ST. MARY'S UNIVERSITY COLLEGE

BUSINESS FACULTY

DEPARTMENT OF MANAGEMENT

AN ASSESSMENT OF CREDIT MANAGEMENT IN THE CASE OF ADDIS CREDIT AND SAVING INSTITUTION (ADCSI)

BY

HILINA KEBERE

JUNE 2010

SMUC

ADDIS ABABA

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APPROVED BY THE COMMITTEE OF EXAMINERS

Department Head	**Signature**
Advisor	**Signature**
Internal Examiner	**Signature**

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ABBREVIATIONS

ADCSI:	Addis Credit and Saving Institute
MFI:	Microfinance Institute
IMF:	International Money Fund
MDG:	Millennium Development Goals
ROSCA:	Rotation of Saving and Credit Association
NGO:	Non Government Institutions

SUBMISSION APPROVAL SHEET

This paper has been submitted for examination with my approval as an advisor.

Name ___________________________

Signature________________________

Date ____________________________

DECLARATION

I, the undersigned, declare that this senior essay/project is my original work, prepared under the guidance of Ato Wondafrash Mulatu

All sources of materials used for the manuscript have been duly acknowledged.

Name: ________________________

Signature: ________________________

Place of Submission:______________

Date of Submission:_______________

CHAPTER ONE

1. Introduction

1.1. Background of the Study

These days the economic insecurity has come to characterize life in developed countries too. It is the chronic insecurity rooted in poverty and widespread in developing countries that is more damaging from the new point of the overall human welfare. Because the two are inter -connected. (Murduch, 1994:224).

Economic insecurity refers capital de-accumulation that the poor are forced to undertake when misfortunes strike them. The resulting depletion of productive assets worsens their long run income situating pushing them often below the poverty line. Thus poverty must be seen as a deprivation of basic capacities which means peoples unable to get even basic necessities. (Amartya Sen.1999)

A variety of ideas and strategies have been tried out to break this problem with however limited success. While most of the ideas and strategies are donor supported public sector efforts. Microfinance arose in late 1970s as a novel private sector idea advocating collateral free lending to the poor organized in groups in order to let peer pressure substitute for collateral and also reduce transaction costs.

In addition in 90's efforts have been concentrated towards financial and institutional sustainability of the microfinance institutions (MFIs)

According to the worldwide report (February 1997 and 1998 in Washington), microfinance has been successful in reaching the population excluded from the classical financial system.

The core of the mission of an institution of microfinance is to be an instrument of overcoming the financial and correlative restrictions of the poor. So that their capacities can be developed, this activity of financial inclusion must be sustainable and can be profitable.

Ethiopia as a developing country has so many poor peoples and high rate of poverty. Unemployment draught illiteracy, lack of educational and health facilities are the courses for the existence of this poverty. Of course large number of NGO's and the government have been tried to minimize the problem in their own hand. But it is difficult to overcome only by donations.

In this case the existence of the microfinance programs is very essential considering the above and other related reasons. Addis Credit and Saving Share Company Institution establish as per the commercial code of Ethiopia and proclamation on 40/88 to provide financial and other related services within the boundaries of Addis Ababa city administration. It was established and registered as a microfinance institution on January 2000, with paid up of capital of birr 517,000,000. Owned by six shareholders namely:

- Addis Ababa City Administration
- Addis Ababa Youth association
- Addis Ababa women association
- Addis Ababa teachers association
- Karalo area peasants association
- One physician person

ADCSI was established to achieve the following activities:

- To reduce poverty and unemployment that prevailing in A.A. city.
- Provision of suitable credit and saving service to many active poor as possible financial services.
- Developing the culture of saving among the target group and the public as a whole.
- Giving priority to women in the provision of financial services.

- Enhance the culture of saving by target people and wide public.
- Assuring institutional and financial self-sufficiency.

(Source: Addis Credit and saving institute brushers)

The effectiveness of this MFI is depends on the performance of the management and committed staffs. The best handling of credit and saving service has its own impact for the change of the beneficiaries' life. On the other hand the financial capacity of the MFI will grow.

1.2. Statement of the Problem

A successful microfinance program has a long last potential impact in creating income and employment for the poor society. When the financial delivery of these institutions is right and efficient they can get success on their work.

As it is mentioned earlier the main objective of ADCSI is to provide sustainable financial service for the poor. It is known that this MFI puts its great effort to achieve the goal.

However, there are problems currently observed in ADCSI credit management. The credit giving process is not supported by new and up to date mechanisms. This routine system challenges the MFI in selecting the potential borrowers.

Secondly, ADCSI has a problem to collect the borrowed money from clients on time. In addition there is weakness to follow up the customers work activity and reminding to repay the loan on time.

Therefore, the study is attempted to identify, analyse and suggest possible solutions for the existed problems.

1.3. Research Questions

- What are the procedures used by ADCSI to give credit?

- What are the challenges of ADCSI to collect loan repayments from the borrowers on time?
- How is the grace period given to customers? Is it enough?
- Does ADCSI follow its clients frequently?
- What is the problem of ADCSI to follow up the borrowers work activity?

1.4. Objective of the Study

1.4.1. The main objective of the study is to assess the performance of ADCSI on the activities of credit management.

1.4.2. The specific objective of the study are listed below

- To assess how ADCSI give credit (the selection of targeted borrowers).
- To asses the challenges on credit collection and suggest the best alternative.
- To recommend better mechanism of follow-up.

1.5. Significance of the Study

This study may be great interest to aware the concerned body (the Government) and also propose the possible solution for the existed problems. As a result ADCSI will also improve its service. Moreover the outcome of the study could be used by credit managers in the area for their respective decision making with this regard. Besides, it may also provide some baseline information for any further research that might be made in related areas by anyone else interested.

1.6. Scope (Delimitation) of the Study

I. The study focuses on assessing credit management at ADCSI Arada sub city kebele 01/02, 03/09 and 11/12. Because the MFI has large coverage in Addis Ababa and to make the research to be manageable.

II. Due to accessibility of information the student researcher see the documents from Jan 2008 until the research prepared.

1.7. Research Design and Methodology

1.7.1. Research Design

The study has employed descriptive research design. The descriptive research design is preferred; as it is believed to be more appropriate to quantitatively describe the situation of this microfinance institution in regarding their performance in credit handling.

1.7.2. Population and Sampling Technique

There are about 30,000 beneficiaries at Arada Sub city. In its 10 kebeles there are an average 3000 beneficiaries in each Kebele. Using simple random sampling technique the researcher will randomly take three sample kebeles and 30 key beneficiaries from each selected kebeles and 3 ADCSI employees were selected from each kebeles. The total number of sample was 99, 90 from the beneficiaries and nine employees. This technique is preferred to minimize redundant information and it is used to see the diversified type of clients.

1.7.3. Data Type

Both primary and secondary data were used in undertaking this paper. The primary data were taken through questionnaire from sample beneficiaries. And interview was conducted with three credit officers, three managers and three extension workers of ADCSI.

The Secondary data were magazines, brushers, reports, loan repayment analysis and printed materials written about ADCSI.

1.7.4. Methods of Data Collection

The data were collected through questionnaires given to the selected clients. To make the process simple there are an extension workers who can contact the writer to the clients. On the other hand interview was conducted with the selected credit managers, credit officers and extension workers of ADCSI.

1.7.5. Data Analysis

After accomplishment of data collection, it is analysed and summarized by using tables, graphs and other tools used to facilitate analysis of the collected data and interpretation of the result. And based on the given data the researcher presented data analysis in sequential and convenient way which is easy to interpret and draw conclusion as well as recommendation of the findings of the paper.

1.8. Limitation of the Study

Research requires a sufficient time, money and other resources. The student researcher did not assess ADCSI activities in all sub cities.
The increasing number of beneficiaries limits the researcher to make research only 3 kebeles of Arada Sub city. Also the student researcher couldn't get documents from ADCSI offices as she expected.

1.9. Organization of the Study

The paper was contains four chapters. Chapter one includes the introduction background of the study, statement of the problem, research questions, objectives of the study, Scope and research design and methodology. Chapter two is review related literature; chapter three is data analysis then on chapter four summary, conclusions and recommendation are written.

CHAPTER TWO

2. Literature Review

2.1. Microfinance

2.1.1. What is Microfinance?

Microfinance, according to Otero (1999, p.8) is “the provision of financial services to low-income poor and very poor self-employed people”. The financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and colombet (2001, p.339) define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks. “Therefore microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

2.1.2. Microfinance and Micro Credit

The terms micro credit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Sinha (1998, p) states “micro credit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc)’. Therefore micro credit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves addition non-credit financial services such as savings, insurance, pensions and payment services (Okiocredit, 2005).

2.1.3. The History of Microfinance

Microfinance and microfinance are relatively new terms in the field of development, first coming to prominence in the 1970s, according to Robinson (2001) and Otero (1999). Prior to then, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programs. These often resulted in high loan defaults, high lose and an inability to reach poor rural households (Robinson, 2001).

Robinson states that the 1980s represented a turning point in the history of microfin.4ance in that MFIs such as Grameen Bank and BRI[2] began to show that they could provide small loans and savings services profitably on a large scale. They received no continuing subsidies, were commercially funded and fully sustainable, and could attain wide outreach to clients (Robinson, 2001). It was also at this time that the term “micro credit” came to prominence in development (MX[3], 2005). The difference between micro credit and the subsidized rural credit programmers of the 1950s and 1960s was that micro credit insisted on repayment, on charging interest retreat rate covered the cost of credit delivery and by focusing on clients who were dependent on the informal sector for credit (ibid.). It was now clear for the first time that micro credit provide large-scale outreach profitably.

The 1990s “saw accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching scale” Microfinance had now turned into an industry according to Robinson (2001). Along with the growth in micro credit institutions, attention changed from just the provision of credit to the poor (micro credit), to the provision of other financial services such as savings and pensions (microfinance) when it became clear that the poor had a demand for these other services (MIX, 2005). The importance of microfinance in the field of development was reinforced with the launch of the Micro credit Summit in 1997. The Summit aims to reach 175 million of the world’s poorest families, especially the women of those families, with credit for the self-employed and other financial and previously stated, declared 2005 as the international Year of Micro credit.

2.1.4. Providers and Models of Microfinance Interventions

MIX defines an MFI as “an organization that offers financial services to the very poor.” (MIX, 2005). According to the UNCDF (2004) there are approximately 10,000 MFIs in the world but they only reach for percent of potential clients, about 30 million people. On the other hand, according to the Micro credit Summit Campaign Report (Micro credit Summit, 2004) as of December 31st 2003, the 2,931 micro credit institutions that they have data on, have reported reaching “80,868,343 clients, 54,785, 433 of whom were the poorest when they took their first loan”. Even though they refer to micro credit institutions, they explain that they include “programs that provide credit for self-employment and other financial and business services to very poor persons” (Micro credit Summit, 2004).

The differences between these sources highlight a number of points. Firstly, how the two terms, micro credit should refer only to the provision of credit to the poor. Secondly, the difference between the statistics shows how difficult it is to get a true picture of how many MFIs are in existence today and how many clients they are reaching. The IMF[5] state that “no systematic and comprehensive data on MFIs is collected and there are no authoritative figures no key characteristics of the microfinance industry, such as the number and size of MFIs, their financial situation, or the population served” (2005, p.6).

2.1.5. Microfinance and its Impact In Development

Microfinance has a very important role to play in development according to proponents of microfinance UNCDF (2004) states that studies have shown that microfinance plays three key roles in development.

- Helps very poor households meet basic needs and protects against risks.

- Is associated with improvements in household economic welfare,
- Helps to empower women by supporting women's economic participation and so promotes gender equity.

Otero (1999, p.10) illustrates the various ways in which "microfinance, at its core combats poverty. She states that microfinance credits access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building enables people to move out of poverty (1999). By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero,. 1999).

The aim of microfinance according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Little; field and Rosenberg (2004) state that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach.

However, not all commentators are as enthusiastic about the role of microfinance in development and it is important to realize that microfinance is not a liver bullet when it comes to fighting poverty. Hume and Mosley (1996), while acknowledging the role microfinance can have in helping to reduce poverty concluded from their research on microfinance that "most contemporary schemes are less effective that they might be" (1996, p.134). They state that microfinance is not a panacea for poverty-alleviation and that in some cases the poorest people have been made reuse-off by microfinance. Rogaly (1996, p.109/110) finds five major faults with MFIs. He argues that:

- They encourage a single-sector approach to the allocation of resources to fight poverty.
- Micro credit is irrelevant to the poorest people.
- An over-simplistic notion of poverty is used.
- There is an over-emphasis on scale.
- There is inadequate learning and change taking place.

Wright (2000,p.6) states that much of the skepticism of MFIs stems from the argument that microfinance projects “fail to reach the poorest, generally have a limited effect on income to drive women into greater dependence on their husbands and fail to provide additional services desperately needed by the poor”. In addition, Wright says that many development practitioners not only find microfinance inadequate, but that it actually diverts funding from “more pressing or important interventions” such as health and education (2000, p.6). As argued by Navajos’ all (2000), there is a danger that microfinance may siphon funds from other projects that might help the poor more. They state that governments and donors should know whether the poor gain more from microfinance, than from more health care or food aid for example. Therefore, there is a need for all involved in microfinance and development to ascertain what exactly has been the impact of microfinance in combating poverty.

Considerable debate remains about the effectiveness of microfinance as a tool for directly reducing poverty, and about the characteristics of the people it benefits (Chowdhury, Mosley and Simanowitz. 2004). Sinha (1998) argues that it is notoriously difficult to measure the impacts of microfinance programmers on poverty. This is so she argues because money is fungible and therefore it is difficult to isolate credit impact, but also because the definition of poverty, how it is measured and who constitute the ‘poor’ “are fiercely contested issues” (1998, p.3).

Poverty is a complex issue and it difficult to define, as there are various dimensions to poverty. For some, such as World Bank, poverty relates to income and poverty measures are based on the percentage of people living below a fixed amount of money, such as US$1 dollar a day (World Bank 2003)

2.1.6. The Impact of Microfinance on Poverty

There is a certain amount of debate about whether impact assessment of microfinance projects is necessary or not according to Simanowitz (2001b). The argument is that if the market can provide adequate proxies for impact showing that clients are happy to pay for a service, assessments are a waste of resources (ibid.). However, this is too simplistic a rational as market proxies mask the range of client responses and benefits to the MFI (ibid.). Therefore impact assessment of microfinance interventions is necessary, not just to demonstrate to donors that their interventions are having a positive impact, but to allow for serving within MFIs so that they can improve their services and the impact of their projects (Simanowitz, 2001b. p.11).

Poverty is more than just a lack of income. Wright (1999) highlights the shortcomings of focusing solely on increased income as a measure of the impact of microfinance on poverty. He argues that by increasing the income of the poor, MFIs are not necessarily reducing poverty, it depends what the poor do with this money, often times it is gambled away or spent on alcohol (1999), so focusing solely on increasing incomes is not enough. The focus needs to be on helping the poor to “sustain a specified level of well-being” by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved.

It is commonly asserted that MFIs are not reaching the poorest in society. However, despite some commentator's scepticism of the impact of microfinance on poverty, studies have shown that microfinance has been successful in many situations. According to Littlefield, Murduch and Hashemi (2003, p.2) "various studies... document increases in income and assets, and decreases in vulnerability of microfinance clients". They refer to projects in India, Indonesia, Zimbabwe, Bangladesh and Uganda which all show very positive impacts of microfinance in reducing poverty. For instance, a report on a SHARE project in India showed that three-quarters of clients saw "significant improvements in their economic well-being and that half of the clients graduated out of poverty" (2003,P.2)

Dicer (1996, p. 109) states that microfinance is a tool for poverty reduction and while arguing that the positive impacts do take place. From a study of a number of MFIs he states that findings show that consumption smoothing effects, signs of redistribution of wealth and influence within the household are the most common impact of MFI programs (ibid).

Hulme and Mosley (1996, p. 109) in a comprehensive study on the use of microfinance to combat poverty, argue that well-designed programmers can improve the incomes of the poor and can move them out of poverty. They state that there is clear evidence that the impact of a loan on a borrower's income is related to the level of income" as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the "middle and upper poor" (1996, pp109-112). However, they also show that when MFIs such as the Germen Bank and BRAC provide credit to very poor households, those households were able to raise their incomes and their assets (1996, p.118).

Mayoux (2001, p.52) states that while microfinance has much potential the main effects on poverty have been.

- Credit making a significant contribution to increasing incomes of the better-off poor, including women,
- Microfinance services contribution to the smoothing out of peaks and troughs in income and expenditure thereby enabling the poor to cope with unpredictable shocks and emergencies.

Hulme and MosleY (1996) show that when loans are associated with an increase in assets, when borrowers are encouraged to invest in low-risk income generation activities and when the very poor are encouraged to save; the vulnerability of the very poor is reduced and their poverty situation improves. Johnson and Rogaly (1997, p.12) also refer to examples whereby savings and credit schemes were able to meet the needs of the very poor. They state that microfinance specialists are beginning to view improvements in economic security, rather than income promotion, as the first step in poverty reduction (ibid.) as this reduces beneficiaries' overall vulnerability.

Therefore, while much debate remains about the impact of microfinance projects on poverty, we have seen that when MFIs understand the needs of the poor and try to meet these needs, projects can have a positive impact on reducing the vulnerability, not just of the poor, but also of the poorest in society.

2.1.7. Financial Sustainability Versus Serving the Poor

MFIs have more than just a social mission. Markowsk (2002, p117) states they have a dual mission a social mission "to provide financial services to large numbers of low-income persons to improve their welfare", and a commercial mission "to provide those financial services in a financially viable manner" we have already seen that MFIs are not fulfilling their social mission to the extent need to meet the demands of the poor for financial services. Simanowitz with Walter (2002) argue that microfinance is a compromise between this social mission and commercial mission. As there is more emphasis on financial and institutional performance, opportunities for maximizing poverty impact and depth of outreach have been compromised. They call for a balancing of social and financial /commercial objectives because the current focus on financial objectives mean fewer of those most in need of microfinance services are being targeted. To do this they argue "it is now time to innovate and design services that maintain high standards of financial performance, but which set new standards in poverty impact" 2002, p.3)

Markowski (2002) states that CGAP estimates that only about 5% of MFIs worldwide are financially sustainable while the IMF (2005) puts the figure at only 1% so this is a huge issue for the microfinance sector. To achieve financial sustainability according to Havers (1996) MFI must cover the cost of funds, operating costs, loan write-offs and inflation with the income if receives from fees and interest according to the IMF (2005) the MFIs that have become self-sustainable tend to be larger and more efficient. They also ten not to target the very poor, as targeting the less poor leads to increase in loan size and improved efficiency indicate\ors, whereas MFIs focusing on the poorest tend to remain dependent on donor funds (IMF, 2005). This is where the compromise exists. In order to achieve such sustainability, while at the same time reaching those most in need, microfinance programmers need to be managed in a rigorous and professional manner, subsidizes must be removed and tight credit control procedures and follow-up on defaulters needs to be in place (Havers, 1996). There is no doubt that sustainability is also very important from clients perspectives, as they place a high value on continued access to credit and if they feel that the MFI will not survive it reduces their incentive to repay loans (Von Pischke, 1999).

Appropriate loan sizes for clients matching their needs, realistic interest raters, savings as a prerequisite, regular, short and immediate repayment periods and achieving scale can contribute to sustainability (Havers, 1996). If these measures to achieve sustainability are put in place, while focusing on the needs of the poorest, then both the social and financial objectives can be achieved. In simple terms, the trade off between financial and social objectives can be balanced if the MFI is well managed and understands the market and its clients (Morduch, 2004) and by combining both objectivism financial returns can potentially be increased in the log run (pawlak and Matul, 2004). Imp-Act (2004a) states it when assessing the performance of an MFI, both its financial and social performance must be assessed, as both are needed for the successful running of an MFI Simanowitz, quoted in Imp-Act (2004a) refers to this as an MFIs “double bottom line”. As stated by Morduch “achieving profitability and strong social performance is the ultimate promise of microfinance. It is not impossible but neither is it easy” (2004a, p.3) and this is the challenge facing all MFIs.

Therefore the current challenges facing MFIs are threefold, it concerns, not only financial sustainability, but also outreach-extending the services to greater numbers of poor and depth of outreach trying to reach the poorest members of society.

2.2. Credit Management System

2.2.1. The Role of Credit in Ethiopian Economy

Credit has become an inescapable part of every day life. Its use can be both good and bad depending on the reason for its need and ability of the borrower to repay in a timely manner. Credit can raise standard of living and handle emergencies for consumers as well as expand markets obtain inventory and supplies and acquire financial capital for business.

Credit has sometimes been referred to as the oil for our economic machinery. Credit enhances the flow of money and the factors of production with in the economic system. Credit has also provided by working to various interest rates charged for using credit. (Cole and Mishely, 1998, p.6)

The government of Ethiopia opens the commercial banking sector to private banks in 1994 and followed the same direction with microfinance institutions (MFIs) in 1996. As a result there were 36 financial institutions as of December 2006 operating in Ethiopia including three government owned banks, six MFIs all regulated b the NBE. The 26 MFIs with a total of 1.5 million clients (2006, up from about 1.3 million the previous year.

The formal banking sector has usually avoided lending to the poor because of supposed difficulties on collection and lack of collateral.

In Ethiopia the provision of microfinance service was considered crucial for both rural and urban development, particularly to support poor household for the purpose of on farming activities and accelerate off farming activities.

A regulatory framework was formulated on 1996 to ensure the microfinance industry's commitments to this natural objective.

The Ethiopian microfinance sector is one of the fastest growing on the world today. As per end of ear 2006, the then 26 operational MFIs service 1,508572 borrowing clients with an aggregated portfolio of EBR 2.2 billion regardless of their social missions microfinance institutions are financial intermediaries. Therefore, it is very important for managers and other stack holders to assess accurately the viability and soundness of MFIs as financial institutions. (AEMFI, Bulletin 4, 2008. P.7)

2.2.2. Credit Management Function

Successful credit management requires the operation of tight financial controls coupled with a positive approach to the achievement of profitable sales.

Once the design to establish a credit department has been made attention must be directed toward the responsibilities duties and goals of the credit manager. Credit managers are individuals within business organizations responsible for evaluating customers applications for credit and who hold the power to commit business resources in credit transactions.

All the credit managers are used in many business credit situations, this definition also applies to many others whose might be credit or loan officers. Credit managers who decide based on information provided if customers will be allowed with credit facilities. The common link is the challenge to evaluate risk and decide if credit relationship is possible between creditors and applicants.(ibid)

Credit managers and loan officers make the basic credit decision to grant, reject or qualify loans. In the event of collection difficulties they are held responsible for ultimate settlement and recovery of the loans. Therefore the need to have sound credit policy and procedure credit management structure and assignment of proficient loan officers can't be over emphasized

2.2.3. The Credit Management Process

The credit management process is a serious of steps that involves promoting credit, analyzing the risk of credit applicants and collecting the payment after the debt is created.

Credit investigation- involves direct inquiry that is the process of contracting credit grantors who can verify facts and provide information about the applicant's willingness and ability to pay.

Credit decision-is a judgment made by the credit manager to accept or reject an application for a credit. The ability to make a good decision is based on a combination of art and science. The science often involves the ability to analyze the financial health of the applicant. The art involves with experience and include the ability to ask the right questions to predict payment results. Robert Cole (1998)

Control functions- Are used to monitor a credit control activities involve ‘watching’ the disbursed credits to verify that payment are being made as planned and that the relationship between the customer and credit grant or continues to be productive.

Collection activities- include any effort to get credit be paid back in timely manner. This is one of the most important aspects of effective credit management. Research shows that the longer a credit goes without payment, the more difficult it becomes to collect a loan account (Cole and Mishely, 1998, p.6)

2.2.4. Credit Management Technique

Credit management is currently as much of an art as a science , while the accept / reject decision for a new applicant is well defined and most amenable to quantitative analysis, the other decisions are not an easily to formulate and subjective judgment rather than empirical models appears to be the norm.

1. Character- the willingness to repay debt
2. Capacity- the financial ability to repay debt
3. Capital and Collateral- possessions or equities from which payment might be made and
4. Conditions- reflecting the general economic environment or special conditions applying to the borrower or the type of credit.

The data for scoring systems are obtained through questions on example. The length of time at current address or with current employer. Present salary, number of dependents, other loan commitments and occupations. In addition behaviour scoring typically utilized information on delinquency during the performance period account activity during the performance period, account balance during the performance period amount past due, returned cheques, age of account, new applicant credit score (Rosenberg, 1993, paper).

All involved in administration of loans are primarily concerned to ensure the likelihood that the customer will repay the loan in accordance with stipulated terms. Therefore, careful consideration of the time honoured “5C’s of credit” character, capacity, capital, collateral and conditions as basis of decisions is equally of permanent important.

CHAPTER THREE

3. Data Analysis Presentation and Interpretation

The student researcher obtained different information's from respondents. By employing simple random sampling technique 90 of key beneficiaries and 9 from ADCSI employees were selected from the three kebeles.

The primary data gathered using questionnaire and interview. The questionnaire was prepared for the beneficiaries of ADCSI. And interview was conducted with the credit managers and loan officers of ADCSI in the three kebeles.

The questionnaire was distributed for the 90 beneficiaries. From these 88% or 80 respondents answered the questionnaire. The rest 12% or 10 respondents were not complete and return the questionnaire.

Interview was conducted with all the employees of ADCSI.

To describe and address the research questions descriptive data analysis method is applied.

Table 1: The distribution of questionnaire

The selected Kebeles	Number of Beneficiaries in this kebeles	Key beneficiaries From each kebeles	Questionnaires Answered	Percentage %
Kebele 11/12	3000	30	28	35%
Kebele 01/02	3000	30	24	30%
Kebele 03/09	3000	30	28	35%
Total	9000	90	80	88%

Table 2: interview conducted with ADCSI employees

The selected kebeles	No. of selected employees	Percentage
Kebele 11/12	3	33.33%
Kebele 01/02	3	33.33%
Kebele 03/09	3	33.33%
Total	9	99.99% (100%)

As the table shows the student researcher interviewed all the employees of ADCSI.

Table 3: Characteristics of beneficiaries

No.	Remark	Status	No.	Percentage
1	Sex	Male	36	45%
		Female	44	55%
			80	100%
2	Marital status	Married	42	55%
		Unmarried	24	30%
		Widowed	8	10%
		Divorced	6	7.5%
			80	100%
3	Age	18-25	28	35%
		26-33	32	40%
		33-40	16	20%
		Above 40	14	17%
			80	100%

The above table shows the characteristics of the sample beneficiaries. From item number 1 the sex category it is observable that female borrowers take large number. That is from 80 respondents 55% or 44 of them are females. This good amount implies that females can do their best in this kind of commitment. In most developing countries women are expected to do home management. But nowadays we can see how they are involving in business and production activities. The MFI also encourage female borrowers in the above reasons and they are responsible in most activities they are involved. It is not saying the contribution of males is easy.

When we see on item number 2 the marital status of beneficiaries 55% or 42 of borrowers are married.

This implies that most of the beneficiaries have their own responsibility and contribution in their family.

The age group shows 75% from age 18-33 of borrowers are young. It is true that in most developing countries the young people are unemployed. So it is good that they are coming to this MFI.

Depending on the characteristics showed in the above information the data was more reliable and easy to interpret.

Table 4: Duration of borrowers in the MFI

Remark	**Duration of time**	**No. of respondents**	**Percentage**
Customers Duration as a borrower	From 1 month-a year	18	22.5%
	1-5 years	24	30%
	5-10 years	21	26.25%
	10 years and above	17	21.25%
		80	100%

From the above table it is observable that things are easy to get enough information. Because 30% of the respondents are stayed from 1 up to 5 years. And 26.25% of the beneficiaries are borrowers for 5-10 years. So from this information, the researcher can see long time trends of the MFI with its customers and the information will be clearer.

3.1.Credit giving process

3.1.

3.1.1. The Selection of Potential Borrowers

From the interview conducted with the managers 77.8%(7) of the respondents said that the necessary procedures and policies are applied when selecting the potential borrowers. Whereas 22.2% of the employees said there are some problems that affect this process.

The process of selecting the real unemployed and poor person is shown below:

- Evaluating the work proposal
- Using the information given by the kebele representatives about the personality of the given person
- Interviewing the client how he/she plan this business
- And according to the previous experience of the customer if the customer were took the loan and repay on time.

Based on the above and other related data the loan committee decide to give the credit. As the explanation of the 22.2%(2) of the employees the process is routine. This data implies that the MFI couldn't apply new and up to date mechanisms to select potential borrowers.

3.2. **The Collection time and the Grace Period**

3.2.1. The Grace Period Given to Customers

According to ADCSI procedure the grace period for the business customers is 1 month.

The following table shows the beneficiaries opinion about the grace period.

Table 5: Beneficiaries opinion about the grace period

Questions	Remark	No of Respondents	Percentage %
Is the grace period given to repay the credit enough?	Yes	36	45%
	No	44	55%
Total		80	100%

From the above table 45% of respondents agree about the grace period. But 55% of the respondents said 'no' with the following reasons.

- Due to the current price fluctuation it is difficult to be profitable within a month.
- The unavailability of raw materials is one of the factors
- A business needs adaptability of customers through duration of time
- The invisibility of the business area. Because most of the places are far from the main road.
- If the business is production the production process not completed enough in one month.

From the above given information the beneficiary's reason that they failed to start the repayment in the grace period is much sounded. Because the data indicates that the grace period is very short time.

Table 6: ADCSI Employee's opinion about the grace period

Question	Remark	No of Respondents	Percentage %
Is the grace period you gave for customers enough?	Yes	8	88.9%(90%)
	No	1	11.11%(10%)
Total		9	100%

Almost 90% ADCSI interview respondents answered that the grace period is enough. Because the MFI expect that they will get return from the work. The other 10% respondents think the grace period given to the beneficiaries is unfair.

3.2.2. Collection of credit in the given time

Table 7: Customers data about collection of borrowed money

Questions	Remark	No of Respondents	Percentage %
Does the MFI collect loan repayment on time	Yes	34	42.5%
	No	46	57.5%
Total		80	100

As we have seen in table 42.5% of the respondents answer that the MFI collect money in the desired time. But great number of the beneficiaries i.e. 57.5% shows that the collection activity is very weak. According to the beneficiaries opinion one of the reasons is the shortage of credit period. With this short period of time it is very hard to get the expected return or profit. The other factor is weak follow up of the MFI. As the respondents explain on the questionnaire, frequent follow up is not available. And that makes the beneficiaries negligent.

Another reason is the loan size. Since we expect the business to be profitable there must be enough financial capacity. Otherwise it is hard to get a quality material that encourages the buyer to take. These days there is high competition and the need of buyers to get quality things is changed.

The above data and explanation of the beneficiaries indicated that the MFI is not prepared with different kinds of mechanisms to collect the repayment.

On the next table we can see the employee's opinion when interview conducted.

Table 8: Employee's answers for problem during collection

Questions	Remark	No of Respondents	Percentage %
Is there any problem to collect money in the desired time? Please explain?	Yes	6	66.7%
	No	3	33.3%
Total		9	100%

As it is shown in the above table, 66.7% of the employee stated that there is a problem to collect money on the desired time. And the rest 33.3% answered they weren't challenged to do this activity.

As table 8 shows the large number of employees agreed that the problem is happened and challenged them to perform well. And the factors are:

- Lack of transportation service when extensions workers out to collect the money.
- There is limited amount of allowance for credit officers and extension workers.
- Unavailability of beneficiaries in their work place
- Due to the problems mentioned by the beneficiaries the credit officers can't collect and get back into their office.

The above data and explanation indicates that the MFI couldn't provide the necessary materials and benefits for the officials. So the credit activity is not well done.

3.3. Loan Repayment

Table 9: Beneficiaries answers for problems occurred to repay money

Question	Remark	No of Respondents	Percentage %
Do you have problems to repay the money that you borrowed	Yes	44	55%
	No	36	45%
Total		80	100%

From the above table 55% of beneficiaries are answered that they have problem to pay the loan. The following are the problems that they faced.

- Lack of understanding of terms and conditions of loan
- The non-profitability of their business contract
- The interest rate
- Invisible business area
- In group or group association the inefficiency of some of their members
- External factors like shortage of electricity power, unavailability of raw material or resource and other related factors.
- Shutting the business by conflict or fraud (when it is group association)
- Loss occurred in the business.

In the above mentioned reasons they may fail to pay the loan. Literatures show the aim of microfinance is assisting the poor by providing financial service. But we can see from the above data that the loan repayment is not performed. And this affects future financial capacity of the MFI.

3.4. Follow up Activities

One of the major tasks of MFI is follow-up their customers because the main objective of MFIs is assist the poor and unemployed peoples to have their own financial income. Visiting their work activities is very important that to supervise the work is going smooth.

In this connection, borrower was requested to forward their opinion on ADCSI credit and activity follow up system.

Table 10: Follow up system of ADCSI from the borrowers answer

Question	**Remark**	**No of Respondents**	**Percentage %**
How is the follow up activity of ADCSI?	Strong	12	15%
	Moderate	28	35%
	Weak	40	50%
Total		80	100%

As it is shown in table 50% of the respondents said there is weak follow up activity. 35% of the clients answered the follow up activity is available 15% of the beneficiaries agree with the strong availability of follow-up.

From the large number of clients we can see the availability of follow up is weak and not frequent. As it is clearly stated the performance and the return of the business also measure by follow-up activity of the MFI’s.

There are another related questions provided for the clients regarding consultant and training

Table 11: The availability of training

Question	Remark	No of Respondents	Percentage %
Have you ever been in training given by the MFI?	Yes	68	85%
	No	12	15%
Total		80	100%

As we know from the above data, most of the borrowers need training. Therefore, training shall not see separately. 85% of the sample survey shows they were in the training during their stay in the MFI. 15% of the respondents give answer 'there is no training during my stay in the MFI as a borrower'.

Table 12: The frequency of training

Question	Remark	No of Respondents	Percentage %
For how many times you take training?	Once in a year	45	66.18%
	Twice in a year	13	19.12%
	Above two times	-	-
Total		58	85%

From the above tables table 11 and table 12 we can see that 85% of the beneficiaries took training whereas, 15% did not involved in the training.

From the 85% of respond's 66.18% of the clients take training once in a year that means when they have started the work. The rest 19.12% of beneficiaries get the chance to train twice in a year.

The above data shows frequent training is not given for these borrowers. This trend has impact on the beneficiaries' work.

Table 13: Consultation activity in ADCSI from the beneficiary's opinion

Question	Remark	No of Respondents	Percentage %
Have you contact consultants in your stay at the MFI?	Yes	17	21.25%
	No	63	78.75%
Total		80	100%

From the above table 21.25% of respondents specify that they have advised by consultants. But 78.75% of the clients have not seen consultants. As we said about the characteristics of these borrowers, most of them have no awareness about the business. In this situation loss and liquidity might be existed. So the consultation program is very important.

CHAPTER FOUR

4.Summary Conclusions and Recommendations

4.2. Summary

Using the questionnaire given to ADCSI beneficiaries and the interview conducted with the employees, the student researcher gathered the necessary data. The following are the major findings.

- From the selected sample survey the study of characteristics shows 55% of the beneficiaries are women. The marital status of the clients implies that 55% of the beneficiaries are married.
- 75% of the customers of ADCSI are young peoples. From age 18-33.
- About 56.25% of the ADCSI are stayed for a long time in the institution as a client.
- 55% of borrowers give opinion about the grace period that the grace period given by the ADCSI is not enough time.
- The data gathered from the beneficiaries about the collection of the repayment on the given time shows that 57.5% of the borrowers said the activity is not satisfactorily.
- The data gathered from the employees shows 66.7% of them have got problem to collect during the collection time. Because of the borrowers different reasons.
- The loan repayment data show 55% of the borrowers can't repay the loan with several reasons.
- The employees explain that most of the time the borrowers have failed to pay the repayment.
- Half of the borrowers said the follow up activity of MFI is very weak.
- 85% of the borrowers took training in the MFI. But large number of the clients i.e. 66.18% answered that they took the training only once in a year.

- 78.75% of the beneficiaries didn’t consulted by business consultants.

4.3. Conclusions

The main objective of ADCSI is serving the poor and unemployed peoples by giving financial service. To meet the objective, the efficiency of this MFI is vital. In these days large amount of peoples get awareness about the importance of microfinance's. So in this regard the microfinance has to give attention to perform well.

As the researcher stated earlier, if the financial delivery system is right and efficient both the peoples and the government will be beneficiaries.

ADCSI has been serving for a long time. The beneficiaries of this MFI is not small in number. Since now it gives its great contribution for the country. But there are implementation problems that the MFI has to improve.

So the student researcher draws the following conclusions from the major findings.

- The decision making in the selection of real applicants is good enough. But it the process is routine. The researcher have observed there is no up to date mechanism. For example the information gathered from the kebele representative about the new applicant not always reliable. Most of the bad consequences come from the former selection process. So the selection process is not satisfactory.
- As the researcher evaluate observed from the data, ADCSI gives grace period. But it is very short. In common sense a business could not profitable in one month. Production process also cannot complete in this short period of time. This obligation doesn't encourage borrowers to take the credit. Here, the MFI forget the external factors like the supply of raw materials, comfortable places, demand, customer adaptability etc.

- During collection of borrowed money from the beneficiaries, the MFI has faced many challenges. One of the challenges is from the customer side the borrowers fail to pay on the specified time because their income is not well good. As expected because of external factors. The follow up activity is not that much satisfactory. Structured programs are not developed. There is no enough transportation and allowance for the employees so with these factors the MFI were not successful
- According to the data's, the employees is not performed the follow up activities well. There is lack of frequent follow up. Not only the repayments follow up but also there is weak supervision on the beneficiaries work activity. This made the borrowers to forget their commitment.
- Training and consultation programs are always stick with the microfinance activities. But here from the data the student researcher have observed that it is not goes together. And this has negative impact on borrower's business activities.

4.4. Recommendations

Based on the major findings and conclusions the following recommendations are forwarded from the researcher. It is great hope of the researcher that these recommendations will help ADCSI to improve the credit management performance.

- As a manager, ADCSI credit managers has to prepared with appropriate policies and procedures, before disbursing the loan. Usually MFIs doesn't require high collateral. Because their objective is not only credit giving. Their major aim is enabling the poor peoples to have their own capital or income. In this regard literatures shows the process of selecting, there must be well-designed screening criteria that partially substitute the collateral request. With this regard the managers of ADCSI have to prepare up to date mechanisms to select the real potential borrowers. In addition basic information like credit discipline, behavioural discipline, contribution for the society, business experience, family responsibility and other helpful issues should be considered.
- ADCSI shall improve the grace period. Using the new improved grace period the MFI should give creativity awareness and business consultation for the beneficiaries how to handle their customers and the business.
- To make change on the collection method, ADCSI should inform the terms and conditions at the beginning. In the mean time the MFI have to prepare reminding notes and send to customers. Other methods like telephone reminding, work visiting and awarding customers who paid on time are encouraging tools for the borrowers.

  On the other hand motivating the employees has its own impact. By allocating sufficient budget the MFI has to prepare its own car for follow-up purpose, increasing employee's allowance, placing sufficient human resource and train them in relation to their profession are other motivating factors.

- There should be frequent follow up on beneficiary's activity that they utilize the loan on the productive activities. Strong supervision is necessary to prevent fraud and theft.
- ADCSI should designed frequent training and consultation program. Specially, when the business activity of some beneficiaries is weak, the MFI has to assist and give advice by hiring or bring temporarily business consultant.

Appendices

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St Mary's University College

Business Faculty

Department of Management

The purpose of this questionnaire's is to gather appropriate information and suggestion about the credit management of ADCSI. So your true and convenient answers to this questionnaire will help to this study. The information you provided will be kept confidential and used only for academic purpose.

- No need of writing your name
- When alternative answers are given please mark your answer using
- Please make your answer brief when you are asked open ended questions

Thank you for your cooperation.

1. Age

   18-25 ☐ 26-33 ☐ 34-40 ☐ Above 40 ☐

2. Sex

   Male ☐ Female ☐

3. Marital status

   Married ☐ Unmarried ☐ Widowed ☐ Divorced ☐

4. For how long you are stayed in this MFI?

   1month-ayear ☐ 1-5 years ☐ 5-10 years ☐

   10 years and above ☐

5. For what purpose do you borrow the money?

   To make business ☐ Personal use ☐ Others ☐

6. In which kind of borrower you are grouped?

   Personal loan ☐ Group lending ☐ Association lending ☐

7. How do you prefer this microfinance institution from others?

   The loan size ☐ The grace period ☐

   The service ☐ Near availability ☐

8. Is the grace period given to repay the credit enough?

Yes ☐ No ☐

9. If your answer for question number 8 is no why?

Please specify ______________________________

10. Does the MFI collect the loan repayment on time?

Yes ☐ No ☐

11. If your answer for question number 10 is No why?

Please specify ______________________________

12. Do you have problems to repay the money that you borrowed?

Yes ☐ No ☐

13. If your answer for question number 10 is yes what are the problems? Please specify______________________

14. How is the follow up activity of ADCSI?

Strong ☐ Weak ☐ Very week ☐

15. Have you ever been in training given by this microfinance?

Yes ☐ No ☐

16. If your answer for question number 13 is yes for how many days?

Please specify ______________________________

17. Have you contact consultant during your stay in this microfinance?

Yes ☐ No ☐

18. Do you have any recommendation, suggestion or comment?

Please write ______________________________

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St Mary's University College

Business Faculty

Department of Management

Interview prepared for ADCSI managers

1. Education level
2. What is your position in this microfinance institution?
3. What are the major activities of ADCSI?
4. What is the capital source of the MFI?
5. Explain types of your borrowers?
6. What are the procedures to give credit?
7. In what system you choose the real poor and unemployed person?
8. Does the loan size enough according to the beneficiaries demand?
9. Is the grace period you gave for borrowers enough?
10. Is there any problem to collect money in the desired time? Please explain
11. Do you follow up customers frequently?
12. Do you have recommendation, suggestion or comment? Please explain.