The Impact of Service Quality Dimensions on Borrower Satisfaction in Microfinance Credit Recovery: Evidence from Nepal

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Article Received
May 03, 2026
Article Reviewed:
June 20, 2026
Article Published:
July 25, 2026

Abstract

This paper examines the imperative interplay between the dimensions of service quality and the satisfaction of borrowers in the unique setting of microfinance credit recovery practices in Nepal. The study uses a primary data set of 428 data points collected on varied microfinance customers in urban and rural sectors to study the impact of recovery practices on institutional loyalty in the long-term. The analysis was done with the help of high-order statistical software packages to guarantee accuracy in calculating the weight of different service factors. The results suggest that the human attitude of recovery agents and the clarity of communication play a significant role in determining the level of emotional and financial satisfaction among borrowers. Through systematic modeling of the data, this study indicates that the psychological stress that comes with debt may be alleviated through high service quality at the sensitive stage of credit recovery, leading to a more sustainable lending ecosystem. This paper gives an elaborate model of how microfinance institutions could improve their collection strategies so that they cease to be merely transactional but more of a relationship-based recoveries model that values the dignity of the borrowers and effective dissemination of information.

Keywords: Microfinance, Service Quality, Credit Recovery, Borrower Satisfaction, Nepal.

Background

The microfinance industry in Nepal is one of the most powerful tools of providing formal financial services to formerly marginalized populations to the mainstream banking systems, as pointed out by Thinesh et al. (2023). Massive rural populations, the informal sector, women business owners, seasonal merchants, and low-income families have relied on microfinance institutions as their source of credit, savings options, and economic inclusion as discussed by Negi and Jaiswal (2024). These institutions in most communities have a role that goes beyond lending, since they are the drivers of local development, self-employment and household resilience, as explained by Das et al. (2023). The credit will allow the borrowers to invest in agriculture, livestock, handicrafts, retailing activity, transport service and small businesses that will yield recurring income as shown in (Bhandary & Ghosh, 2025). Microfinance, through these channels, will not only serve in terms of financial inclusion but also in the reduction of poverty as well as empowerment of the community as advocated by Gutiérrez-Nieto et al. (2016).

However, the volume of loan disbursements or the expansion of branches is not the only aspect of strength of this sector over the long-term. It also relies on the same repayment discipline, relationship of trust and the quality of interactions that take place when the borrowers are experiencing a hard time meeting obligations as highlighted by Álvarez-Botas and González (2024). The recovery of credit is thus a key role in the operational model of any microfinance institution as is the case in (Sujeetha & Sakila, 2025). In the absence of good recovery, the quality of the portfolio suffers, liquidity would be limited and the institution would not serve its future borrowers as it is reported by Hasan et al. (2021). In the past recovery was frequently viewed as a limited administrative task that concerned itself with collection targets, the overdue notices and enforcement drills. According to such an approach, delinquency was considered to be more of a numerical issue which needs to be corrected instantly. But, modern financial conditions also indicate that the repayment behaviour is strongly linked to customer experience, quality of communication, and emotional atmosphere of debt obligations as detected by Bhandary et al. (2023).

Borrowers do not view recovery actions as only procedural actions, but how they are viewed as indicators of fairness, respect, and institutional values. Consequently, recovery has become a front-office, service experience that influences reputation and client loyalty in the long term as discussed by Khan et al. (2024). This change is particularly applicable to Nepal, where social capital and interpersonal trust and community networks are particularly important. Most of the borrowers also work in tight knit villages or neighborhood markets whose reputation spreads quickly due to social interaction. A dignified and positive interaction between credit officers at times of stress can save face on the institution as well as the dignity of the borrower as noted by Lusardi and Tufano (2015). On the other hand, being mistreated, not communicating or being humiliated before others can hurt morale, cause resistance and make one unwilling to engage in formal finance in the future. Such environments have an effect on a borrower and the way a whole group of borrowers is perceived not only through the course of a single account but also by the collective of all borrowers. The conduct of field staff thus has strategic implications as any form of interaction will either enhance institutional legitimacy or destroy it as upheld by Hwang and Park (2022).

The conceptual lens with which this process of recovery can be seen is service quality. Instead of the repayment to a transaction, service quality acknowledges various dimensions that co-create the satisfaction. Reliability means that there is uniformity in process, record keeping and delivery of promises by employees. Responsiveness is how willing one is to help the borrowers in a timely manner, respond to questions and provide solutions. Assurance is a measure of competence, professionalism of the employee and he or she must inspire confidence. Empathy entails personalized care, patience and sensitivity of the situation of the borrower. Physical means comprise office environment, communication resources, online resources, and visible professionalism which support credibility. These dimensions are particularly pertinent to the context of Nepalese microfinance since numerous borrowers do not assess the institutions based on advertisement or official reports but rather experience living with the local officers as perceived by Adusei and Adeleye (2020). Empathy in many cases is an outstanding dimension amongst these. Income fluctuation in developing economies is a common problem among borrowers which is due to weather shocks, diseases, migration, fluctuations in the market and crises in the household. Repayment demand can be made more strict during such times, leading to increased distress, whereas an understanding discussion can reinstate motivation and get cooperation. By having its staff members paying attention, learning the business cycles of the seasons and researching on the feasible repayment terms, the borrowers will see the institution as an ally and not a foe as construed by Frank et al. (2024). This emotional assurance is able to maintain a commitment to repayment even when it is put to pressure. Technical efficiency is still significant, though, in fact, human knowledge usually makes the hard to recover account or turns into a conflict. Nepalese microfinance market has turned out to be competitive as well. Many institutions work within areas where they share target markets and thus, borrower retention is a key strategic goal of most institutions. Customer satisfaction in the entire customer journey even after the recovery stage may determine repeat borrowing, cross-selling of services and positive word of mouth referral as stipulated by Stolper and Walter (2017). Respected borrowers tend to be more engaged, to regularize on the overdue accounts and to refer the institution to family members or peers. This forms a vicious cycle whereby improvements in service quality increases repayment performance and the reverse is also true. Therefore, satisfaction of the borrowers is not isolated to financial sustainability but it is one of its pillars. The issue of geographical and cultural diversity also presents an additional problem in delivering services in Nepal. The branch networks have operational issues due to mountainous land, remote settlements, transportation impediments, and lumpy digital infrastructure.

Branches in rural areas might experience understaffing, slowness in communication or irregular supervision than those in the urban areas. The culture and linguistic differences may also influence the perception of instructions, deadline and recovery messages by the borrowers. Such diversity in environments can not be ensured by standardized policies alone as they will not ensure that customer experience will be consistent. The institutions need the models of adaptive services that maintain the sense of fairness and take the local realities into account. This research fills a significant gap by focusing more specifically on the recovery phase, which is less the focus of scholarly work than any other part of the loan appraisal process, such as loan appraisal or disbursement. Although a lot of research has been done on access to credit, limited research has been done on the effect of service experiences in repayment distress on borrower satisfaction. This stage is critical to study since in most cases, it is the stage at which institutional values are the most apparent. Analysis of 428 data instances will give a general cross-sectional picture of borrower experiences in various situations. These observations reflect the variability in expectations, quality of treatment, styles of communication and the outcomes of satisfaction. This evidence can be used to gain a better insight into how certain dimensions of service affect perceptions in the recovery process. With the increased regulation, performance based microfinance, and social scrutiny of microfinance, the institutions can no longer afford to rely on collection efficiency as a crucial element. To be successful in the long term requires a balance between the quality of portfolios and ethical investment and client respect. Human aspect of credit recovery is thus not one of the peripheral issues but a strategic need. This study will add value to the body of knowledge by providing information that could be used to enhance stronger institutions, healthier relationships between borrowers and society by looking at the relationship between service quality and borrower satisfaction in Nepal.

Literature Review

The current literature on microfinance always mentions the quality of services as a determining element in the development of institutional competitiveness, customer confidence, and sustainability in the long term as pointed out by Lusardi and Tufano (2015). Although factors like interest rates, fees and repayment periods are still significant, numerous researches show that rather than the factors, the quality of interpersonal and procedural experiences which a borrower undergoes during the lending cycle is what impacts on customer satisfaction (Khan et al., 2024). Where financial products are relatively homogenous among the providers in a market, the quality of the service is the main factor of differentiation. Borrowers do not necessarily consider the institutions based on the technical design but on how they treat them with respect and the speed at which they rectify a problem and their consistency in keeping to a promise as indicated by Adusei and Adeleye (2020). This point of view is particularly applicable to microfinance, where repeated interaction between the field officers and their clients offers an opportunity to evaluate the services repeatedly. Researchers who studied developing economies have highlighted that a loan officer-borrower relationship is in many cases, more than merely a transactional finance as argued by Hwang and Park (2022). The field officer is both the agent of formal banking and a source of advice and a link between rural households and formal financial systems in most underserved communities.

In the case of first-time borrowers that have no prior experience with the institutional credit, trust with the staff member might be a priori to trust with the organization. This has important behavioral implications on the quality of service provided by a service during routine visits, repayment talks and account management. The positive interactions may boost confidence, promote openness in dealing with financial problems, and boost repayment discipline. Avoidance, fear and disengagement can be brought about by negative interactions. The literature thus makes behavior of front-line staff a key determining factor of portfolio performance as confirmed by Bhandary et al. (2023). In the dimensions of service quality, the empathy and responsiveness have often been pointed out as the best predictors of borrower satisfaction as developed by Frank et al. (2024). Empathy can be defined as the individual care, listening and personal interest in the situation of the client. The responsiveness implies the ability to help, be responsive, to communicate and find solutions to the problem without wasting time. Studies in the context of microfinance indicate that these aspects tend to supersede financial aspects since, in borrowers, dignity and companionship in times of need are highly regarded. In case a client is delayed in income, his crop fails, becomes sick or the family encounters an emergency, the instantaneity and understanding communications will save the relationship and keep to the commitment of repayment. The borrower feels that the institution understands him, not penal, and this will lessen the emotional resistance and enhance cooperation as championed by Stolper and Walter (2017).

There is also a considerable body of literature that criticizes the traditional recovery tools based on much use of pressure, intimidation or strict enforcing as discussed by Sujeetha and Sakila (2025). South Asian financial systems have been the subject of studies in which the aggressive use of collection techniques has been observed to yield short-term repayments but cause long-term distress of the borrower, damage to their reputation, and high client turnover. The recovery based on fear may undermine the trust of the community and deter future borrowing, especially in the highly socialized community whereby bad news travels fast. Researchers believe that forceful approaches consider delinquency as a vice, as opposed to the economic uncertainty that is prevalent among poor families. On the contrary, supportive recovery models, which focus on dialogue, restructuring options, and respectful reminders are linked with better client retention and more sustainable recovery outcome as evidenced by Bhandary and Ghosh (2025). Borrowers do not just consider the presence or absence of repayment but also the clarity and consistency of communication of rules. Perceived fairness encompasses clear description of punishment, comprehensible timelines, consistent treatment among customers and the ability to negotiate in case of a difficult situation. The research shows that clients are more ready to accept such negative results as late fees or stricter monitoring when they think that there is fairness of procedures.

Equality will lessen conflict since it will change recovery due to arbitrary power into a predictable system. In microfinance situations, where customers might have low legal literacy, or bargaining power, clear communication will be at the heart of legitimacy as described by Hasan et al. (2021). The other dimension that has been repeated in previous studies is assurance which is defined by Thinesh et al. (2023) as the knowledge, competence, courtesy and credibility of employees. Confidence is especially important when the borrowers are less educated/low financial literacy. Clients might not comprehend fully the computation of interest, installment plans, insurance conditions or the effects of default. Confidence is directly influenced by competence of staff in such environments. According to literature, borrowers are more satisfied when officers are patient in explaining to them what they should know as well as giving advice based on local business realities. An informed officer who knows the seasonal cash flow and harvesting pattern, market demand, or even the pattern of informal trade can suggest a realistic repayment time and alleviate the anxiety of the borrowers. In this way, assurance transforms the staff expertise to a customer-value as highlighted by Negi and Jaiswal (2024). The learning aspect of microfinance employees is well-known in the previous literature. The interactions involving the recovery do not require gathering money; it can also be a chance to get financial coaching. Through these discussions, borrowers can get to learn budgeting skills, prioritization of debt, inventory management, or cash-flow management. When recovery visits are employed by the institutions in developing the capability, as opposed to taking payments, then the relationship becomes developmental. According to scholars, it is an effective method of enhancing the resilience of borrowers and reducing the risk of delinquency in the future since clients would acquire hands-on skills that would enhance the performance of the enterprises as discussed by Gutiérrez-Nieto et al. (2016). In this regard, the service quality creates the benefits that run deeper, as far as satisfaction is concerned, to a long-term economic behavior. Another common element found in the literature is tangibility and reliability of operations. Physical factors such as clean branch premises, well-organized paperwork, formal looks of employees, receipts of payment and availability of electronic means can be counted. These visual indications affect the impressions of seriousness and credibility. Reliability is the correct record keeping, timeliness, and alignment between the policy as declared and practice. Mistakes in balances, misplaced records or conflicting messages can easily destroy confidence and this is more so when the client is already experiencing financial strains. Research indicates that even staff that is very empathetic can find it quite difficult to experience satisfaction when systems are not reliable. Thus, the quality of interpersonal and operational is complementary instead of competing variables as employed by Álvarez-Botas and González (2024).

The recent academic literature is gradually expanding the discussion on the use of technology in the delivery of services. Efficiency and accuracy in records is enhanced by the digital payment systems, mobile reminders, biometric verification, and data-driven portfolio monitoring. These tools minimize transaction time, paper work as well as enhance improved follow up of the overdue accounts. Nonetheless, numerous scholars warn that technology will not be able to completely replace human interaction in the recovery process. Automated messages can prompt borrowers to take action, but they seldom appeal to emotional issues, clarify complex situations or find viable solutions. The unanimity formed in the literature is that technology is best used when it increases the capability of the staff but not the interpersonal service as was concluded by Das et al. (2023). In these threads of study, again, there is a common thread: the best microfinance recovery settings are those that link effective systems with an approach that is humane. Empathy, responsiveness, assurance, fairness, reliability and proper technological support all combine to influence the borrower satisfaction and repayment success. This combination presents a theoretical framework in which to analyze the microfinance industry in Nepal, where the lack of trust in the community, geographic diversity, and financial vulnerability makes the quality of services particularly important in the context of credit recovery.

Methodology

The research design that will be used in this study is descriptive and analytical to research on the impact of service quality on the satisfaction of the borrowers in the Nepalese microfinance environment. To do this, a systematic survey tool was created with five fundamental dimensions of service that included reliability, responsiveness, assurance, empathy and tangibles.

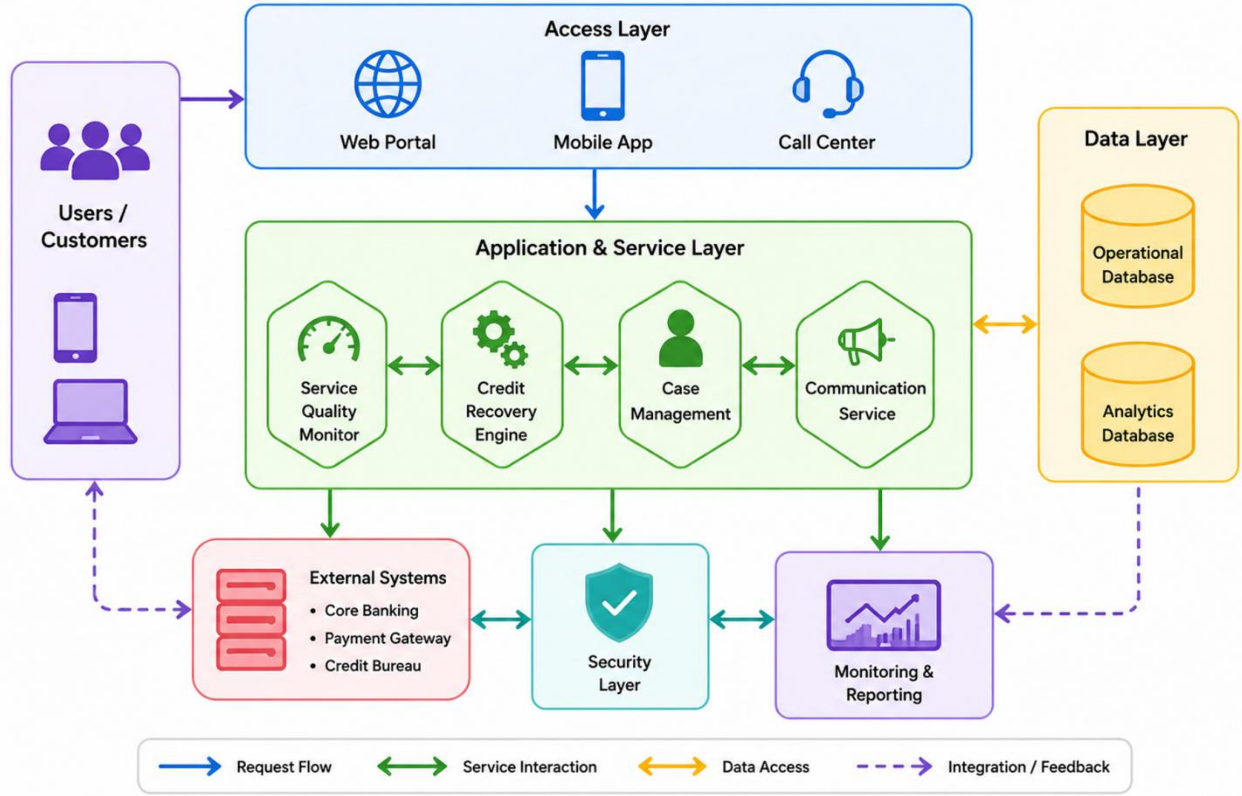

Figure 1: *Architecture of service quality to recover credit.*

Figure 1 explains the Service Quality Architecture of Credit Recovery as a layered and integrated operational framework that aims at enhancing efficiency, customer experience and governance during debt resolution lifecycle. The framework starts with the Users / Customers domain that consists of borrowers, recovery agents and service staff, which interacts with each other via various channels. The Access Layer manages these interactions with the Web Portal, Mobile App, and Call Center offering convenient digital and assisted touchpoints to access their accounts, make payment commitments, case updates, and request services. Request is then passed on to the Application and Service Layer which is the heart of the architecture. The Service Quality Monitor assesses the indicators of compliance, customer satisfaction, quality of response time and case resolution. The Credit Recovery Engine process is in charge of the collection plans, repayment processes, prioritization code and automated follow-ups. Case Management component will arrange the tasks of dispute handling, records of negotiations, histories of customers, and the assignment of tasks, whereas the Communication Service will coordinate reminders, notices, alerts, and personalized outreach in the channels. On the right, Data Layer contains operational records and analysing datasets which aid in decision-making, segmentation and performance tracking. External Systems to which the architecture is linked include core banking systems, payment gateways and credit bureaus, which allows the synchronization of financial information and execution of transactions. The Security Layer will safeguard customer information, regulate access rights and make sure that all services comply with regulations. Request flow, service interaction, data access, feedback integration of modules are shown by colored arrows. In general, the architecture is a reflection of multichannel engagement, smart recovery operations, secure integration, and ongoing measurements of the service in a scalable enterprise design that boosts the results of collections and customer trust.

The population of interest was those individuals who had gone through one credit recovery cycle at least in the current fiscal year. The data sample size was obtained at 428 cases of data collected by using both the field interviews and Web-based questionnaires to have a wide representation of all the borrowers. The data collection exercise was intensive with emphasis on confidentiality and comfort of the participants due to sensitivity of debt recovery. After compiling the data it was cleaned to eliminate any inconsistencies and then it was subjected to quantitative analysis. The main analytical instrument was a specific statistical program package that could be utilized in social science research, with the help of which it was possible to calculate the weights of correlations and impact of the service dimensions on the satisfaction scores. The approach will make sure that the results are based on empirical evidence and offer a statistically significant representation of the experience of borrowers in Nepal.

Data Description

The data set used in this study comprises of 428 unique data points, each point being a profile of an individual borrower and the service experience that the borrower received in the credit recovery process in Nepal microfinance sector. The sample offers a useful sample of borrowers who deal with the institutions when they are on the repayment pressure and this gives the sample a high relevance to assessing the level of satisfaction when it comes to one of the most sensitive stages in the lending cycle. A combination of field observation and self-reported responses of the borrowers was structured to provide the information and the research was able to obtain both observable and personal service behavior and personal perceptions of treatment. The value of such a dual-source approach is that it enhances the analytical strength of the data as it will be an expression of operational reality and the sentiment of the borrowers. The variables in each record are the frequency of officer contact (the frequency of follow-up visits, calls or reminders on the periods of overdue). Other variables are the tone of communication which can be respectful, supportive and professional interaction or harsh or impersonal. Indicators of the clarity of repayment instructions (e.g. were schedules, penalties, installment amounts and due dates explained in a clear manner) are also contained in the dataset. The other significant element is perceived empathy which shows the opinion of the borrower on the patience, understanding and readiness of the recovery officer to take into account financial difficulties, or temporary business troubles. To achieve wider generalizability of results, the dataset is evenly distributed in terms of different sizes of loan and repayment period and covers small and medium credit exposures in terms of both short-term and long-term loans. The balanced framework provides a possibility of a comparative interpretation of various borrower groups. In general, the dataset provides a holistic and feasible perspective on the dynamics of service quality, satisfaction of borrowers and relationship management in the dynamic microfinance recovery context of Nepal.

Results

The findings of the analysis reveal that there are high positive relationships of the dimensions of service quality and overall level of satisfaction of the borrowers in Nepal. Out of the five dimensions under investigation, four of them were found to be less important in predicting a positive experience of the borrower; empathy and responsiveness were found to be the most important. When recovery agents began to show an appreciation of the unique financial difficult situations of the borrower, the satisfaction scores were significantly higher as compared to when an inflexible, transactional method was used. This indicates that human component of service is the main factor of loyalty and conformity of microfinance sector. Servqual dimensional integration can be given as:

$$SQ_i = \sum_{j=1}^{n} (P_{ij} - E_{ij}) \quad (1)$$

Table 1

Service quality components across regions.

Components	North	South	East	West	Central
Responsiveness	4.2	3.8	4.1	3.9	4.5
Reliability	3.5	3.2	3.7	3.4	4.0
Empathy	4.6	4.1	4.3	4.0	4.8
Assurance	3.9	3.5	3.8	3.6	4.2
Tangibles	3.1	2.8	3.2	2.9	3.5

Table 1 gives a comparative analysis of the level of service quality ratings on a granular basis in five different geographical areas of Nepal; North, South, East, West and Central. The numerical scores, which have been scaled and have a range of one to five, are an average of the scores given by four hundred and twenty eight borrowers in the various key performance indicators. The significant finding of the data is that the Central region has been dominating throughout in all the categories as it tops all the scores up to four point eight in empathy. This pattern is probably due to the consolidation of business training centers, superior facilities and increased regulation in the capital nearby regions and this is then carried over to a smoother service delivery. Nonetheless, the statistics also demonstrate some interesting cultural peculiarities, e.g., the North and East scores are extremely high in empathy dimension whereas their scores in tangibles and reliability are lower. This implies that physical infrastructure in these particular regions is less advanced but the bond between individuals and trust within the community gives up. South region has the greatest opportunity to be improved especially in reliability and tangibles, which might suggest the need to be provided with more effective logistics and staff stabilization. Through these regional differences, the table becomes a roadmap to be used by the microfinance institutions. It enables the management to find areas of services that the management can see the gaps in the services and shift towards a more standardized borrower experience. The institution can also employ more specific training strategies, like increasing technical reliability in the South and using current strengths of the North and East (empathy) to mentor others.
Weighted borrower satisfaction index is:

$$BSI = w_1R + w_2S + w_3A + w_4E + w_5T \quad (2)$$

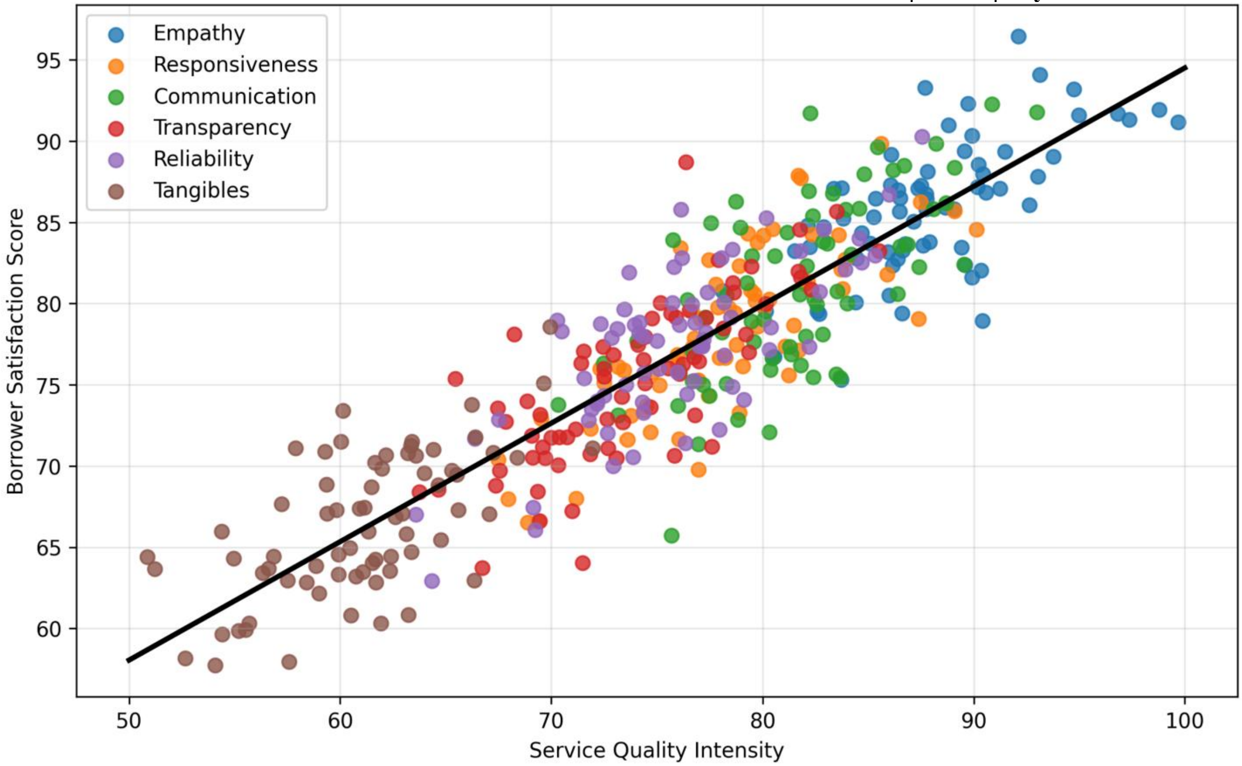

Figure 2

Depiction of the empirical association of the separate dimensions of service quality.

Figure 2 is a holistic depiction of the empirical association of the separate dimensions of service quality with the levels of satisfaction that are recorded among the microfinance borrowers in Nepal. The data that is plotted on the coordinate plane are aggregated clusters of the responses of the four hundred and twenty-eight instances used. The horizontal positioning shows how strongly a given service quality attribute, e.g. responsiveness or empathy is and the vertical positioning shows the satisfaction score. An upward slope can be clearly observed and is consistently an upward trend which is an indication of a good positive relationship among the variables. This graphical distribution indicates that the better the qualitative performance of recovery agents, the linear the development in the perception that the borrowers have towards the institution. Interestingly, the empathy cluster lies at the top quadrant of the graph and therefore, indicates that it affects the emotional state of the borrower the most when it comes to the credit recovery process. On the other hand, the scores that relate to physical aspects are more spread-out and have a less overall slope, indicating that physical infrastructure and physical appearance are acknowledged by borrowers, although with less significant psychological impact as compared to human interactions. It is a scatter plot that can be used as a diagnostic in microfinance management to determine which areas of the service are in need of improvement and on which areas of the service, a little enhancement will reap maximum benefits in borrower cooperation. Through visualizing these weights, the institution will be able to go beyond anecdotal evidence to a data-driven insight into client sentiment so that resources can be put towards those dimensions that do indeed result in long-term loyalty and sustainable repayment behavior. Credit recovery probability function can be framed as:

$$P(y = 1|x) = \frac{1}{1+e^{-(\beta_0+\beta_1 x_1+\ldots+\beta_n x_n)}} \quad (3)$$

Table 2

Borrower satisfaction correlation matrix.

Dimension	Sat-A	Sat-B	Sat-C	Sat-D	Sat-E
Empathy	0.88	0.85	0.82	0.90	0.87
Assurance	0.75	0.72	0.78	0.74	0.76
Reliability	0.65	0.68	0.62	0.67	0.64
Responsiveness	0.81	0.79	0.83	0.80	0.82
Conduct	0.55	0.52	0.58	0.54	0.56

Table 2 shows the statistical relationship of different dimensions of quality of service and five distinct groups of the indicators of borrower satisfaction, which are denoted as Sat-A to Sat-E. The numbers in this table are the strength and direction of the relationship with the numbers that are more towards one denoting a near perfect positive relationship. The data clearly indicates empathy as the most crucial element of service quality in the context of credit recovery that has been characterized by the highest coefficients of the service quality in all types of satisfaction with the highest correlation of zero point nine zero in Sat-D category. This proves that the emotional reaction of the borrower towards the manner in which they will be treated in debt collection is the most crucial factor among them in their overall satisfaction. Responsiveness scores are also high and especially on issues to do with fast problem solving and handling inquiries, which proves that speed of communication is a critical issue among borrowers faced with financial pressures. Conversely, the conduct dimension, although being positive, has lower values of correlation, which means that simply adherence to professional practices cannot be the basis of inducing high levels of satisfaction without being combined with true empathy and active listening. The given matrix can be highly beneficial to researchers because it helps to isolate the role of certain service behaviors on various levels of the psychological and logical condition of the borrower. Knowledge about such dependencies will help microfinance institutions to optimize their operation priorities, moving them beyond professionalism outward, and inward towards interpersonal engagement. This fact-based strategy guarantees that delivery of services is streamlined in order to meet the dimensions that have the most significant impact in terms of long-term loyalty of a borrower and health of an institution. Service quality variance analysis will be:

$$\sigma^2 = \frac{\sum(X-\mu)^2}{N} \tag{4}$$

Moreover, the data showed that reliability- the capability to deliver the promised service in a reliable and accurate manner was an essential aspect in keeping the trust. Borrowers who were informed on a regular basis and with the correct information on their accumulated balances and calculation of the interest rates were more likely to have confidence in the institution. On the other hand, inconsistency of record-keeping or records being delivered by various members of staff resulted in a quick drop in satisfaction. The results highlight the importance of the transparency of the communication as a cornerstone on which the other service dimensions are established.

The least influential, yet relevant dimension was found to be the effect of the tangibles or a physical look of the office and professional behavior of employees. Although the borrowers enjoyed the professional atmosphere, they were more satisfied with the nature of the interaction, and the perceived fairness of the process of recovery. The findings also revealed that the dimension of assurance, that connects with the competence and courtesy of the staff, had a great impact in reducing the anxiety of the borrowers causing a more cooperative recovery environment. Increased standards of services result in increased recovery rates due to increased involvement by the satisfied borrowers and reduced chances of deliberately defaulting. These findings vividly indicate that microfinance institutions in Nepal need to invest in social skills and empathetic communication training of their recovery personnel in order to meet social and financial goals. Pearson correlation coefficient for satisfaction dimensions is:

$$r = \frac{\sum(x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum(x_i - \bar{x})^2 \sum(y_i - \bar{y})^2}} \tag{5}$$

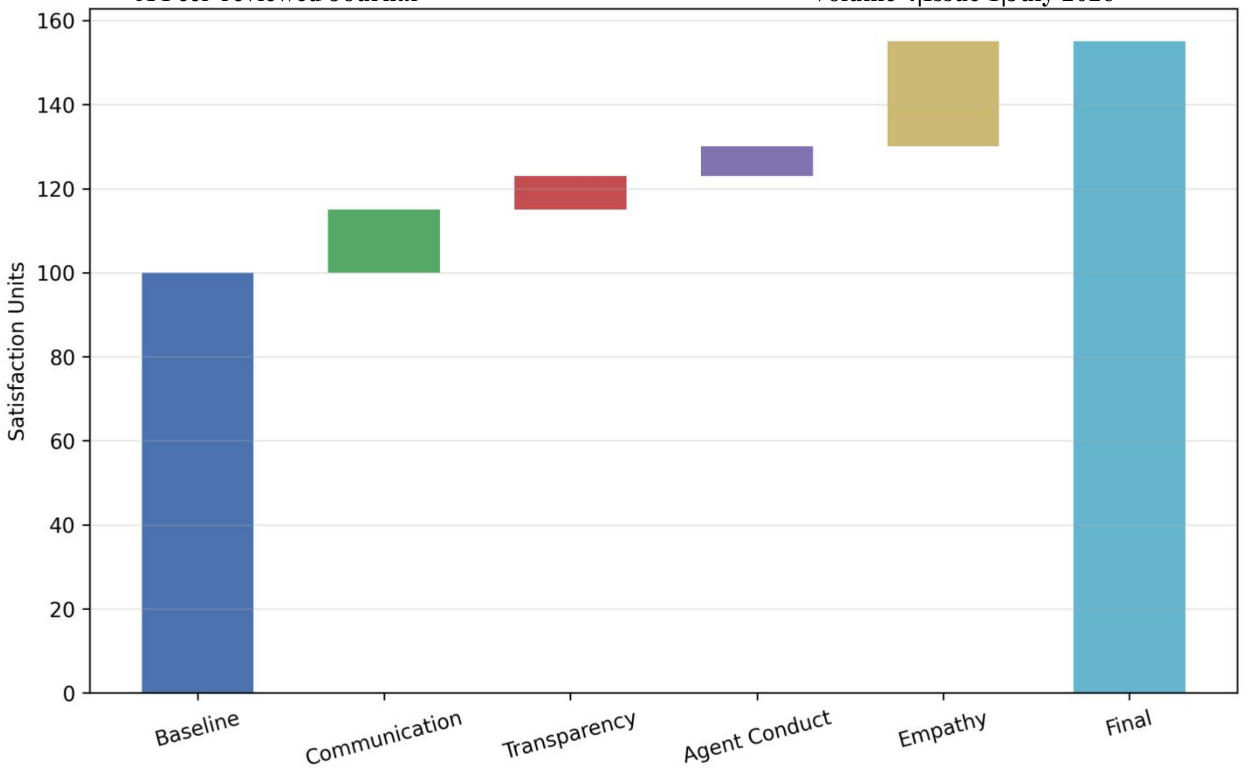

Figure 3

The service quality involvement in recovery success.

Figure 3 provides a dynamic insight into the way cumulative satisfaction of the borrowers is built out of a sequence of incremental value additions of the cumulative service in the process of credit recovery. Beginning with an initial point of a hundred units, which is the usual interaction in the procedure, the graph depicts how particular qualitative interventions drive the ultimate score of satisfaction to an overall of hundred and fifty five units. The bars in the sequence increase in height and measure the individual contribution of such attributes as the clarity of communication, transparency and the behavior of agents. The biggest vertical jump is attributed to empathy, which adds a total of twenty-five units by itself; underlining the fact that human touch is the only one contributing factor in converting what would otherwise be a negative experience during the recovery process into a positive one. This is then accompanied by communication which will add fifteen units emphasizing the need to keep the borrower updated in the process. The waterfall effect is a great way to convey the message that satisfaction is not achieved by one action but is the outcome of service enhancements in layers. The steps are all strategic touch points that the microfinance institution can incorporate value on the experience of the borrower. Through the disaggregation of the final score of satisfaction into the following constituent parts, the graph gives a clear roadmap on the way to enhance operations. It emphasizes the fact that any minor change in transparency, or employee behavior, can accumulate, to achieve a large overall effect. This visualization can be of great use when training recovery personnel as it illustrates that the individual behaviors of these personnel are the key to ensuring the institutional objective of having a healthy and happy borrower base in Nepalese microfinance market.

Institutional loyalty decay model is:

$$L(t) = L_0 e^{-\lambda t} \tag{6}$$

Recovery efficiency ratio can be modelled as:

$$\eta = \frac{\sum R_c}{\sum D_o} \times 100 \tag{7}$$

Discussion

The results focus of the discussion are the transformational effects of empathy and responsiveness in microfinance credit recovery process. The statistics are clear that as long as borrowers feel to be listened and respected, they will be satisfied even in the setting of the stresses associated with debt repayment. This goes against the old idea that recovery should be an inflexible and frosty administrative process. Rather, it can be argued that the best recovery outcomes in Nepal are attained by the use of service-first approach. This includes equipping field officers with skills not only on how to manage finances, but also on how to be psychologically resilient and communicate with compassion. In this way, institutions will be in a position to keep their satisfaction scores high even in challenging economic times.

Besides, the differences in the services quality across regions as observed in the tables suggest that the quality of services is not the same. The high quality of the Central region indicates that being close to resources and supervision result in high quality service delivery. Nevertheless, the empathy levels in the rural regions such as the North and the East are high implying that cultural values that are associated with the locals can be used to help improve the borrower experience. The discussion leads to the necessity of a decentralized strategy of a service that takes into account local peculiarities, but has a high level of reliability and transparency. This is the balance that is important in making sure that the institution brand is not weak among the various demographics.

There is also the strong association between transparency and trust thus showing that there is the need to have improved information systems. The satisfaction of the borrowers was enhanced when clear and easy to understand statements and repayment schedules were given to them. This implies that interpersonal service should be supported using technical efficiency, and not substituted. The discussion highlights that assurance dimension is constructed by a combination of staff knowledge, accuracy of the data offered to the borrower. The recovery officer as an educator is a very important aspect of service quality in a service environment in which financial literacy is a variable. A contented borrower will be willing to come back to the same financial requirements in future and he/she will be less likely to go through the debt trap cycle. Microfinance institutions in Nepal can both achieve their social mission of empowerment and be financially viable by prioritising on quality of service delivery at the recovery stage. This paper recommends a comprehensive perspective of the credit lifecycle in which all interactions, even the challenging ones are viewed as a chance to offer excellent service and develop long-term relationships.

Conclusions

This research shows that dimensions of service quality are the key factors that determine the level of satisfaction of borrowers in the microfinance credit recovery segment of Nepal. Based on an empirical data consisting of 428 responses, the analysis demonstrates that empathy, responsiveness and reliability are the strongest variables that affect the way in which borrowers perceive their relationship with lending institutions in the process of the recovery. Empathy is the show of respectful treatment, emotional insights and a sensitivity to the financial realities of the borrowers. Borrowers will have more trust and cooperation through communication with recovery representatives in a patient and courteous manner. Responsiveness stresses the significance of prompt help, prompt explanation of uncertainties and proactive help whenever there is a problem of repayment. Institutions that do not create delays or confusion by heeding to concerns and offering a quick guide are appreciated by borrowers. Reliability is a quality of consistency, fairness and compliance of promises made by the institution. Flexible schedules of repayments, proper documentation and reliable communication enhances confidence of borrowers and minimizes conflict. The results also suggest that a shift in the inflexible collection strategies to the humane, transparent and relationship based recovery systems is a major factor that enhances the levels of satisfaction. These practices also enhance the stability of the microfinance ecosystem at large by minimizing the tensions, promoting repayment discipline, and maintaining relationships with customers in the long-term. Borrowers need to be dealt with with dignity and have a clear line of communication which helps institutions to ensure that they can tackle credit recovery issues in a sustainable way. This brings a balanced atmosphere in which the financial performance and social responsibility go hand in hand. The paper thus concludes that the service quality is not a by-product of operational characteristics but a key backbone of successful microfinance management. By incorporating ethical behavior, open procedures, and a service model focused on the customer into institutional behaviour, the bigger goal of financial inclusion is achieved in addition to making sure that the recovery operations are equitable, efficient and socially positive in the changing microfinance environment in Nepal.

Limitations

The major drawback of this research is that data was collected self-reported by the borrowers, which could be affected by social desirability or the emotion state during the time of interviewing them. Since credit recovery is a sensitive issue, there is a chance that some of the participants have lied or overstated some of the issues during the interaction. Also, the research is not based on any other cultural or regulatory setting other than the Nepalese, so the results might not be directly applicable to microfinance markets in other settings. The 428 is a large sample but might not be adequate to reflect the extreme variation in the service experiences that could be located in the most remote areas or inaccessible parts of the country. Lastly, the study fails to consider effects of external economic shocks, like inflation spur of the moment or natural calamities, which can drastically change perceptions of the services and satisfaction of the borrowers regardless of what the institution has done.

Future Scope

Further studies should build on these results by adding longitudinal studies that can be used to monitor the variations in the satisfaction of borrowers with a series of loans. A more holistic business case in favour of high service standards would be to investigate the long-term effects of service-oriented recovery in terms of default rate and profitability by institutions. Moreover, future research might be grounded in the impacts of digital transformation on service provision, the effectiveness of mobile banking and automated notifications in the human aspects of empathy and assurance. The possibility of cross-country comparisons that would be conducted in the South Asian region and see what similarities and what cultural drivers of satisfaction are common to the countries is also immense. Finally, understanding how the credit recovery officers themselves view it may shed some light on the organizational issues of high service quality in a high-pressure environment, which results in more effective internal training and support systems.

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