procedures, appraisal, monitoring, or recovery systems improves loan recovery performance by 0.334, 0.372, 0.319, and 0.368, respectively. Future research should focus on studying risk management in greater depth to identify and address existing issues.

STATEMENT OF THE PROBLEM

This study aims to assess the Level of Collection Policy in Credit Risk Management and Practices from the borrowers and creditors. Specifically, it seeks to answer the following questions:

1. What is the level of the collection policy in credit risk management according to:

1.1. Borrowers?

1.2. Creditors?

2. What is the level of the collection policy in credit risk practices according to:

2.1. Borrowers?

2.2. Creditors?

3. Is there a significant degree of correlation on collection policy in credit risk management
and practices between borrowers and creditors?

4. What recommendations can be proposed based on the results of the study?

RESEARCH METHODOLOGY

This study utilized the quantitative method employing a standardized tool questionnaire as the main data collection instruments. By utilizing the quantitative method, the researchers were able to gather comprehensive insights in credit risk management and practices of creditors and borrowers in collection policy. The respondents for this study are the three (3) adopted communities of the University of Bohol. From a total of 414 respondents, a random sample of 86 respondents. A standardized questionnaire adapted from a previous study titled “ Assessment of Credit Risk Management in Micro Finance Institutions: A Case of Adama Town MFIS, Ethiopia Torban (2020) was utilized to determine the credit risk management and practices of the creditors and borrowers in collection policy. The questionnaire is divided into two (2) parts. Part I is the credit risk management of the respondents in collection policy and Part II is the credit risk practices of the respondents in collection policy and will be answered using scale below.

Level of Collection Policy in Credit Risk Management

Numerical Value	Scale	Descriptive Value	Meaning	Interpretation
3	2.34-3.00	Very Great Level	Highly efficient, fair, and borrower/creditors-friendly policies.	Excellent Performance
2	1.67-2.33	Great Level	Generally satisfactory with minor areas for enhancement.	Satisfactory and Reliable Performance
1	1.00-1.66	Moderate Level	Needs improvement; borrowers/creditors find policies unclear or less effective	Average Performance

Level of Collection Policy in Credit Risk Practices

Numerical Value	Scale	Descriptive Value	Meaning	Interpretation
4	3.25-4.00	Strongly Agree	Respondents fully support or strongly approve the stated credit risk practice.	High
3	2.50-3.24	Agree	Respondents generally agree with the stated credit risk practice.	Moderate
2	1.75-2.49	Disagree	Respondents do not agree with the stated credit risk practice.	Low
1	1.00-1.74	Strongly Disagree	Respondents completely disagree or disapprove of the stated credit risk practice.	Very Low

The researchers will conduct the study in the University of Bohol’s adopted communities, following the ethical standards. The researchers will also implement “no-risk” and “no harm” policies in the data collection process. After that, they will submit the paper and surveys to the University of Bohol’s ethics committee, showing their commitment to keeping all information and participant details fully confidential.

Moreover, the researchers will approach interactions with the relevant offices and informants with deference and professionalism, furnishing comprehensive documentation if necessary. Formal consent will be meticulously solicited from participants residing in the adopted communities of the University of Bohol via personalized letters requesting their signatures. The researcher will handle every response from the participants with the utmost confidentiality, and all the gathered data will be strictly confined to the scope of the research study.

The researchers believe that there is a low risk involved in this study. No moderate or high risks are expected, and debriefing will be done if needed.

RESULTS AND DISCUSSION

Level of Collection Policy in Credit Risk Management

Table 1 shows the Microfinance Institution's level of collection policy in credit risk management as perceived by both borrowers and creditors. Results revealed that borrowers rated the collection policy as *"Excellent Performance"* with a mean score of 2.41. This suggests that they find the collection policy highly efficient, fair, and borrower/creditors-friendly On the other hand, creditors rated only the collection policy as *"Satisfactory and Reliable Performance"* with a mean score of 2.33. This indicates that they perceived the collection policy to be generally satisfactory but with minor areas for enhancement...

According to Danstun and Harun (2019), higher interest rates increase the risk of loan portfolios for microfinance institutions. In contrast, longer grace periods and large loans reduce this risk. The study recommends that microfinance institutions in Tanzania lower their interest rates to make their loan portfolios more sustainable. They should also offer longer grace periods and create loan products that fit their clients' needs, which would help improve repayments, financial performance, and reduce risk. Credit management strategies, like assessing risk, recovering debt, and collecting receivables, improve liquidity (such as the ability to pay, bad debt, and cash flow). Also, better liquidity leads to higher profitability Okpala ,et al. (2019). Abdulai ,et al. (2020) indicate that credit policy plays a key role in managing delinquency in Nigerian microfinance banks, while corporate governance has a negative impact. To improve management, bank leaders should expand the board with skilled professionals to prevent CEO manipulation. The study recommends that microfinance banks focus on training board members and senior managers, especially in corporate governance, disclosures, and banking ethics.

Table 1 A. *Level of Collection Policy in Credit Risk Management According to Borrowers and Creditors (n=86)*

Respondents' Group	n	Weighted Mean	Interpretation
Borrowers	71	2.41	Excellent Performance
Creditors	15	2.33	Satisfactory and Reliable Performance

Level of Collection Policy in Credit Risk Practices

Table 2 shows the Microfinance Institution's level of collection policy in credit risk practices according to borrowers and creditors. The results revealed that both borrowers and creditors share the same view for the collection policy as *"High"* with a weighted mean of 3.39 and 3.33, respectively. This indicates that, overall, the collection policy in credit risk practices is effective.

According to Torban (2020) customers' evaluations, credit risk control, and collection policies impact credit risk management in microfinance institutions (MFIs). It recommends that MFIs improve their collection policies by balancing stricter measures with leniency for more effective debt recovery. Credit collection techniques positively impact the asset quality of MFIs, while credit policies, terms, and standards showed negative but insignificant effects. It recommends that MFIs adopt lenient credit policies and enhance collection techniques to improve asset quality (Mwangi, 2021).

Table 2. *Level of Collection Policy in Credit Risk Practices According to Borrowers and Creditors (n=86)*

Respondents' Group	n	Weighted Mean	Interpretation
Borrowers	71	3.39	High
Creditors	15	3.33	High

Significant Difference in the Level of Collection Policy in Credit Risk Management between Borrowers and Creditors

Table 3 shows a Mann-Whitney Test was run to determine the significant difference in the level of collection policy in credit risk management between borrowers and creditors. The results revealed that the difference in the mean ranks of the level of collection policy was not statistically significant (U=501.50, p=.696). This suggests that the collection policy's effectiveness in managing credit risk is perceived similarly by both groups, implying a shared understanding or experience regarding its implementation and impact.

According to Muthoni et al. (2020), debt collection and lending policies significantly improved loan performance, while client appraisal had no effect. It concluded that effective credit management practices are key to loan performance. It is recommended to regularly update their policies to better manage credit risks, especially with new technologies like mobile lending.

Table 3. *Mann-Whitney Test of Significant Difference in the Level of Collection Policy in Credit Risk Management between Borrowers and Creditors*

Variables	Test Value	P-value	Decision	Interpretation
Respondents' Group and Level of Collection Policy in Credit Risk Management	501.50	.696	Failed to reject the null hypothesis.	There is no significant difference between the groups.

Significant Difference in the Level of Collection Policy in Credit Risk Practices between Borrowers and Creditors

Table 4 shows a Mann-Whitney Test was run to determine the significant difference in the level of collection policy in credit risk practices between borrowers and creditors. The results revealed that the difference in the mean ranks of the level of collection policy was not statistically significant (U=499.50, p=.696). This suggests that both groups perceive the implementation of credit risk practices similarly, implying a consistent approach or shared experience regarding risk management policies.

Table 4. *Mann-Whitney Test of Significant Difference in the Level of Collection Policy in Credit Risk Practices between Borrowers and Creditors*

Variables	Test Value	P-value	Decision	Interpretation
Respondents' Group and Level of Collection Policy in Credit Risk Practices	499.500	.676	Failed to reject the null hypothesis.	There is no significant difference between the groups.

CONCLUSIONS

Based on the results presented, both borrowers and creditors show a generally positive view of the collection policy in credit risk management and practices. Borrowers are satisfied with the collection policy, especially with aspects like low-interest rates and the flexibility regarding late payments, though some improvements in the policy management could reduce hassle for both parties. Creditors also express a positive outlook on the client review and credit management practices, considering them effective in improving loan recovery. However, while both groups agree on the effectiveness of these policies, the difference in the perception of the collection policy's efficiency Was not statistically significant implying that both borrowers and creditors share the same views of the MFI's collection policy.

With further improvements, microfinance institutions can better manage delinquent loans and enhance credit performance.

RECOMMENDATIONS

1. Borrowers are satisfied with the collection policy, but the payments need improvement. Microfinance institutions should offer more payment options and improve savings deductions to make it smoother.
2. Creditors are satisfied with the Microfinance Institutions credit management practices. But we need to improve the debt recovery process like it should be streamlined, especially by reducing waiting times at meeting points and using digital platforms or automated reminders to make collections faster.
3. Microfinance institutions should keep offering training and support for both creditors and borrowers to maintain strong performance in debt collection. Offering incentives or recognition programs for both that can motivate them to focus on loan repayment.
4. Microfinance institutions should regularly gather feedback from both sides to find areas for improvement. Periodic reviews of the collection policy should also be done to meet the changing needs and expectations of borrowers and creditors.
5. The College of Arts and Sciences in University of Bohol should have activities that line up credit risk management and practices for the borrowers to gain more deep insight on how to handle loans.
6. The College of Business Administration in University of Bohol should have a workshop for the borrowers regarding savings so the borrowers are well prepared to pay their loan on time without having deductions to their savings in microfinance institutions.
7. The Teachers College of University of Bohol should give seminars regarding financial literacy, which will teach them how to manage their loans.

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