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AN ASSESSMENT OF CREDIT MANAGEMENT PRACTICE IN MICRO FINANCE INSTITUTIONS

(A CASE OFSOME SELECTED CREDIT AND SAVING INSTITUTION IN ETHIOPIA)

BY: ADDISU ANLEY

May 30, 2020

ADDIS ABABA, ETHIOPIA

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Declaration

I, **Addisu Anley**, the under signed, declare that this thesis entitled: "Assessment of Credit Management in Microfinance Institutions: In the case of some selected Micro Finance Institutions in Ethiopia" is my original work. I have undertaken the research work independently with the guidance and support of the research advisor. This study has not been submitted for any degree or diploma program in this or any other institutions and that all sources of materials used for the thesis has been duly acknowledged.

<u>Declared by</u>

Name____________________________

Signature: _____________________

Department ____________________________

Date ____________________________

Certificate of Approval of Thesis

This is to certify that the thesis prepared by **Addisu Anley,** entitled "Assessment of Credit Management in Microfinance Institutions: In the case of some selected Micro Finance Institutions in Ethiopia" and submitted in partial fulfillment of the requirements for the Degree of Masters complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Internal examiner: ____________________Signature: ____________Date: _____________.

Dean, SGS: _________________________ Signature: ____________Date: _____________.

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List of Abbreviations

ACSI - Amhara Credit and Saving Institution

ADA - Amhara Development Association

ADCSI - Addis Credit and Saving Institution

AWA - Amhara Women's Association

MFIs - Micro finance institutions

WMFI - Wisdom Micro Finance Institution

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Abstract

Credit management is a comprehensive process made up of the monitoring of loan facilities, extension of credit, distinguishing the market segments as well as delineating the returns generated. The study aimed to assess the practice of credit management of Microfinance Institutions in Ethiopia. Descriptive research design was employed as a main research design. In order to gather the primary data the questionnaire was filled by respondents from each branches during the period of distributing the questionnaire. The data gathered was used to test and evaluate the practice of credit management of microfinance institutions in Ethiopia. The study found that credit administration dimension is effectively practiced. The credit management dimension of application and evaluation is found to be ineffectively practiced in the MFIs studied, while the follow-up dimension of the credit management found to be very effective. Further on, the study found that the credit management dimension of application and evaluation is challenging to be practiced. The study also found that resources scarcity and the involvement of fraud and unclear loan evaluations are the major challenges of practicing the application and evaluation dimension of the credit management. As the researcher had indicated, Policy and procedures are practiced effectively on credit management practices in case of Ethiopian MFIs, hence the institutions should maintain their present practices and stabilize as they are operating in the dimension. The MFIs should Review and monitor covenants with customers. Since, covenants are conditions agree to by the borrower as part of loan term in commercial loans. If the MFIs can effectively monitor, it can provide lenders with an early warning of loan deterioration.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Credit management is a comprehensive process made up of the monitoring of loan facilities, extension of credit, distinguishing the market segments as well as delineating the returns generated (Asante, 2015). The policy on credit management comprises systems, guidelines and principles that serve as a blueprint for employees in the credit department in awarding loans and steering the total collection of credit facilities (Asante, 2015). The policy on credit management is described as a combination of principles devised to reduce expenditure connected with loan delivery while taking full advantage of the gains that can be generated from them (McNaughton, 1996).

Formulating and implementing loan policies is the most important responsibilities of microfinance's directors and management. In this activity, the Board of Directors take the services and co-operation of the microfinance's credit officers, who are well experienced and expert in the techniques of lending and are also familiar with external and internal factors that affect to the lending activities of the bank. One critical prerequisite for being able to supervise credit delivery effectively is the capacity to astutely and competently administer the lines of credit to clients. To be able to reduce the vulnerabilities associated with uncollectable loans, companies must exercise a better understanding of economic capacity of clients, history of customers' " credit rating and varying repayment arrangements.

Credit management is a comprehensive process made up of the monitoring of loan facilities, extension of credit, distinguishing the market segments further as delineating the returns generated (Asante, 2015). The policy on credit management comprises systems, guidelines and principles that function a blueprint for workers within the credit department in awarding loans and steering the whole collection of credit facilities (Asante, 2015). The policy on credit management is described as a combination of principles devised to reduce expenditure connected with loan delivery while taking full advantage of the gains that can be generated from them. Formulating and implementing loan policies is the most important responsibilities of microfinance's directors and management. During this activity, the Board of Directors take the services and co-operation of the microfinance's credit officers, who are well experienced and expert within the techniques of lending and are also familiar with external and internal factors that affect to the lending activities of the bank. One critical prerequisite for having the ability to supervise credit delivery effectively is that the capacity to astutely and competently administer the lines of credit to clients. To be able to reduce the vulnerabilities related to uncollectable loans, companies must exercise a more robust understanding of economic capacity of clients, history of customers' ‟ credit rating and ranging repayment arrangements. According to (Sante, 2015) in order to make an intrusion into new markets as well as enroll more clients depends on the competence to rapidly and effortlessly make well-informed credit decisions and set appropriate lines of credit.

Most banking organizations have botched to ensure the adequate management of the credit facilities they advance to their customers. These derelictions in their credit management have resulted to incidences such as default in loan payment, bad debts as well as other unfortunate occurrences. For financial institutions, risk management remains a keen challenge in their business operations due to the banks inability to rightly predict the events likely to occur in their business space (Feridun, 2006). Available evidence within the West Africa Sub-region suggests that Ghana banking institutions are not out of these risk management woes yet (Boye, 2014). For instance, Boye (2014) found out that in spite of the well-known credit risk that financial organizations have to deal with in their operations, other risks types namely; trade financing, foreign exchange transactions, financial futures, options, bonds, equities, swaps and in the extension of commitments and guarantees have all been established as other of forms of risks banks within the Sub-Saharan regions have to deal with in order to remain sustainable.

According to Adamu, Asongo and Nyor (2014) microfinance institutions and other non-financial institutions provide small forms of credit to individuals and SMEs who may not have collaterals to request for loans from commercial banks. Hence, microfinance appears to fill the gap by serving the segment of the markets that traditional banks have woefully failed to meet their financial needs. However, a significant impediment associated with this market segment is how micro finances institutions will be able to effectively manage the concentration risk associated with these segments in order for them to remain within their 2regulatory framework as well as meet their shareholder’s needs. Agene (2011) described credit risk as the weakening in credit advances units that eventually culminate into credit losses and high non-performing loans and management costs. Unfortunately, Agene (2011) posits that these occurrences are mostly common with non-traditional banks of which microfinance institutions are no exception.

1.2 Background of the Companies

Amhara Credit and Savings Institution S.C (ACSI)

Amhara Credit and Savings Institution S.C (ACSI) is a micro finance institution operating primarily in the Amhara region. Amhara Credit and Saving Institution (ACSI) was established in the Amhara Region, Ethiopia, aiming to feel the gap of formal institutions to meet the need of small-scale borrowers in income generation schemes. ACSI's operation is traced back to 1995. In 1996 was the year when ACSI had undertaken its pilot activities. ACSI was licensed as a micro finance Institution in April 1997. Its operation will remain in Amhara region, but increasing outreach by 50% by expanding to more villages/Peasant Associations. ACSI's mission which has remained intact over the last ten years, is to improve the economic situation of low income, productive poor people in the Amhara region through increased access to lending and saving services. It will maintain cost effectiveness in service delivery, and integrates its activities with government and NGO's working towards achieving food security and poverty alleviation in the region.

The other shareholders of ACSI are the Amhara State Government (25 percent), Amhara Development Association (ADA) 20 percent, Amhara Women's Association (AWA) 10 percent and Endeavour 10 percent. ADA is a non-profit NGO established in 1992 and engaged in primary health and basic education, skills training and other development activities in the Amhara region. ORDA is a local NGO established before 1991 to provide relief to people affected by drought and the war, while Endeavour is a local NGO engaged in the development of agro-industries that facilitates agricultural production and processing. AWA is a member owned, donor-funded association engaged mainly in promoting and mainstreaming women's issues in development.

ACSI has grown from only 6 branches (in 1996) to 10 branches and 174 sub-branches in 2005 and from a two layered organizational setup (where there was only a head-office and branches) to a three layered one (where there is the head-office, branches and sub-branches). ACSI now has three departments (finance, operation, and planning); three services (audit, administration and promotion) and two units (MIS, legal). It has about 1680 employees (some 17 percent women). The vast majority of staff (about 91 percent) are employed at sub-branch level with most of them dealing directly with clients. Few have college degrees and diplomas, and the majority are 12th grade graduates18, some of who are studying towards a diploma. In its operations, ACSI has managed to gain support from many of its stakeholders, the government, the local NGOs and community organizations operating in the rural areas. ACSI draws on the support of the local community (through participation in the Credit and Savings Committee) to screen potential clients in order to assess creditworthiness and to priorities those who should receive loans first (based on their poverty level, those households that have one oxen because possession of one oxen serves as a local poverty line) and to further facilitate follow up and monitoring.

Addis Credit and Saving Institute (ADCSI)

ADCSI is one of the most popular MFIs in Ethiopia which operates which operates within the boundary of Addis Ababa City Administration. It was established and registered at the National Bank of Ethiopia on January 2000. Its vision is to become active contributor towards poverty reduction efforts and would like to see improvement in the life of low income section of the society with duties to promote micro and small enterprises to alleviate poverty and reduce unemployment prevailing in Addis Ababa City Administration territory through the provision of Sustainable financial and other related services with particular attention to women.

The organization is growing since its establishment. Currently, the number of customers has reached to 30,000. In the study area, Addis Ketema sub city, Kebele 01/02, the number of customers is 676.

Wisdom Micro Finance Institution (WMFI)

Wisdom Micro Finance Institution S.C is one of the earliest Micro financing Institutions in Ethiopia established in 1999. Its main objective is to enhance socio-economic empowerment of disadvantaged people, especially women, by providing them access to support services like credit, saving and business training. Wisdom Micro Finance Institution S.C provides both financial and non-financial services. The financial services include provision of credit and mobilization of savings while the non-financial service basically deals with small business training for the clients. The Institution normally delivers loans for up to 12 months but it might be extended for a maximum of two years depending on the loan amount and type of activities.

The size of loan given to the clients' ranges from birr 1,000.00 reaches up to birr 100,000.00 and the repayment pattern is on monthly basis. Wisdom Micro Finance Institution S.C provide by methodology of group lending and individual lending. Wisdom Micro Finance Institution S.C operates its programs in four regions and it has 54 branches in the urban and rural areas of the country and serves 64,000 clients out of which 67 percent are women clients.

1.3 Problem Statement

Microfinance Institutions and other finance institutions must develop a credit policy to manipulate their credit management operations (Pandey, 2008) and since microfinance institutions generate their revenue from credit extended to low income individuals in the form of interest charged on the funds granted (National Bank of Ethiopia Annual Report, 2010) ca the disbursed loan difficult to work out its collection. The success of lending out credit depends on the methodology applied to gage and to award the credit (Ditcher, 2003) and thus the credit decision should be supported a thorough evaluation of the risk conditions of the lending and the characteristics of the borrower.

According to proclamation (No. 40/1996), Microfinance business means an activity of extending credit, in cash or in a similar way, to peasant, farmers or urban small entrepreneurs, of loan size of what shall be fixed by the commercial bank. once we back to our Mother Land Ethiopia Government appreciate and support micro finance Institutions at their start-up stage. The country's five years action plan ranging from the year 1992 E.C has included Micro Finance services as one component part of agricultural extension package, to facilitate poverty alleviation and rural development in the country. As a result government issued a proclamation (No. 40/1996) and variety of directives for licensing and supervising these institutions.

Credit management is that the function of granting credit terms and ensuring money is collected when it becomes due. Good credit management promotes dialogue between finance and sales teams to make a balancing act where risk is minimized and opportunities maximized. Similarly, most of recent studies on MFIs in national capital, specifically had produced similar foundations and were mainly specialize in assessing the loan repayment determinants (Pasha and Negese, 2014; Reta, 2011) and credit risks management in MFI(Suganda, 2017 & Belay, 2013). Credit management practices influence identification of potential credit default which is critical as high default rates cause decreased cash flows, lower liquidity levels, financial distress and lower loan provision rates (Muturi, 2016). In contrast, lower credit exposure means an optimal debtors' level with reduced chances of bad debts and high profitability. Scheufler (2002) indicated that credits policies, standards and appraisal procedures enable the firm to earn financial returns. Credit management provides a number one indicator of the standard of deposit MFIs credit portfolio. Since effective credit management is crucial to the long-term success of any microfinance institution as they generate most of their income from interest earned on loans extended to small and medium entrepreneurs (Mbucho, 2015). However, this is not adequately assessed credit management practice of these microfinance institutions. Besides this gap, there hasn't been any study related with the subject an objective on the respected company.

Banks and MFIs are in the heart of the financial and high risk industries. The need to track back the way they manage risk is mandatory. Specifically, the credit assumptions of these financial institutions has a high risk potential. Prior to that, there are not much studies done on these aspect particularly on the MFIs operating in Ethiopia. In this accordance, this study aimed to assess the practice of credit management of Micro finance institutions in Ethiopia the case of some selected Micro Institutions Ethiopia.

1.4 Research Questions

The research tries to seek answer to the following basic questions: -

- What is the proper credit application evaluation practice of institution?
- To what extent does the credit appraisal process effectively analyze the credit worthiness of the customers?
- What are the practice of the institutions in follow up and support supervision?

1.5 Objectives of the Study

1.5.1 General objective

The general objective of this study is to assess the practice of credit management of Micro finance institutions in Ethiopia by assessing the case of some selected Micro Finance Institutions.

1.5.2 Specific objective

The specific objectives of the study were:

- To examine the practice and the evaluation of credit application of the institutions.
- To assess the effectiveness of credit administration and documentation practice of the institutions.
- To examine the effectiveness of the follow-up and supportive supervision practices of the institutions.

1.6 Significance of the study

This study would have a practical importance for the credit managers in Ethiopia especially planning and appraisal officers and the finance department as a whole. It also helps to improve the practice of credit management by implying challenges and effects. In addition to this, it helps to identify factors affecting appropriate practices in credit management. The recommendation and conclusion of this study supports the policy makers to recognize the weakness and strength regarding MFIs in Ethiopia. This research can also be used as the input for further study in the topic.

1.7 Scope of the study

The research considers Amhara Credit and Saving Institution (ACSI), Addis Credit and Saving Institution, and Wisdom MFI as its firms under study. Since, ACSI is big and their customer number is above 35,000, the researcher takes Sheger branch as a scope of the study. In the case of ADCSI, the researcher took one branch from 88 branches, while one branch was taken as a total of 22 branches of WMFI. In other dimension, the study will only consider credit management of the Micro finance Institutions. The paper will cover main credit management issues of MFI firms in case of the selected MFIs. These includes: credit policy and procedure, credit application evaluation, credit appraisal process, and the follow up and supportive supervision practices of the institutions.

1.8 Organization of the study

The first chapter presents an overview of the study .It consists of background of the study, statement of the problem, objective of the study ,research question, hypothesis of the study, definition of terms ,significance of the study ,scope of the study and organization of the study. Chapter two presents literature review, concepts, definitions and conceptual framework. Chapter three provides an in depth discussion of the research methodology used to investigate the research problem. The design for the sample selection and size, research instruments used, and the statistical techniques used to analyze the data is highlighted. Chapter four focuses anticipated results from the research study. Chapter five will deal with summary, conclusion, limitation and recommendation. Conclusions are drawn based on the predicted results and the possible practical implications of the research findings.

CHAPTER TWO

RELATED LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Micro Finance Institutes

Different literatures define microfinance in various ways. But the core of the concept revolves around related and similar context. Accordingly, Micro financing is the provision of financial services to poor and low income households without access to formal financial institutions (Conroy, 2003). Microfinance is described also as banking for the poor. They are different from commercial banks because, they have limited banking services directed primarily to a designated catchments area or group. The major purpose of Micro Finance Banks is to direct attention of purveying credit to low income group and Micro, Small and Medium Enterprises (MSMEs) (Moruf, 2013).

The World Bank defines microfinance as " Small-scale financial services, primarily credit and savings provided to people who farm or fish and who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban" (Robinson, 2001).

The emergence of the global microfinance has a history of about three decades, yet has gone through stages of historical development. The microfinance industry is said to be in revolution: the service that was initiated in small scale and small village of South East Asia "Chintanga", Bangladesh now turned to be international agenda and an issue addressing one of the main problems i.e. poverty in developing countries of the world (Arega, 2007). The term microfinance is of recent origin and is commonly used in addressing issues related to poverty alleviation, financial support to micro-entrepreneurs, gender development etc.

2.1.1.1 The Concept of MFI

Microfinance is banking the un bankable, bringing credit, saving and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most case because they are unable to sufficient collateral (Maanen 2004:17). Microfinance refers to small scale financial service primarily credit and savings provided to people who farm or fish or herd; who operate small enterprises or micro enterprises where goods are produced to individuals and groups at local level of developing countries: both rural and urban. Many such households have multiple sources of income. Microfinance services can help low-income people reduce risk, improve management, raise productivity, obtain higher returns on investments, increase their incomes, and improve the quality of their lives and those of their dependents (Robison, 2001:9).

In broader understanding, Ledgerwood described that financial service generally including saving and credit; however, some MFIs also provide credit cards, payment services, money transfers, and insurance service. Besides, many MFIs provide social intermediation services such as group's formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus, the definition of microfinance often includes financial and social financial intermediations (Ledgerwoodd, 1999:1). Microfinance clients are typically self-employed, low-income entrepreneurs in both urban and rural areas. Clients are often traders, street vendors, small farmers, service providers (Hairdressers, rickshaw drivers), and artisans and small producers, such as black smiths and seamstresses (Ibid).

According to Ledgerwood and White (2006:30) microfinance refers to the provision of financial services, primarily but not exclusively saving and credit, to poor households, those do not have access to formal financial institutions. Many countries use quantitative approaches to define the segments of the population that can be targeted for microfinance products and service. Therefore, this research identifies the different service provision of microfinance in Addis Credit and saving Institution to the urban dwellers.

2.1.1.2 Evolution of MFI

As Robinson describes, the microfinance revolution developed in the 1980s, that is, before it has a name and came of age in the 1990s. It occurred when the many advances of previous decades in market knowledge, lending methods, and savings mobilization were combined with a commercial approach to financial intermediations for low income people. In addition to these, it accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching scale. Internationally, a microfinance industry began to develop (Robison, 2001:54).

Microfinance has been as accepted idea with a longer run than most in the realm of third world poverty reduction. If one counts the time from the advent of micro credit, it has been around for about half the six- decade-long lifespan of official development assistance. Suddenly, microfinance was a subject of discussion where it had never been before. Micro credit evolved slowly. From the 1950s through to the early 1970s the development endeavor focused much on economic development and still toyed with the notion of industrial development, a kind of catching-up with the west by replication and imitation. As development thinking focused more on the intractable nature of poverty in the early 1970s, the low poor and their immediate needs paramount (Dichter and Harper, 2007:1-2). According to Honohan and Back (2007:141) microfinance can service the financial needs of the poor. Its revolution has given MFIs the confidence to provide deposit and lending services to poor people.

2.1.1.3 Major Services of MFIs

Murray and Boros (2002) stated that the characteristics of microfinance products include: small amounts of loans and savings, short loan terms, payment schedules featuring frequent installments, easy access to the microfinance intermediary, simple application forms which are easy to complete, availability of repeat loans in higher amounts for clients who pay on time.

In addition to financial intermediation MFIs usually use nonfinancial services also named Business Development Services (BDS) (Ibtissem and Abdelfettah, 2013). Some microfinance programs are also referred to ‘credit plus as they provide services such as health services or adult literacy or training that go beyond financial services (Ibtissem and Abdelfettah, 2013). The main objective of these services is to develop client’s managerial and technical skills, improve and update their knowledge in production technology. (Edgcomb and Barton, 1998) note that the provision of nonfinancial services as a complement to credit and saving services not only develops the economic ability of the borrower to repay but also makes the relationship with the MFI more valuable to him. So we can say microfinance is not simply banking; it is also a development tool. Some types of services provided by MFIs such as:- small loan, typically for working capital, informal appraisal borrowers and investment, collateral substitutes; such as group guarantee or compulsory savings, financial administration of third party, stream lined loan disbursement an monitoring and secure savings products.

2.1.1.4 Impact of Microfinance

In the year 2000, the United Nations drew up a list of Millennium Goals which aims to spur development and eradicate extreme poverty. In 2002, Murdoch and Haley were authorized to determine the impact that microfinance has on the realization of the seven Millennium Goals. In an extensive work, Murdoch and Harey concluded that ‘there is a ample evidence to support the positive impact of microfinance on poverty reduction as it relates to the first six of the seven millennium goals’. The study of shows that clients who participate in microfinance programs have increased household income, better nutrition and health, the opportunity to achieve higher education, a decreasing in vulnerability to economic shock, greater empowerment, and in some cases, the ability of completely life themselves and their families out of poverty (Murdoch and Haley 2002:5).

2.1.2 Credit Management

According to Asante (2015), Credit management is one of the most essential activities in any company and cannot be neglected by any entity involved in the supply of credit lines no matter the nature of its business. It is the mechanism to ensure that customers will pay for the products delivered or the services rendered. (Myers and Brealey, 2003) consider it to be made up of techniques and strategies used by an enterprise to ensure that an optimal level of credit and its effective management are kept. This is one aspect of monetary administration including credit examination, credit assessment, and credit scoring and credit reports. (Nelson, 2002) considers credit management as apparently the way by which an enterprise superintends over its credit sales in a manner that creates greater opportunities for making higher profits. This is a prerequisite for any business engaged in provision of lines of credit since it is not possible to eliminate credit risk default.

MFIs and financial institutions mobilize deposits and utilize them for lending. Generally lending business is encouraged as it has the effect of funds being transferred from the system to productive purposes which results into economic growth. The borrower takes fund from these institutions in a form of loan and pays back the principal amount along with the interest. Though the main concern of MFIs are creating financial access to the poor, as its definition implies, sometimes in the non - performance of the loan assets, the fund of the institutions get blocked and the profit margin goes down. To avoid this situation, MFIs should manage their overall credit process. Credit management comprises two aspects; from one angle it is that how to distribute credit among all the needy so that everyone can develop and MFIs also get profit and from the other angle, how to grant credit to various enterprises, individuals and women to avoid credit risk.

2.1.3 Process of Credit Management

More than 80% of financial institution‟ balance sheet is related to credit. For this reason MFIs should take a careful care when dealing with credit. The process of credit management begins with accurately assessing the credit-worthiness of the customer base and his/her business viability. This is done by looking in to loan applications carefully which is part of the loan process. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. Hence, proper credit management is setting specific criteria that a customer must meet before receiving the proposed credit arrangement. Basu and Rolfes (1995) indicate that the success of a financial institution is built on a proper and quality credit management process.

As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer. Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the potential customer's current financial condition, including the current credit track record that discloses the character of a customer in meeting obligations as well as collateral value. As a result the writer discusses the different procedures that can be employed in each of these areas with the sole aim of examining the present loan management procedure of financial of institution mainly bank. A weak credit risk management system is the reason for many none performing loans (Nishiru and al, 2001).

Generally credit management has three basic steps credit analysis, credit approval and follow-up. The first two are pre-disbursement process while the last one is a post disbarment process.

2.1.4 Practices of Credit Management

As (Njenga, 2014) the process of managing credit is significant in improving the current credit scoring practices by the lenders. Credit management ensures inclusion of primary predictive factors that cover the full spectrum of relevant qualification criteria and both determines and reveals how they combine to produce outcomes. Credit scoring, which relies on historical data, does not have this capability, nor does it possess a feedback mechanism to adjust factor weightings over time as experience accumulates. The process of managing credit determines which risk factors that pertain to the lending decision within the context of each borrower’s situation and the loan product parameters, and then appropriately adjusts the factor weightings to produce the right outcome (Matovu&Okumu, 1996).

Credit management practices integrate judgmental components and proper context into the modeling process in a complete and transparent manner. Some credit management systems lack context because they rely purely on the available data to determine what factors are considered. Credit scoring systems lack transparency because two individuals with identical credit scores can be vastly different in their overall qualifications, the credit score itself is not readily interpretable, and industry credit scoring models are maintained as proprietary, as are their development processes (Gardner, 1996).

2.1.5 Credit Management Effects

Credit management is the method by which you collect and control the payments from your customers. Myers and Brealey (2003) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting. A proper credit management will lower the capital that is locked with the debtors, and also reduces the possibility of getting into bad debts. According to Edwards (1993), unless a seller has built into his selling price additional costs for late payment, or is successful in recovering those costs by way of interest charged, then any overdue account will affect his profit.

Effective management of accounts receivables involves designing and documenting a credit policy. Many entities face liquidity and inadequate working capital problems due to lax credit standards and inappropriate credit policies. According to Pike and Neale (1999), a sound credit policy is the blueprint for how the company communicates with and treats its most valuable asset, the customers. Scheufler (2002) proposes that a credit policy creates a common set of goals for the organization and recognizes the credit and collection department as an important contributor to the organizations strategies.

2.1.5.1 Credit Policy for Micro-Enterprise Loan

It is defined as the tenets and systems set up by top administration that oversee the organization's credit division and investigates execution in the augmentation of credit benefits against set down procedures (Franklin, 2010). It is essentially a situated composition of rules intended to minimize expenses connected with credit while expanding advantages from it.

The establishment of Micro-finance as an effort by the government to improve the access to loans and savings services for poor people is currently being promoted as a key development strategy to enhancing poverty eradication and economic development (Shreiner, 2005). Micro finance policy depends heavily on the availability and provision of finance. Abimiku (2000) asserted that finance is the main preoccupation of banking industry that brings together the factors of production such as land, labor and entrepreneur into action.

A sound loan policy, established and overseen by the board of directors, reflects favorably on the board and management. When a board sets forth its expectations clearly in writing, management is better positioned to control lending risks, ensure the institution's stability and soundness, and fulfill oversight responsibilities. An effective and up-to-date loan policy increases the likelihood that actual loan documentation and underwriting practices will satisfy the board's expectations. Furthermore, a well-conceived policy clearly and comprehensively describes management's system of controls and helps examiners identify high-risk areas and prioritize and allocate examination time.

Credit administration arrangements involve the credit strategies, credit measures and credit terms. This policy becomes the blueprint which guides the conduct and expectations of all employees entrusted with the responsibility of granting credit and also acts as a benchmark by which performance can be measured against standards set. The Credit Management function incorporates all of a company’s activities aimed at ensuring that customers pay their invoice s within the defined payment terms and conditions. Effective Credit Management serves to prevent late payment or non-payment. Getting it right rein forces the company’s financial or liquidity position, making it a critical component in any business. In the past decades there have been major advances in theoretical understanding of the workings of credit markets. These advances have evolved from a paradigm that emphasis the problems of imperfect information and imperfect enforcement (Hoff and Stiglitz, 1990). They pointed out that borrowers and lenders may have differential access to information concerning a projects risk, they may form different appraisal of the risk. What is clearly observed in credit market is asymmetric information where the borrower knows the expected return and risk of his project, whereas the lender knows only the expected return and risk of the average project in the economy.

Lending institutions are faced with four major problems in the course of undertaking credit activity:

a) To ascertain what kind of risk the potential borrower is (adverse selection),

b) To make sure the borrower will utilize the loan properly once made, so that he will be able to repay it (moral hazard).

C) To learn how the project really did in case the borrower declares his inability to repay and

d) To find methods to force the borrower to repay the loan if the borrower is reluctant to do so (enforcement) (Ghatak and Guinnane, 1999).

These problems of imperfect information and enforcement leads to inefficiency of credit market which in turn to default. Thorough credit assessment that takes into account the borrowers` character, collateral, capacity, capital and condition (what is normally referred to in the banking circles as the 5C`s) should be conducted if they are to minimize credit risk. (Mensah, 1999) stressed the importance of credit management as follows:

Credit management process deserves special emphasis because proper credit management greatly influences the success or failure of financial institutions. An understanding of a MFIs credit risk management process provides a leading indicator of the quality of a bank's loan portfolio. The key elements of effective credit management therefore are well developed credit policies and procedures; strong portfolio management; effective credit controls and the most crucial of all a well trained staff that is qualified to implement the system (Tenishu, 2014). Financial institutions must maintain basic credit standards if they are to function well and make credit available to promoters. These standards include a thorough knowledge of the borrowers' business by the officer in charge; reasonable debt equity ratio; marketability and viability of the investment project and other technical capabilities. Credit analysis is in general vital for the officer to judge about the credit worthiness of the borrower as well as the project to which the loan is injected.

Credit management is primarily concerned with the effective management of debtors as well as judicious financing of receivables. The objectives of credit management can therefore be expressively stated as safeguarding the portfolio of the companies' ‟ investments in debtors and maximizing operational cash flows. Policies and practices ought to be rigorously enforced for granting credit facilities to customers, collection of repayments that are due and limiting the high risk factor of non-payments.

According to (Tenishu, 2014) this effective credit management policy is particularly important in the case of small-scale entrepreneurs in LDCs like Ethiopia where most of the borrowers don't have sufficient entrepreneurship capacity to conduct scientific study before deciding on investing in a particular project. It would save the borrowers from undertaking risky project as well as the bank from default risk.

Credit risk evaluation is a complex process, which implies a careful analysis of information regarding the borrower in order to estimate the probability that the loan will be regularly repaid (Vigano, 1993). The probability of regular repayment depends on objective factors related to the

borrower's operating environment, the borrower's personal attitude towards loan obligation, and the bank's ability to evaluate these two aspects through the information it has and to control credit risk specific contractual conditions. Vigano summarized factors affecting credit risk as follows: the customer's ability and willingness to pay, presence of favorable external conditions, quality of information and MIFI's ability to ensure the customers willingness to pay.

2.1.5.2 The relationship between credit management policy and credit risk

Liuksila (1996) mentioned that the problems often begins right at the loan application stage and increase further at the loan approval ,monitoring stage especially, when credit risk management guidelines in terms of policy and strategy (procedures) for credit processing do not exist or weak. On the other hand (Koch, 1995) mentioned that adherence to sound credit policy principle farmed by sound credit analysis can reduce the frequency and depth of loan problems. Lending difficulty can be reduced if management established all adheres to loan policy guidelines specify quantitative goals for loan production versus loan quality and indicates procedures to attain these goals. (Endalkachew,2005) mentioned that lending policy are the concise set of board statement established the concept and objective parameter for credit extension, the organization of lending function including approval and delegation of responsibility. Lending procedure are the detailed approvals and techniques and implementing the stated policy in terms of how credit proposal should be granted and handled, borrower financial information analyzed, credit file mentioned and up dated, control of repayment schedule performed and enforced and periodic review and reports be generated and distributed.

2.1.5.3 Credit application evaluation

To make prudent credit decision, MIFI essentially should know the borrower well. Without these information MFIS cannot judge the loan application. Credit worthiness of the applicants is evaluated to ensure that the borrower conform to the standards prescribed by the MFIS. It can be said that a loan properly made is half- collected. Therefore, a MFI should make proper analysis before making any credit decision. With increasing credit risks, MFIS have to ensure that loans are sanctioned to "safe" and "profitable" projects. For this, they need to fine -tune their appraisal criteria. A mix of both formal and non-formal credit appraisal techniques will go a long way to ensure perfection in credit appraisal.

The credit evaluation process involves three steps:

Gathering credit information: The credit department of a MFI collects various important information regarding borrower from different sources to evaluate the customer. A number of sources would available for gathering information which depends upon the nature of the business, form of loan, amount of loan etc.

Credit Analysis (credit worthiness of applicants): After gathering the credit information, banker analyses it to evaluate the creditworthiness of the borrower. This is known as Credit Analysis. It involves the credit investigation of a potential customer to determine the degree of risk in the loan.

The creditworthiness of the applicant calls for a detailed investigation of the 5 Cs of credit - Character, Capacity, Capital, Collateral and Conditions.

Credit Decision: After passing through whole this process, the MFIS has to take decision about sanctioning of credit facility. The creditworthiness should be matched against the credit standards of loan policy. The MFIS should be very conscious about this, for taking right decision to avoid the possible credit risks to arise in future.

2.1.5.4 Credit Culture/Administration

Credit culture, according to (Kamath et al, 2010) can be defined as a MFI's approach to all issues correlated to the administration of credit risk. He continued by stating that if it is to attain a healthy credit risk portfolio, it must be synchronized with the strategic direction and organizational culture of the financial institution. (Basu and Rolfes, 1995) define credit culture as a structure of shared principles, viewpoints and credit related activities. They further inform that credit culture affects the practices of the financial institution concerning credit management. The culture must have the capacity to deliver the service required by the institution to meet the needs of its clients in a timely manner. It can only do this if it is in harmony with the overall strategic direction of the financial institution and is pioneered by the top echelon of the financial institution. Therefore Middlemiss (2004) states that financial institutions should have a more "morally acceptable approach" to assessing credit and should enact a certain level of social responsibility. Because the credit culture ought to maintain a balance between assuming new risks and imposing limits on the amount of risk at the same time, it is bound to run into all of kinds of resistance. Top management is the only source that can ensure that the culture not only supports appropriate credit standards, but is also profitable enough not to cause the bank to lose out on good business.

Solid credit standards, according to (Rouse, 2002), will unavoidably cost the bank some business, which in retrospect would have been beneficial. However, when the decision is being contemplated on, hindsight is unavailable. Credit culture which is an integral part of credit management takes into consideration the fact that there is some business the bank has to be willing to lose and so it becomes imperative for an agreement to be sought and a consensus reached as to the yardstick to be applied in determining which business to do away with throughout the bank. This policy has to be established by management and should articulate the type and level of risk the bank is ready to accommodate and the return it expects from taking on stated risk levels, both at the customer and portfolio level. In the view of (Gallinger and Ifflander, 2002), credit standards translate the culture into actions. (Middlemiss, 2004) states that financial institutions should have a more "morally acceptable approach" to assessing credit and should enact a certain level of social responsibility.

They should consider the terrain of the MFI's operations, its arrangement and the character and the level of preparedness of staff involved in credit decisions. This enables an effective credit management system to be implemented buoyed by a strong culture that is able to convert policies into proven results.

2.1.5.5 Credit Follow-up, Monitoring and supportive Supervision

Credit is borrowed funds with specified terms for repayment. When there is no sufficient accumulated savings to finance a business and when the return on borrowed funds exceeds the interest rate charges on the loan, it makes sense to borrow rather than not doing the business activity until sufficient savings can be accumulated; assuming the capacity to service the debt exists. Action Aid (1992), also explains that credit is provided for an activity which involves and needs proper selection of activity, source of funding, detailed planning, implementation of saving components and evaluation.

A proper credit management will lower the capital that is locked with the debtors, and also reduces the possibility of getting into bad debts. According to Edwards (1993), unless a seller has built into his selling price additional costs for late payment, or is successful in recovering hose costs by way of interest charged, then any overdue account will affect his profit. In some competitive markets, companies can be tempted by the prospects of increased business if additional credit is given, but unless it can be certain that additional profits from increased sales will outweigh the increased costs of credit, or said costs can be recovered through higher prices, then the practice is fraught with danger.

As (Wood, 1999), explains that loans are generally made for productive purposes that is, to generate revenue within a business. Some micro finance also make loans for consumption housing or special occasions. So, in order to use the credit properly there should be appropriate credit management, control system and continuous follow up procedure. According to him methods of credit delivery in the micro-enterprise lending program generally can be divided into two broad categories. These are individual and group based lending approaches based on the program delivers and guarantees its loans. Among the above two credit delivery methods group based lending is assumed to be a better credit management system for micro-enterprises lending program.

2.1.6 Causes of Credit Risk in MFI

According to Macaver and O, Ehimare (undated), the source of credit risk can be either from borrower level or from financial (lender) level.

Causes of Credit Risk at Borrower Level

The causes of loan default at the borrowers' level includes:-

- Failure of investment to generate sufficient income due to improper technical advice, inadequate support services, marketing risks or natural disasters.
- Diversion of loan from desired objective operations to non-essential consumption which makes it difficult to meet repayment commitment on time.
- Existence of liabilities towards informal lenders, which may get precedence over institutional lenders, leading to delinquency and default.
- Contingencies at the borrower household, such as sickness, accident or death (pure risk).
- Operation at very low level of subsistence, forcing additional income generated through loan supported activities to be appropriated for basic needs.
- Prevalence of low real rate of interest or pegging of interest rate far below the market rate.
- Absence of incentives for prompt repayment, or penalties for delayed repayment

Causes of Credit Risk at Financial Institution (Lender) Level

At the financial institution level, loan default may be due to any or a combination of the following:-

- Defective procedures for loan appraisal, which could lead to financing of bad projects, thereby giving rise to delinquencies and defaults.
- Quality of loan officers their mobility in the field, and their capacity to judge borrowers as well as the incentive package available to them affect repayment. When loan officers are assessed more based on compliance with lending targets than with recovery performance, it could lead to bad loans. When responsibility for lending and recovery are vested with separate officials in a credit agency, recovery tends to decline.
- Untimely loan disbursement and inappropriate repayment schedules. In addition, when the procedure for repayment is bulky, borrowers tend to default.
- Inability or reluctance of lenders to enforce sanctions against conspicuous defaulters.
- When institutions have limited contact with borrowers, default tends to increase. But when borrowers are in frequent contact and use several services of lenders, default reduces.
- Absence of sound accounting and management information system

2.1.7 Credit Risk Management

According to Singh (2013) credit risk management includes all management function such as identification, measurement, monitoring and control of the credit risk exposure. The writer further indicated that for long term achievement of banking sector effective credit risk management practice is a vital issue in the current business environment and poor credit risk management policy will create serious source of crisis in the banking industry. According to Atakelt (2015) credit risk management practice define as the process of analyzing and renewing Credit risk management documents and apply constantly in actual Credit granting process, Credit administration and monitoring and risk controlling process with suitable Credit risk environment, understanding and identification of risk so as to minimize the unfavorable effect of risk taking activities and the effectiveness of credit risk management process is dependent on different variables such as proper application of best Risk management documents, Staff quality, Credit culture, devoted top management bodies, sufficient training program, proper organizational structure, ample level of internal Control and Performance of intermediation function. This indicates that credit risk management includes different issues such as developing and implementing suitable credit risk strategy, policy and procedure, accurate identifications of risk, best credit granting process, credit administration, monitoring and reporting process determining and controlling the frequency and methods of reviewing credit policy and procedure and setting authority and responsibility clearly. Besides he mentioned that by establishing suitable credit risk environment, acceptable level of credit limit, best credit granting process, proper monitoring and controlling credit risk and optimizing risk return of a bank credit risk management develop credit performance.

Cebenoyan&Strahan (2004) examine empirically how active management of credit risk using loan deal affects capital structure, lending, profits, and risk of banks. They find that banks which are Active in the loan sales market hold less capital and make more risky loans than other banks. They conclude that advances in credit risk management improve credit accessibility rather Than decrease risk in the banking system. The management of credit risk has become a key objective for all financial institutions across the world. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters (Basel, (1999).

According to Anuj (2011) through designing and implementing a Credit Risk Framework, Performing a Credit Risk Assessment, Building Credit Risk Scoring Models and Credit Risk Reporting control panel and Forecasting Loan Loss we can construct effective credit risk management and he also believe that most effective credit risk management focuses on processes, culture, people and organization because we are working with them. "Credit risk management includes both preventive and curative measure. Preventive measure comprise risk assessment , risk measurement , and risk pricing , early warning system to pick signal of future default in advance and undertake better credit portfolio diversification. The curative measure aim at minimizing post sanction loan losses through steps such as securitization, derivative trade, risk sharing and legal enforcement" (Jain, 2014, p3).

2.1.8 Micro-Finance in Ethiopia

Although an intensive and well educated youths were existed in the economy of the country, lack of financial services to the needy target poor people's through conventional commercial banks were found as a bottleneck for the poor or low-income group peoples to finance their projects.

Moreover, the collateral requirements and information asymmetries made by those commercial banks to the large number of poor people on the world have lacked access to formal banking services at all (Litenah, 2009). Abafita (2003) were discussed in his study that a limited access to institutionalized financial service for the poor peoples in Ethiopia enforces the needy society to borrow from iddir, iqub, friends and relatives and other informal lenders to finance their business.

As a result, an initiation to establish the formal financial sources was in place to serve those poor people's by discouraging the exorbitant effects of those lenders. The main objectives of the MFIs as development organizations were to serve the financial needs of the non-served and underserved poor people's but who have the ability to work hard and change his/her life style due to the presence of these financial services. The major objectives to meet are as follows: Creating job opportunities, reducing poverty, empowering women, encouraging small and petty trades (Bayeh, 2012 and Tolosa, 2014) In developing countries, like Ethiopia, Microfinance Institutions (MFIs) have been emerged as a financial institutions with an intention of providing small sized financial service to the poor who were in need of financial services but lack of access to formal commercial banks. The microfinance institutions services consists provision of micro loans, micro savings, micro insurance service, money transfer, leasing and other relevant schemes to the target poor peoples who have been excluded by the conventional commercial banks due to lack of collateral requirements and high transaction costs (Tolosa, 2014).

Microfinance institutions in Ethiopia have been evolved since the late 1990s as an economic development tool intended to benefit low income poor people's (Bayeh, 2012). As Mengistu, 2007 were cited by Abafita, 2003, the credit program by microfinance have been evolved to empower poor households at urban areas of the country in the form of urban credit financing schemes which had actually commenced its operation since 1994. During its commencement this credit scheme was undertaken by some NGOs, Government departments and some donors in inconsistent manner. To resolve this problem the government of Ethiopia took initiatives to develop regulatory frameworks that govern the operational activities of similar industries (Abafita, 2003). As a result Proclamation No.40/1996 has been enacted to govern the operational activities of microfinance industries.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

A research design is simply the framework of the study. From different types of research designs, descriptive research design is employed as a main research design for this study to the realization of intended objective. The reason behind using descriptive research design is because; the design is appropriate for studies that aim to accurately and systematically describe a population, situation or phenomenon. Particularly, this study aims to position the practice credit management.

3.2 Research Approach

The study incorporated both qualitative and quantitative research approaches. A qualitative research approach will be used to assess the opinion of the respondents towards the factors, their assumptions and the problems they faced. Simple quantitative approach was used to indicate the frequency and percentage of the responses. The qualitative approach was used for explaining the actual credit management practice, whereas the quantitative approach is aimed for creating a relationship among the sample and the wider population of the study.

3.3 Population

Currently, ACSI has 13 sub city branches, 17 micro bank services in Addis Ababa. From these all study locations available as branches & micro bank service providers of ACSI, the researcher had chosen Sheger Branch and Nifas Silk Branch as a study area. Again for ADCSI the researcher took Kirkos S.C branch and Nifas Silk Branch for the study, while the researcher has taken Wisdom MFI, Addis Ababa main office as a study area. This is because the researcher have easy access of primary and secondary data on demand. Also considering, ease of distributing data collection instruments and collecting data as it is required by the study on the flow. ACSI has 7 staff employees in Sheger branch and 18 staff employees in Nifas Silk Branch. While ADCSI has 13 staff in Kirkos Branch and 15 in Nifas Silk Branch. WMFI has 8 employees in their selected branches. Employing Census survey method, the study has61 study target population. The following table shows the target population of the study.

Table 1: Sample Size

	MFI	Number
1	ACSI - Sheger Branch	7
2	ACSI - Nifas Silk Branch	18
3	ADCSI - Kirkos Branch	13
4	ADCSI - Nifas Silk Branch	15
5	WMFI - Main Office	8
	Total	**61**

Source: Compiled by the Researcher

3.4 Sources of Data

According to Cano (2004), Primary data are fresh data that are gathered for the first time and thus happened to be original in character. Primary data of the study was information gathered from employees‟ of the firm. Closed-ended questionnaire was prepared and delivered to employees. In order to gather the primary data the questionnaire was filled by those available employees in each branch during the period of distributing the questionnaire. Secondary sources were used. Sources like journals, books and thesis were employed as a reference.

3.5 Method of Data Analysis

The data generated was used to test and evaluate credit administration, credit policy & procedure, credit application & evaluation, and credit follow up work have significant impact on credit management practice. Every response was be assigned some score in the overall satisfaction level determination. Respondents were asked to rate their satisfaction with various aspects of their work along a 5- point Likert scale, range from 1=strongly dissatisfied to 5=strongly satisfied. The collected data was analyzed and interpreted using statistical package for social science (SPSS) version 20. Frequencies and descriptive statics was used to analyze the collected data.

CHAPTER FOUR

DATA PRESENATION AND ANALYSIS

4.1 Introduction

In this chapter, the data that were collected through the structured questionnaire summarized and analyzed in order to realize the ultimate objective of the study. This chapter contained the data presentation, analysis and discussion of the sample population based on the primary data collected. The demographic facts obtained from the respondents were summarized using frequency distribution. Scale typed questionnaires were analyzed by using descriptive statistics, correlation, and particularly regression is used to test the research concepts and answering the research questions. A total of 61 questionnaires were distributed, 58 of them were returned back to the researcher thus providing 95% response rate.

4.2 Demographic Profile of Respondents

Table 2: Respondents Demographic Profile

Demographic Profile		Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	27	45.5	45.5	45.5
	Female	31	54.5	54.5	100.0
Age Group	20 – 29	13	22.7	22.7	22.7
	30 – 39	16	27.3	27.3	50.0
	40 – 49	21	36.4	36.4	86.4
	50 Above	8	13.6	13.6	100.0
Company	ACSI	23	39.7	39.7	22.7
	ADCSI	27	46.6	46.6	86.2
	WFMI	8	13.8	13.8	100.0

Source: Own Survey, 2020

The above table shows the descriptive Statistical Analysis of the respondents' demography. It displays brief descriptive coefficients that summarize a given data set, which can be either a representation of the entire or a sample of a population. Descriptive statistics are broken down into measures of central tendency and measures of variability (spread). This section presents the descriptive statistics of the data regarded.

4.2.1 Gender Distribution of Respondents

The table above shows the proportions regarding gender is evenly distributed. The female respondents constituted the largest share of the gender composition representing 31 (54.5%) while 27 (45.5%) were male, as shown. This shows the largest number of respondents is female with 54%, while male respondents constituted 46% of the total respondents.

4.2.2 Age Group Demographic of Respondents

Regarding age distributions, respondents in the age range between 40- 49 amounted to 36.4% of the total respondents, while the age groups of 30 - 39 years of Age were 27%. Respondents above 50 years of age were the least respondent's percentage of the total sample with 13.6% of the total sample population contribution. As the age descriptive frequency is presented, it implies most of the respondents were between the ages of 30 to 49, it constitutes about 70% of the total respondents. This demography gives the research more reliability as most of the respondents are experienced in the sector of credit management.

4.2.3 Company of the Respondents

Regarding the institutions of the Respondents, respondents of WFMI amounted to 13.8% of the total respondents. While all the target population for WFMI responded, 23 employees from 25 target population of ACSI responded to amount 39.7% of the study respondents. ADSCI brought up 46.6% of the target population with 27 respondents out of the 28 target population from ADSCI.

The Microfinance institutions of the respondents descriptive frequency is presented in the table above.

4.3 Dimensions of Credit Management

The following results are focused on displaying the descriptive statistics of the dimensions of credit management. These results of the dimensions are compiled based on the responses of the respondents.

4.3.1 Administration

The following table presents the questionnaire requests regarding administration. As the mean of the result shows, the majority are in level to neutral for the questions asked on Administration dimension of credit management. The following statements interpret pricing related data collected by the researcher.

- Credit processes are managed properly,
- Credit late payment or unpaid payments are detected very effectively,
- Legal implementation, disbursement, credit control, file management and legal collections are included in the credit administration, and
- Credit risk is frequently monitored for customers.

Respondents gave their response to the following administration related statements on the questions of agreement or disagreement, the mean of the respondents are shown. The detailed data is in the table below.

Table 3: Descriptive Analysis of Administration

	N	Minimum	Maximum	Mean	Std. Dev.
Credit processes are managed properly.	58	1.00	5.00	3.45	1.14
Credit risk is frequently monitored for customers	58	1.00	5.00	2.86	1.17
Credit late payment or unpaid payments are detected very effectively	58	1.00	5.00	3.23	1.15
Legal implementation, disbursement, credit control, file management and legal collections are included in the credit administration.	58	1.00	5.00	3.05	1.36
			Mean	3.15	

Source: Own Survey, 2020

Most respondents agreed that credit processes are managed properly; it also draws some ambiguity to decide the issue in regards to agreement and disagreement. Looking to the standard deviation, 1.14 implies that the answers of the respondents were narrowly distributed with in this value apart from the mean, thus the answers are highly concentrated around the mean, 3.45.

As the mean value of 3.23 shows, respondents were neutral about adequacy of economic resources to finance projects. Looking to the standard deviations, 1.15 implies that the answers of the respondents were less distributed with this value from the mean, thus the answers are concentrated around neutrality. This implies it can be concluded all respondents have answered with neutrality.

As the mean value of 3.05 shows, respondents were neutral on the statement that Legal implementation, disbursement, credit control, file management and legal collections are included in the credit administration. Looking to the standard deviations, 1.36 implies that the answers of the respondents were less distributed with this value from the mean, thus the answers are concentrated around neutrality. This implies it can be concluded all respondents have answered with neutrality.

Most respondents slightly disagreed that Credit risk is frequently monitored for customers. Credit risk is not frequently monitored. Also by drawing some ambiguity to decide the issue in regards to agreement and disagreement. Looking to the standard deviation, 1.17 implies that the answers of the respondents were distributed in average with in this value apart from the mean, thus the answers are moderately concentrated around the mean, 2.86.

4.3.2 Policy and Procedures

Table 3 shows, the data collected by questionnaire requests regarding policy and procedures. The mean of the result shows, the majority are of the respondents are neutral for policy and procedure practice of the credit management. The following statements interpret the policy and procedure terms related data collected by the researcher.

- It is agreed that Data used for credit analysis is relevant and in accordance, the policy and procedures are easy and can be implemented, and credit policy and procedures are settle specifically in the MFI,

- The respondents were neutral about the practice of policy and procedure practiced effectively. This explains that it cannot be concluded that it is effective or not.

Respondents gave their response to the policy and procedures related statements on the questions for agreement or disagreement, the mean of the respondent are shown. The detailed data is presented in the table below.

Table 4: Descriptive Analysis of Policy and Procedures

	N	**Minimum**	**Maximum**	**Mean**	**Std. Dev.**
Credit policy and procedures are settle specifically in the MFI	58	1.00	5.00	3.41	1.33
Data used for credit analysis is relevant and in accordance	58	1.00	5.00	3.50	1.30
The policy and procedures are easy and can be implemented.	58	1.00	5.00	3.41	1.30
The practice of policy and procedure is practiced effectively	58	1.00	5.00	2.91	1.57
			Mean	3.31	

Source: Own Survey, 2020

As the mean value of 3.41 shows, respondents were in between in neutrality and agreement about Credit policy and procedures are settle specifically in the MFI. Looking to the standard deviations, 1.33 implies that the answers of the respondents were distributed with this value from the mean, thus the answers are concentrated around neutrality. This implies it can be concluded all respondents have answered with neutrality.

Most respondents agreed that Data used for credit analysis is relevant and in accordance, it also draws some ambiguity to decide the issue in regards to agreement and disagreement. Looking to the standard deviation, 1.33, implies that the answers of the respondents were averagely distributed with in this value apart from the mean, thus the answers are highly concentrated around the mean, 3.50.

As the mean value of 3.41 shows, respondents were neutral on the statement that the policy and procedures are easy and can be implemented. Looking to the standard deviations, 1.30 implies that the answers of the respondents were distributed to some degree with this value from the mean, thus the answers are concentrated around neutrality. This implies it can be concluded all respondents have answered with neutrality.

Most respondents slightly disagreed that the practice of policy and procedure is practiced effectively. Hence, the practice of policy and procedure isn't practiced effectively. Also by drawing some ambiguity to decide the issue in regards to agreement and disagreement. Looking to the standard deviation, 1.57, implies that the answers of the respondents were distributed in average with in this value apart from the mean, thus the answers are moderately concentrated around the mean, 2.91.

4.3.3 Application and Evaluation

The following table presents the questionnaire requests for application and evaluation dimension of credit management related queries. As the mean of the result shows 3.20, the majority of the respondents are neutral to application and evaluation dimension questions asked. Respondents highly agreed that the application and evaluation practice is very effective.

The following statements interpret data collected and analyzed by the researcher.

- Most of the respondents, agreed with the statement "the application and evaluation practice is very effective" and "Participating lenders must have adequate resources to entertain large loan applications", and

- Most respondents neither agreed nor disagreed for the reflections "The credit giving institution have adequate resources to entertain large loan applications" and "Loan application and evaluations are clear and free from any fraud or biasness".

Respondents gave their response to the following statements on the questions for agreement or disagreement. As the mean of the respondent are shown, the detailed data is in the table below.

Table 5: Descriptive Analysis of Application and Evaluation

	N	**Minimum**	**Maximum**	**Mean**	**Std. Dev.**
The credit giving institution have adequate resources to entertain large loan applications.	48	1.00	4.00	2.86	1.13
Participating lenders must have adequate resources to entertain large loan applications.	48	1.00	5.00	3.41	1.14
Loan application and evaluations are clear and free from any fraud or biasness	48	1.00	5.00	2.91	1.38
The application and evaluation practice is very effective	48	1.00	5.00	3.64	1.09
			Mean	3.20	

Source: Own Survey, 2020

Most respondents slightly disagreed that the credit giving institutions have adequate resources to entertain large loan applications. Hence, the institutions are inadequate regarding resources. Also by drawing some ambiguity to decide the issue in regards to agreement and disagreement. Looking to the standard deviation, 1.13, it can be observed that the answers of the respondents were centered to the mean, thus the answers are concentrated around the mean, 2.86. This result the unavailability of loan to potential borrowers.

As the mean value of 3.41 shows, respondents were in between in neutrality and agreement about the issues that Participating lenders must have adequate resources to entertain large loan applications. Looking to the standard deviation, 1.14 implies that the answers of the respondents were distributed with this value from the mean, thus the answers are concentrated around the mean, 3.41. This implies it can be concluded all respondents have answered with agreement and neutrality.

Respondents slightly disagreed that loan application and evaluations are clear and free from any fraud or biasness. Hence, the institutions have a dynamism problem. Loan and investment are damaging and destructor when done in unclear and corrupted way. Also by drawing some ambiguity to decide the issue in regards to agreement and disagreement. Looking to the standard deviation, 1.38, it can be observed that the answers of the respondents were not centered to the mean, thus the answers are widely variant over the mean, 2.91. In the long term, this may result instability to the company and to the economy as well.

Most respondents agreed that the application and evaluation practice is effective. Looking to the standard deviation, 1.09, it can be concluded that the application and evaluation practice is effective.

4.3.4. Follow Up

As for the follow up dimension of credit management, the following table presents the questionnaire requests for application and evaluation dimension of credit management related queries. As the mean of the result shows 3.26, the majority of the respondents are neutral to application and evaluation dimension questions asked.

The following statements interpret data collected and analyzed by the researcher.

- Most of the respondents, agreed with the statement "The MFI would provide necessary follow up credit, supervise and monitor it" and "The follow-up practice of the credit management is very effective", and
- Most respondents neither were found to be neutral for the queries "The MFI regularly follows up their customers performance in the business they are intended to get loans" and "Follow up practice is easy for our company".

Respondents gave their response to the following statements on the questions for degree of agreement. As the mean of the respondent are shown, the detailed data is in the table below.

Table 6: Descriptive Analysis of Follow Up

	N	**Minimum**	**Maximum**	**Mean**	**Std. Dev.**
The MFI regularly follows up their customers performance in the business they are intended to get loans	48	1.00	5.00	2.63	1.11
The MFI would provide necessary follow up credit, supervise and monitor it.	48	1.00	5.00	3.68	1.19
Follow up practice is easy for our company.	48	1.00	5.00	2.91	1.29
The follow-up practice of the credit management is very effective.	48	2.00	5.00	3.82	1.02
			Mean	3.26	

Source: Own Survey, 2020

Most respondents slightly disagreed that the MFI regularly follows up their customers' performance in the business they are intended to get loans. Hence, the institutions don't have regular follow-up of customer performances. Observing the standard deviation, 1.11, it can be observed that the answers of the respondents were centered to the mean, thus the answers are concentrated around the mean, 2.63.

As the mean value of 3.68 shows, respondents agreed on the statement that the MFI would provide necessary follow up credit, supervise and monitor it. Looking to the standard deviation, 1.19 implies that the answers of the respondents were distributed with this value from the mean, thus the answers are concentrated around the mean. This implies it can be concluded all respondents have answered with agreement.

Respondents slightly disagreed that Follow up practice is easy for their company. Also by drawing some ambiguity to decide the issue in regards to agreement and disagreement. Looking to the standard deviation, 1.29, it can be observed that the answers of the respondents were not centered to the mean, thus the answers are medium variant over the mean, 2.91.

Most respondents agreed that follow-up practice of the credit management is very effective. Observing the standard deviation, 1.02, it can be concluded that follow-up practice of the credit management is very effective.

4.4. Discussion

From the analysis perceived, based on the five point scale, it is observed that policy and procedures dimension is the most effectively practiced dimension of credit management. Follow up dimension is the second most effectively practiced credit management dimension, while application and evaluation dimension is the third most effectively practiced credit management dimension. The administration dimension is the most ineffectively practiced dimension of credit management.

The findings of the study also aligns with the study conducted by Tilahun. The study was conducted to assess the practice of credit management in the case of ADCS. (Tilahun, 2015) found that policy and procedures dimension is the most effectively practiced dimension of credit management in ADCS. Majority of the staffs of the institution have awareness about the credit policy and procedures. This is result of sufficient training in regular and continuous manner, availability of appropriate materials and high level of initiatives by the performers. Application and evaluation, and follow up dimensions were found to be the second and third effectively practiced dimensions of credit management respectively, while the study conducted by (Sintayehu, 2018) showed that follow up is the most effectively practiced dimension of credit management. However, both related literatures of Tilahun and Sintayehu found that administration and documentation dimension of credit management practice was practiced ineffectively, this shows all researches have agreed on.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter briefly presents summary of the objectives, research methodology, key findings of the model, conclusion and suggests useful recommendations.

5.1 Summary of Major Findings

The research was undertaken generally to assess the practice of credit management of Micro finance institutions in Ethiopia by assessing the case of some selected Micro Finance Institutions. The study is designed to conclude the general objective by examining the practice and the evaluation of credit application of the institutions, assessing the effectiveness of credit administration and documentation practice of the institutions, and examining the effectiveness of the follow-up and supportive supervision practices of the institutions. This was designed to be measured by assessing the practices of ACSI Sheger branch, ACSI Nifas Silk branch, ADCSI Kirkos branch, ADCSI Nifas Silk branch, and WMFI Main Office. These branches were selected because as any branch office in the city administration face difficult in collecting reliable data planned to gather. For this reason, the branches selected are believed to be qualified as a good representative of the various same branch offices which share similar difficulties. In regards, the total target population of the research was 61.

Before employing any sampling technique the researcher determined that the target population was enabling totals for rare population groups or small geographic areas. Thus, Census survey was employed. It also allowed grasping detailed information on all or most elements in the population. The researcher took five major dimensions of credit management to measure the effectiveness. These dimensions were administration, policy, procedure, application and evaluation, and follow up.

Out of the target population 61 census survey was taken with reasonable format indicated. The paper adopted quantitative research strategy and used self-administered questionnaire to collect data from the customers. Out of the 61questionnaires 58were returned back, which is about 95% of the total distributed. Composition representing 31 (54.5%) while 27 (45.5%) were male, as shown. Regarding age distributions, respondents in the age range between 40- 49 amounted to 36.4% of the total respondents, while the age groups of 30 - 39 years of Age were 27%. Respondents above 50 years of age were the least respondent's percentage of the total sample with 13.6% of the total sample population contribution. As the age descriptive frequency is presented, it implies most of the respondents were between the ages of 30 to 49, it constitutes about 70% of the total respondents. This demography gives the research more reliability as most of the respondents are experienced in the sector of credit management.

Regarding the institutions of the Respondents, respondents of WFMI amounted to 13.8% of the total respondents. While all the target population for WFMI responded, 23 employees from 25 target population of ACSI responded to amount 39.7% of the study respondents. ADSCI brought up 46.6% of the target population with 27 respondents out of the 28 target population from ADSCI.

In consideration of the administration dimension of the credit management, the respondents responded that credit processes are managed properly. Moreover, credit late payment or unpaid payments are detected very effectively. But Credit risk is not frequently monitored for customers. Legal implementation, disbursement, credit control, file management and legal collections are included in the credit administrations. Overall, the credit management dimension of administration is believed to be effectively practiced.

In accordance with policy and procedures of credit management dimensions the respondents responded that Data used for credit analysis is relevant and in accordance, the policy and procedures are easy and can be implemented, and credit policy and procedures are settle specifically in the MFIs. But the respondents were neutral about the practice of policy and procedure is practiced effectively. Hence, the result explains that it cannot be concluded that it is effective or not.

In consideration of the application and evaluation dimension of the credit management, the respondents responded that participating lenders must have adequate resources to entertain large loan applications and the application and evaluation practice is very effective. Moreover, the credit giving institutions doesn't have adequate resources to entertain large loan applications. Overall, the credit management dimension of application and evaluation is believed to be not effectively practiced in the MFIs.

In accordance with follow up of credit management dimensions, the MFIs provide necessary follow up credit, supervise and monitor it. The MFIs lack regular follow up of their customers' performance in the business they are intended to get loans. Moreover, Follow up practice is not easy for our company. Generally, the follow-up practice of the credit management is very effective.

5.2 Conclusion

The study was conducted addressing three basic research questions. These research questions were: How does the institutions properly conduct credit application evaluation, how effectively does the credit appraisal process analyze the credit worthiness of the customers, and how effectively does the institutions follow up and support supervision practices of the institution.

In line with those research questions, investigations were made and the conclusions reached are arranged with in this section and these implications are presented.

- Regarding administration, considering the policy and procedure dimensions of credit management, the result showed that it cannot be concluded that the practice is effective or not. It needs further study on this dimension.
- The credit management dimension of application and evaluation is found to be ineffectively practiced in the MFIs studied, while the follow-up dimension of the credit management found to be very effective.
- Further on, the study found that the credit management dimension of application and evaluation is the most challenging dimension to be practiced effectively. The study found that having adequate resources and the involvement of fraud and unclear loan evaluations

are the major challenges of practicing the application and evaluation dimension of the credit management.

- Administration and Application & evaluation dimensions are ineffectively practiced in MFIs existing and operating in Ethiopia. Fraud and corruption involvements are found to be sources of ineffective credit management practices.

5.3 Recommendation

Microfinance institutions with a high level of operations and revenue generation, it is highly demanded to manage the drawbacks of credit management practices. On the basis of the above findings and conclusions, the following recommendations are forwarded:

- As the researcher had indicated, Policy and procedures are practiced effectively on credit management practices in case of Ethiopian MFIs, hence the institutions should maintain their present practices and stabilize as they are operating in the dimension,
- The MFIs should Review and monitor covenants with customers. Since, covenants are conditions agree to by the borrower as part of loan term in commercial loans. If the MFIs can effectively monitor, it can provide lenders with an early warning of loan deterioration,
- The investigation likewise suggests that there is need for MFI to upgrade their customer examination procedures in order to improve their monetary exhibition. Through customer examination methods, the MFI will actually want to know credit worth customers and in this way decrease their non-performing credits,

- Next to policy and procedure, follow up was found to practice effectively on credit management practices in case of Ethiopian MFIs. This shows us that the firms should continue on the good works on this dimension too,
- Considering application and evaluation dimension of the credit management practices dimensions the MFIs should seriously consider major controlling and monitoring the practice to make it effective in accordance. The financial firms are also highly recommended to take emphasis on fraud and corruption cases rising in this dimension.
- Taking other credit management dimensions for measurement, and also assessing factors other than implemented would benefit the study with better and wider scope results, and
- Researchers may consider taking other credit management dimensions, as well as redoing the study on different companies and industries may result a more precise and accurate outcome on the topic.

APPENDIX I: REFERENCE LIST

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APPENDIX II: QUESTIONNAIRE

QUESTIONNAIRE FOR A THESIS PAPER ASSESSMENT OF CREDIT MANAGEMENT PRACTICE IN MICRO FINANCE INSTITUTION: IN THE CASE OF SOME SELECTED MICRO FINANCE INSTITUTIONS IN ETHIOPIA

Dear Respondents, the main objective of the study is to assess the credit management practice in the micro finance institutions in Ethiopia. The research is going to be carried out on your responses and other relevant data that could support it as that you are employed and working for one of the selected micro finance institutions. It forms a major part of the research and the information you will give will be used to identify the real determinant factors to raise adequate information for public use. Your cooperation to respond consciously is very important to this study because it represents thousands of others who are not included.

NB: The information collected is only for academic purpose it could be promised that all information you provide would be strictly confidential.

PART I. PERSONAL DATA

Choose the one letter that shows your accurate personal information for the following questions.

1. What is your gender?

A. Male B. Female

2. What is your age group?

A. 20-29 B. 30-39

C. 40-49 D. 50-Above

3. In which MFI are you working?

A. Amhara Credit and Saving Institution

B. Addis Credit and Saving Institution

C. Wisdom Micro Finance Institution

PART II.CLOSE-ENDED QUESTIONAIRE

If you feel that the statement gives you more than you expected, mark "5" (Strongly agreed), if you feel that the statements expected mark "4" (Agreed), if you cannot make up your mind whether or not the it gives you what you expected, mark "3" (Neutral),if you feel that it is less than you expected, mark "2" (Disagreed) and if you feel that the statement gives you much less than you expected, mark "1" (Strongly Disagreed).

1. CREDIT MANAGEMNET DIMENSIONS

NO	DESCRIPTION	Strongly	Disagreed	Neutral	Agreed	Strongly Agreed
	ADMINSTRATION					
1	Credit processes are managed properly.					
2	Credit risk is frequently monitored for customers					
3	Credit late payment or unpaid payments are detected very effectively					

4	Legal implementation, disbursement, credit control, file management and legal collections are included in the credit administration.					
	POLICY AND PROCEDURE					
5	Credit policy and procedures are settle specifically in the MFI					
6	Data used for credit analysis is relevant and in accordance					
7	The policy and procedures are easy and can be implemented.					
8	The practice of policy and procedure is practiced effectively					
	APPLICATION AND EVALUATION					
9	The credit giving institution have adequate resources to entertain large loan applications.					
10	Participating lenders must have adequate resources to entertain large loan applications.					
11	Loan application and evaluations are clear and free from any fraud or biasness					
12	The application and evaluation practice is very effective					
	FOLLOW UP					

13	The MFI regularly follows up their customers performance in the business they are intended to get loans					
14	The MFI would provide necessary follow up credit, supervise and monitor it.					
15	Follow up practice is easy for our company.					
16	The follow-up practice of the credit management is very effective.					

PART II. OPEN ENDED QUESTIONS

1. How do you see the effectiveness of the credit management practice in your firm?

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2. Which specific credit management dimension (Administration and Documentation, policy and procedure, application and evaluation, and follow up and supervision) is very challenging to practice? Why?

3. What are your recommendations to get effective and efficient credit management practices?