SAINT MARY'S UNIVERSITY

SCHOOL OF GRADUATES STUDIES

ASSESSMENT OF CREDIT MANAGEMENT IN MICROFINANCE INSTITUTIONS

BY

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ASSESSMENT OF CREDIT MANAGEMENT IN MICROFINANCE INSTITUTIONS: (THE CASE OF SPECIALIZED FINANCIAL PROMOTTIONAL INSTITUTION A.A BRANCHES)

BY

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A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESSADMINISTRATION IN ACCOUNTING AND FINANCE (MBA)

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ACRONYMS AND ABBREVIATIONS

CM	Credit Management
FI	Financial Institutions
MF	Micro Finance Institutions
SFPI	Specialized Financial Promotional Institution
IJASOS	International E-Journal of Advances in Social Sciences
A.A	Addis Ababa
WEDP	Women Entrepreneurs Development Program
CET	Clean Energy Technology
WASH	Water Sanitation Hygiene
SME	Small and Medium Enterprise
MSE	Micro and Small Enterprise
5C's	Character, Capacity, Collaterals, condition and capital
S&C	Saving and Credit
NBE	National Bank of Ethiopia
NPL	Non Performing Loan
SPSS	Statistical Package for the Social Science

ABSTRACT

Credit management is a means by which an institution manages its credit transaction and a prerequisite for any institutions dealing with credit transactions in view of the fact that is not possible to have default risk. The general objective of this research is to assess credit management of Specialized Financial Promotional Institution(Micro finance institution).The researcher used quantitative data to show the frequencies and percentages assessment of credit management process and the qualitative data to show respondents perceptions. The researcher used primary data with a questionnaire were administered to collect the data from the aspects of lenders expertise and department managers and secondary data from different literature review. All total population 24 was used for investigation. The finding suggested that there were some difficulties of credit management process such as client screening, formal credit evaluation of assessment process, loan collection method, credit history management, customers capacity and capital, non performing loan and interest rate problems.

Key Words; Credit management, Micro Finance Institutions, Credit risks

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

Credit is defined as a method of controlling mechanisms of goods or services to be paid upon a contractual agreement for later payment or an arrangement for deferred payment for goods and services (Myers and Brealey, 2003). The organizations used credit to influence demand for its product or services. Most Institutions generated profit and increased their sales of products by adding costs of receivables with benefited from credit (Horne and Wachowicz,1998). Therefore, since credit is a deferred payment it should be managed well.

Credit management is the main activities in any financial organization, which could not be ignored by any economic and financial enterprises, which occupied in credit irrespective of its company nature. It is a precondition for a financial institution's stability, ongoing profitability and sustainability. It is a part of financial management concerning with credit analysis, credit classification, credit rating and credit reporting (Nelson, 2002).

Rosemary,(2013). If any institutions fall in its credit management quality leads to frequent cause of poor financial performance and condition. One of the major risks in many financial institutions is lending money and not getting back (Alice and Dr. Jaya,2013). Micro financial institutions are the one credit services providers widely, especially in the developing countries like Ethiopia.CM is setting particular criteria that a client should meet ahead of the planned credit agreement. ‘’As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer (Hagos, 2010).

Credit management means the total process of lending starting from inquiring potential borrowers up to recovering the amount granted. In the sense of banking sector, credit management is concerned with activities such as accepting application, loan appraisal, loan approval, monitoring, recovery of non-performing loans, etc (Shekhar, 1985). It relies on each financial institution's system and controls to allow management and evaluate risk and return trade-offs .The process includes three functions, such as business development and credit analysis, credit execution and administration and credit review (Koch, 1995).

Charles 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. This indicates that credit provision should be accompanied by appropriate and attractive credit policies and procedures that enhance performance of credit management and protects the financial institutions industry from failure.

Microfinance institutions were established to fulfill a gap in the financial sectors by providing credit and saving services and funding to the lower-income group which are usually concerned in small and micro business activities. The institutions provide funds for the establishment of business or for working capital purpose for instance, to buy raw materials, machine and business equipment and so on.

Usually the fund obtained from government, local government and donors to run their activities. Many Financial Institutions are not capable of being sustained and dependent on financial assistance. However, it should be sustainable and practicable to make sure they can continually provide financing to small and micro entrepreneurs without depending on donors and government. The requirement to build micro financial services stable and widely accessible financial institutions should be sustainable (ICC, 2001).

Micro finance is way of supplying loans and small credits to finance small projects to help the poor have an income through forming their own small scale business to earn their daily bread and better their living (Mesele, Tesfahun&Tadele,2016).

Therefore it is a condition that facilitates credit to the poor and low-income earners to enable engage them in productive activities but there is a repayment problem. Repayment performance is very essential to be sure that microfinance institution is operating in a sustainable basis (Beatrice, 2012).

Amina, Ahmed &Arega,(2015) adopted from (Goshim, 2011) ,in Ethiopia most researchers studied concerning the overall performance of MFI regards to the uses of MFI is a goal of poverty reduction (Aziza, 2013), it is an instrument which supports economic development and to struggle poverty in poorer countries and Microfinance institutions have the role of financial intermediation in the economy (Eschborn, 2002 &NBE, 2010).

Other studies explained about the performance of MFI in credit risk management with the aim of credit risk are the major risk that is faced by most MFI's. Therefore, the study determined and assesses credit management process in SFPI and selected four Addis Ababa branches and tried to provide a solution for the problems of other branches based on the findings.

1.2. Statement of the problem

Credit is one of the bases of revenue for financial and non - financial institutions and credit management is a fundamental solution for the credit risk problems and helpful to manage uncertainties (Yebabe, 2017). Besides Other study, explained MFI are highly associated with credit risk by their nature and exposed to uncertainty. Therefore, in order to reduce credit risk the institutions should assess the credit management practices (Chua.et.al, 2007).

Microfinance institutions deal reasonable or average amounts of loans mostly to poor business people who cannot afford collaterals to get loans from the main banks. In addition, the growth in the MFI is facing many challenges of loan repayment defaults by the clients (Alemayehu, 2010).

Many studies investigated about MFI credit risk managements , non-performing loans in MFI, loan defaulting ,Credit management of financial institutions, effect of credit management in MFI.(Tilahun,2018)

However there seems to be a gap in assessing credit management process constantly in MFI recently. A good quality CM is that satisfies the institutions by maximizing returns and decreasing default risk. To achieve this, MFI's needed effective credit management to avoid possible fold up. Therefore the study was being conducted to assess credit management process in SFPI.

According to SFPI, the credit expertise explained there was a gap in administering credit management process strongly with continuous follow up. Due to this reason there were some complaints about non-performing loans and credit risks. In addition SFPI didn't conduct a study in the same field.

Therefore, the researcher assessed the gaps in the literature with regards to credit management process credit management and the difficulties were found in the institution through survey, the knowledge gaps and studied in the area of particular issue for the contribution of SFPI which is essential for measuring financial strength of the organization performance and the loan repayments process in order to reduce the credit risk and for the sustainability of the institution for the benefit of managing the credit.

1.3. Research questions

This study had an aim to give or answer to the following questions:-

- Does the institution implement credit policy and procedure clearly?
- Is there valuable credit administration and effective records with the aid of technology?
- Is there accurate agreement of credit application, evaluation and credit review process to analyze the credit worthiness of the customers?
- Does the institution made continuous supervision and follow up practices?

1.4. General and Specific Objective

1.4.1 General Objectives

The general objective of the study was

To assess credit management process in SFPI microfinance institutions.

1.4.2. *Specific Objectives*

The addressed Specific objective in the study was:

- To evaluate supervision and follow-up practices of SFPI.
- To inspect the implementation of credit application evaluation and credit review process in SFPI.
- To assess the implementation of credit policy and procedure rigorously in SFPI?
- To examine the valuable of credit administration and effective records with the aid of technology?

1.5. Back Ground of the study setting (Specialized Financial Promotion Institution)

Specialized Financial and Promotional Institution (SFPI) established in accordance with the requirements of proclamation no40/96, licensing and supervision of microfinance institutions business provided by a proclamation, and appropriately registered with the National Bank of Ethiopia in Nov 1/1997.

SFPI is initially established with the support of RaddaBarna." The major objective of this institution is facilitating socio-economic empowerment of under-privileged people both in rural and urban Ethiopia."(Amina , 2011, Hamdu , Saniya,2015).

The source of revenue or income of the institution generated from funding by Development Bank of Ethiopia with maximum 6% interest rate, from borrower's loan interest and service charges.

The institution interest rate of saving is with the minimum of 8%.There fore when we are comparing the rate of saving with the minimum rate of loan interest rate, the loan interest rate increases more than 100% of the saving rate.

1.6. Significance of the study

In worldwide, financial institutions faced different types of risk in businesses including marketing risk, operational risk and credit risk. These risks were treated and improved by the financial position of the organization and increased the annual profit of the shareholders. To reduce different risks with in the institutions, the management had come up with modern solutions and credit risk management unit and protected their business or institution through assessing their credit management process and sated solution.

Therefore credit Management is an important activity for any financial institutions for successful financial future and sustainability and it is the method to ensure that customers will pay back for the services they get on return.

It has a big role to profit, sustainability, improving cash flows, for future investments, to give positive institutional images, ensures institutional existence, reduce corruptions, facilitates availabilities, accelerates diversifications, avoiding risks and reducing impoverishment.

If the institutions want to minimize the credit risks, they should manage the techniques and they will have and achieve profits and quality financial position without any loss of the operation of the institution.

Credit management and debt collection faced endless challenges in most financial institution. Therefore, it was an important to study about the credit management process of MFI for the development of new representation and techniques in the financial market for MFI being sustain and providing better and quality services.

The main concern was creditors pay back process for the sustainability of the institution and providing quality services. Therefore, it was very important resolving the problem dealing with effective credit management strategy and minimizing risks credit risks on institution’s performance.

Therefore, this study could help SFPI to solve credit risk or non-performed loan problems, with assessing credit management process in the institution.

The input of this study provided a good base for upcoming research and added to existing studies on the assessment of credit management process of SFPI as well as other institutions, those operates in Ethiopia.

1.7. Scope of the Study

Credit management is a vast area; conducting research the entire process was difficult in terms of time, cost, & manageability. This study focused on the implementation of credit management process within four branches of SFPI. This enables to explore the overall practice of CM of all branches of the institution.

SFPI has a source of revenue or income of the institution generated from funding by Development Bank of Ethiopia with maximum 6% interest rate, from borrower’s loan interest and service charges.

The challenges of undertaking credit management process assessment study would expand broadly, however the study assessed the practice of credit management of SFPI.

The target population of the study consists of 24 employees and branch managers those are directly related with credit management process of SFPI; the study took all 24 target populations for the study.

The study covered the data and information presented in literature reviews and obtained from questionnaires. The outcome of this study expected to give a clue and to add some solutions by assessing credit management process of SFPI. It is generalized and considered as a representative of other SFPI branches.

1.8. Limitation of the Study

The study has some limitations. The respondents were in small size so the information was limited and it was difficult to get written documents due to unwillingness to give. And also the researcher was engaged in another professional work which makes time be a great constrain.

1.9. Organization of the study

The Study is organized into five chapters. The first chapter introduces the background of the study, statement of the problem, the research questions and objectives, back ground of SFPI, significance of the study, scope of the study, limitation of the study and organization of the study.

The second chapter presents theoretical, empirical and conceptual reviews of the related literatures.

The third chapter deals with methodology of the study. The fourth chapter is concerned with data analysis, interpretation and findings. The last chapter presents the conclusion and recommendations drawn from findings of the data.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Different reviewers examine different researches with a variety of aspects about the presentation of credit management process and practices in MFIs.

Most researchers believe Credit management is considered as a use of a credit risk control process in most different FI and MFI. Prior literatures had distinguished a continuous assessment of credit management process in the MFI reduces credit risks which are related to any MFI , banks and other financial institutions. The process allied with internal and external or macro level variables. Most studies examine different MFI, banks and financial institutions specific variables and provided mixed findings. These will be discussing below.

This chapter summarized the information from available literature which is more of related field of study. It tried to review the studies by linking with the research title and investigated on different countries practices and MFI's with the identified and implemented the practices in SFPI MFI's.

2.2 Theoretical Review

2.2.1. Review of 5C's

Baiden (2011), commenced 5 C's Model as a structure through that financial institutions construct the policy for their credit transactions. The financial institutions used the 5 C's details theory in administration of credit in order to improved performance of loans These are character of the applicant, capacity of repayment, collateral as form of security, capital and the prevailing economic condition (MacDonald et al., 2006; Baiden, 2011).

MacDonald et al.,(2006) described 5 C's Model helped lenders to assessed the credit upon current and future borrowers. Collateral was used as a guarantee to the issued loan in any defaults. Character describes loan obligation fulfillment on the level of commitments. Capacity describes the borrower's ability on making regular payments and fully settlement without any major constraints. Capital explains resource position of borrowers that can be measured by theier adequacy (Denis, 2010). "While economic condition focuses on the outside environment which the lenders have no control over but influence the loan recovery" (MacDonald et al., 2006).

The theory has a value for the study on giving a guideline through which client assessment undertaken by the financial institutions to reduce the non-performing loans. Client evaluation is theorized to be a crucial for minimizing credit risks. "Credit risk management practice which enables the financial institutions to only lend to credit worthy customers who have the ability to easily repay the loans. Through taking into consideration all these 5 C's Model for Credit, cases of default loan repayment will be minimized hence resulting in improvement of bank loan performance."

2.2.2. Review of microfinance

Micro finance institutions has a nature of financial organization that offers financial benefits to the low-income peoples, unemployed or group of individuals those have no access to financial benefits from banks. It is a modern tool that is used almost everywhere to reduce poverty, created awareness and empower poor people that results in sustainable development (Abdi Ahmed and Dr. G.S. Batra , 2018).

The backgrounds of microfinance were the Grameen Bank of Bangladesh. They were an initial who faced the data information problem by constructed a loaning institution by using the information base of a public. "The bank begun in the mid-1980s by Prof. Mohammed Yunus, lends to very poor family, and loans to groups of debtors rather than individual within the group.

Microfinance institutions frequently represent a first chance for the local community to participate in financial systems and to advantage from access to business and capital" (Amina Ahmed et. Al, 2015).

Microfinance' has similar history with the introduction of non-governmentally owned institutions .Both offers services of micro credit to address poor community's interest. The principle processes to raise missions stronger financial management to the providers of small credits in the early 1990s particularly in their behavior of reporting and management. Credit unions and formal financial institutions like banks concerned tough monitoring techniques of micro lending for their microcredit jobs (Ledgerwood, 1998).

Microfinance program and purposes in Ethiopia are to make presented and nearby financial services to a enormous number of actively productive Ethiopian communities which use to have no access to official financial services that might empower them to support of the country's economic growth. Microfinance is related to a collection of financial service improvements under the term microfinance, according to microfinance it is micro savings, cash transfer and micro protection (Islam, Mohd. Najmul, 2013).

As Getaneh (2005), in Ethiopia MFI spread through urban and rural areas to give deposit, removal and accept a draft to the community and to manage the microfinance commercial funds which are allowed by low. The Ethiopian deposit taking MFIs provide different financial services such as; reserves, micro insurance, advance, payment, and return such as collecting duties, allowance payment, and another related service charge.

Accordingly, a progressive change has been seen in Ethiopian MFIs from microcredit to microfinance and finally to financial inclusion (Wolday and Anteneh, 2015).

2.2.3. Services of Microfinance

Munene, H. Nguta, Guyo, S. Huka (2013), investigated the main aspire of micro finance is to provide funds for investment in micro businesses that is expected to increase income to investor Households and hence improve their livelihood. Practically most borrowers use micro credit finances on their necessities to meet their basic needs rather than investment due to luck of training and awareness problem.

According to Tilahun Gemechu (2018), explained "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. 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 non financial 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 MFls 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."

2.2.4. Credit management review

Selamsew, (2012) and NBE,(2010) explained credit management is an essential credit process and which is a continuing administration of credit components which is a basic activity that supports and controls financial institutions.

Besides the study explained the main characteristics of credit management component carries out such as documentation, credit disbursement, credit monitoring, loan repayment and maintenance of credit files. Documentation, such as loan agreements, guarantees, transfers of title of collaterals etc.

It is a component of credit administration to ensure completeness with accepted terms and conditions. In order to get certainty of execution and receipt excellent documents are the path. The other factor of credit management is occurred after the completion of contract agreement and receipt of collateral holdings. Therefore, there should be loan approval and acceptance ahead of bounding limits into software system.

2.2.5. Process of Credit management

According to (IJASOS, 2018), the process of credit management starts from evaluating the worthiness of the client in-terms of their repayment performance. It will be serious if the FI increases the credit maximum amount or limit towards a specific client. Credit management is not insuring the FI or any money related organization obligatory from feasible calamity, and protects the customers from building an obligation or commitments, which cannot be settle in promising way. If the credit management processes conducting competently, the customers and the lenders will be an advantageous.

Bataret al (2008) ,explained that a business characteristics which include the size, age , type, location of businesses and profits generated from the business may affect the credit management specially, the loan repayment default by clients. Consequently, these are operations that ensure security of the loan such as the **credit policies, proper area market analysis, and proper business screening and follow-up**. Without effective mechanisms in place loan defaults are inevitable and loan recovery might be a great challenge for microfinance institutions.

2.2.6 Function of Credit management

Credit management is an essential credit process and which is a continuing administration of credit element and it supports and controls financial institutions (NBE, 2010).

2.2.6.1. Characteristics of credit administration unit functions

i) Documentation is a part of credit management which assures documentation like loan agreements, guarantees, transfer of title of collaterals etc

ii) Credit Disbursement is a function ensures the loan application has appropriate consent before entering the data in electronically.

iii) Credit monitoring is a continuous evaluation of the loan. It is a way to evaluate borrower's compliance with the agreement of credit limit.

2.2.7. Credit Collection Techniques

Tahir Desta (2016), investigated Financial institutions need effective credit collection techniques in any economic climate. The institutions could increase the cash flow on time if they know how to encourage their customers and using easy method or techniques of borrowing and lending process. There are many loan collection techniques were employed like clients are expected to pay in cash, deposit, using electronic technologies or based on the agreement made. The techniques are:

i) Telephone calls: when the borrowers exceeds due date, a telephone call could be made to remember customers to request repayments.

ii) Online payment is enabling the financial institutions to grow their business with saving their time and costs. It is a best experience for customers to pay online. Good users experiences using online payments with freedom to securely use and payments method. The acceptance of payments increases revenue and customer satisfaction.

iii) Personal visit: - If the customer doesn't reply with a call made the next effective collection procedure is visiting clients business is the best choice.

iv) Letters: - If the customer didn't reply with the effort done letter is to be served reminding the customer of its obligation followed by warning letters for the action to be taken in future and its consequence.

v) Legal measures: legal measure is the last step in the collection process. It is the force made by legal institutions to debtor and reducing the possibility of future business without guarantying the ultimate receipt of overdue amount and monitoring timely repayments.

2.2.8. Loan repayment

"The obligors should be communicated ahead of time as and when the principal/markup installment becomes due. Any exceptions such as non-payment of loan or late payment should be tagged and communicated to the management. Proper records and updates should also be made after receipt" (NBE,2018).

2.2.8.1 Non repayments /non performing loans/

According to Hou, (2007), Non-performing loans are the major cause which leads insolvency of the financial institutions and at the end it harms the whole economy or the business. Bearing in mind these particulars require controlling of non repayment loans for the business and economic growth. Besides the recourses will stuck functioning and the institutions will damages the financial stability.

It refers a loan which took for long term period that has not been generate income a that is the principal, and/or interest on these loans has been left unpaid for the maximum period given.

NBE (2008), explained the main risk to the financial sector is prevalence of Non-Performing Loans (NPLs). Non-performing Loans explained that the borrowers who failed to repay their obligations and it represents bad debt. Banks as intermediaries of funds are responsible for attracting resources and inject it in various economic sectors. In the process of resources allocation, banks encounter several risks and nowadays while making profits, one of the most important risks is default risk, which leads to increase in non-performing loans (NPLs). Based on rules in banking system, the amount of non-performing loans should not be more than 5% of remaining facilities of each bank, but increasing growth of NPLs amount concerned officials and with considering the role of banks in the country's economy, this phenomenon could be named a "national" concern (Ghasemi, 2010).

According to (NBE, 2010) investigated non-performing loans are the main distress for both international and local regulators.

The study showed there were no banks calamity happened in Ethiopia due to non-performing loans, but there is an indicator of high NPL in the country, which may lead to that direction if not taking measures.

2.2.8.2 Reasons for non performing loans

The main causes of NPL are high-interest rate, Low GDP, Poor credit appraisal, client perceptions problem, liquidity deficiency problem, Inflation, unemployment and improper lending disbursement to sector. NPL have negative impact on the economy and financial institutions.

2.2.8.2.1 Macro economy

Macro economy is usually characterized relatively low rate of nonperforming loans as the development stage. Financial institutions and borrowers face enough flow of income and revenues to service their debts. However, credit is increased to lower quality debtors when macro economy is in a booming period .when the decline phase sets in, the non-performing loans tend to increase. The unemployment rate may provide additional information regarding the impact of economic conditions. The cash flow would be negatively influenced when an increase in the unemployment rate and increase the debt burden. “With regards to firms, increases in unemployment may signal a decrease in production as a consequence of a drop in effective demand. This may lead to a decrease in revenues and a fragile debt condition” (Castro, 2013).

2.2.8.2.2. Credit appraisal

According to Rahmad Fawad (2013),Credit appraisal (lenders inappropriate plan) is one of risks on the loan returns. The researcher investigated there was lacking of effective monitoring of loans in Pakistan banks. The researcher examined five years financial statement did not analyzed properly in the business loan and the applicants credit history was not recorded and not available in the institution. Then concluded this leaded to increase non performing loan.

2.2.8.2.3 Interest rate

Wan Athirah Bahruddin1 and Mansur (2018) ,described interest rate is the chance that an unexpected change in interest rates will negatively affect the value of an investment. When financial institutions increase or decrease lending interest rate NPL also decrease or increases.

2.2.8.2.4. Liquidity deficiency

Jim (2019), **"**A liquidity crisis is a financial situation characterized by a lack of cash or easily-convertible-to-cash assets on hand across many businesses or financial institutions simultaneously." .Therefore when there was a liquidity deficiency that leads to NPL

2.2.8.2.5. Client perception

According to (Abreham,2017) explains that " borrowers with lack of business skill or knowledge and experience, migration from place to place, engagement on some risky and illegal business types, involvement on non-diversified business portfolios,

Negative attitude towards credit service and adverse selection of not to repay the loan are among the major problem undermines the repayment performances.

Moreover, settlement of the defaulted loan amount either partially or fully by the loan guarantor does have a negative consequence on the behavior of other new and existing borrowers to fall in a similar default problem."

2.3. Reviews of Empirical Studies

The assessment of credit management was discussed in different institutions. The empirical studies captured to support this study were summarized as follows:

Andriani & Wiryono, (2015) took a sample from Indonesian banking sector during 2002 to 2013 and (Waqas et al, 2017) took a sample from three different countries namely Pakistan, India, and Bangladesh banking sectors over the period 2000-2015.

The researchers examined and provided an evidence of the credit risk determinants using a sample and the findings confirmed that inefficiency, profitability, capital ratio and leverage were all significant determinants of credit risk. Another researcher (Zheng et al, 2018) found that bank profitability, size and capital ratio are negatively related to the non-performing loan. However, net interest margin and operating inefficiency were positively associated with non-performing loans.

Other researchers (Muritala and Taiwo, 2013) examined the relationship between credit management, liquidity position, and profitability of some selected financial institutions in Nigeria using ten years data of banks from 2006 to 2010. The study explained the predetermined of efficient credit management was the unconditional risk adjustment hypothesis and it would increase the firms' ability to create liquidity.

Hence, (Oyadonghan and Bingilar, 2014) evaluated the impact of effective credit policy on the liquidity of the companies in Nigeria and established the relationship between credit management and liquidity and revealed that when a company's credit policy is positive, liquidity is at an attractive level. Therefore the study concludes the credit management process has positive relationship with liquidity.

Mileris (2014), carried out there is a positive relationship between macro economy and the NPLs in commercial banks in the EU nations. The researcher concluded that the changes in the macroeconomic environment have an impact on the levels of NPLs which is a part of credit management process or asset quality in a banking system. Amendments in lending rates for the established interest rates in the market have a direct impact on credit and the ability of borrowers in repaying loan facilities. Due to the changes on the macroeconomic, such as Gross Domestic Product (GDP) growth, interest rates, inflation rates etc, there were bundles of dynamism in the banking sector credit managements.

The study took a measurements, such as the GDP Growth Rate used as a proxy of the changes in the macroeconomic and analyzed the last changes on the GDP growth rate over a certain time of 10 years and examined a weak credit risk system leads to more non-performing loans .

Therefore, the literature reviewed a fertile ground for development of strengthens in credit management systems for commercial banks. If banks develop such healthy systems the likelihood of the growth in NPLs will significantly reduce, reduce the levels of requirements held and ultimately improve the bank performance.

Another researchers (Mohammad, Valahzagharda, Maryam, Amin and Seyed,2012) investigated form (Kroszner et al. 2007),(Aver 2009), (Hashemi Nodehi1998), (Heidary et al. 2010) and (Hemmati and Mohebbi, 2008),investigated that a personal investment credit risk problem would be a problem of CM. They examined that the systematic credit risk were macroeconomic, economic policy, political change and political change as parts of the basic objectives and the inflation rate, employment rate, GDP growth, stock index and stock volatility and frequent fluctuations in the economy as macro-economic were considered. Iranian bank, past due receivables and deferred over the period 1986-1997 had took for the basis. Then the study approved that interest rate and market interest rates, penalty rate and interest rate than a money market were a nutrient claims those were considered as the macroeconomic variables.

They took regression analysis and they found there is no significant relationship between the inflation rate, employment rate, unemployment rate, the dollar, the euro, with import growth of credit risk in the banking system in Iran.

Mary and Martin, (2012) investigated from (Olokoyo, 2011) research, and examined about the predictors of the lending behavior of Nigerian Banks. The study reflected on the volume of deposits, foreign exchange, and investment portfolio, minimum cash reserve ratio, lending rate, liquidity ratio and GDP with the bases of time series data for the period 1980-2005.

The coefficients of foreign exchange, investment portfolio, deposits and liquidity ratio had a significant impacts upon the lending volumes with an error estimator indicates. “The coefficients of lending rate and minimum cash reserve ratio were insignificant implying that monetary policy instruments do not affect bank lending volumes in Nigeria.

The study does not, however, consider collateral as one of the explanatory variables; thus it is not possible to tell the impact of collateral requirements on the bank lending behavior in Nigeria© (Kenya Bankers Association, 2012)”.

Kenneth Enoch (2019) investigated that there were a failures in many manufacturing organizations due to poor revenue maximization faced from liquidity deficiency to start feasible investments. The researchers described low liquidity has been traced to weak credit management resulting when there was a poor receivable collection and bad debt losses. The study evaluated how credit management had an impact on liquidity and profitability of chemical and paint Nigerian companies. The implemented research design was descriptive survey research design and among 500 staff representing 60% of the population was used as the sample population. The instrument that had been used was questionnaires. The valid respondents were returned by the participants were analyzed 342. The used method was simple regression analysis method to test the formulated hypotheses. The obtained result was indicated that the credit management process sub-variables such as credit risk assessment, debt recovery strategy, receivable collection policy, have positive and statistically significant impact on the liquidity sub-variable, ability to pay, level of bad debt, and cash inflow.

The empirical results suggest that in China, third-party payments have had a significant positive correlation with the value creation capabilities of traditional financial industries, and that this relationship tends to remain in a steady state in the long term

Based on these findings, this paper confirms that the technological innovation of methods of payment in emerging economies, such as China, has promoted the development of the financial industry and accelerated the process of industrial evolution. We conclude the paper with feasible policy suggestions.

Abreham, (2017) investigated that in Ethiopia most MFI's had a big role in impoverishment reduction plan and it was commenced by an Ethiopian Government. The missions of the institutions are generated and facilitated financial plan and credit for the development and improvement of reducing unemployment and reducing impoverishment.

The study was anticipated on assessing credit management process in SFPI, There were a problem of loan repayment performance of micro and small scale enterprises and individual borrowers by using questionnaires, semi-structured interviews and focus group discussions. The researcher took 319 sample borrowers were selected from the total of 2910 form MFIs borrowers and the researcher used descriptive statistics analysis model.

The result of the study showed ten variables, such as income from other sources, sex, group monitoring, credit timelines, repayment time suitability, repayment trends on monthly bases and training adequacy were found positively related with the CMP and the other three loan utilization for the intended purpose, repayment trend on irregular basis and visit & follow-up on irregular basis was found negative relationship with CMP.

2.4. Conceptual Review

Professional Bankers (2009) described some concepts about credit, credit management and credit risk management as per discussed below.

2.4.1. Concept of Credit

The word credit" has been derived from the Latin word credo" which means "I believe" or "I trust". The meaning designates a trust or confidence to take easy in somebody. In economics, credit term is interpreted as the same sense of trusting in the solvency of an individual or a payment made and receives it back after some time. In other words it is a lending of money and receiving of deposits.

Besides, the concept of credit can be explained as "a contractual agreement in which, a borrower receives something of value now and agrees to repay the lender at some later date."

The capacity of the borrowers was presented or offered by the banking system in the form of loan or credit. The total bank credit the individual has is the sum of the borrowing capacity each lender bank provides to the individual. The total amount of credit that an individual has is from the borrowing ability each lender bank offered.

Prof. Kinley; "By credit, we mean the power which one person has to induce another to put economic goods at his deposal for a time on promise or future payment. Credit is thus an attribute of power of the borrower."

Prof. Gide: "It is an exchange which is complete after the expiry of a certain period of time".

Prof. Cole: "Credit is purchasing power not derived from income but created by financial institutions either as on offset to idle income held by depositors in the bank or as a net addition to the total amount or purchasing power."

2.4.2. Concept of Credit Management

The professional bankers (2009) again described that financial institutions and banks mobilize deposits for lending utilization. The recourses being transferred from the scheme to useful purposes and results into economic growth by encouraged lender business. The money had taken from the banks in the form of loan and returns the initial loan with the amount of interests.

The NPLs and the recourses of the banks could get blocked and the profit margin goes down sometimes. The financial institutions and the banks should manage the overall credit process to evade this situation.

There were two characteristics of credit management encompasses; the first one is the way of credit distribution among all sectors of economy and other sector could develop and banks also get profit. The other one is the mechanism of granting credit to various sectors, individuals and businesses to avoid credit risk.

Credit management is worried about using the bank's time and also seeks a fair distribution among the various segments of the economy. Hence the economic structure grows without any obstacles as predetermined in the national objectives.

2.4.3. Concept of Credit Risk Managements

According to Solomon Wakaria (2016), investigated different financial sectors credit risk management was a very essential area and wide scenarios of growth. Most FIs faced risks mostly which was financial in nature and management of risks has been an essential element of business plan. Risk management plays an important role in a FIs and banks credit management. In order to keep the balance between risks and returns professionals had an assignment. FIs and banks required a diversity of loan products which were reasonable for a large customer bases. When the loan interest rates were too low, the bank will endure from losses. Since early days of banking there had been strong efforts in order to minimizing the risk without affecting the business chances, the risk management increased when the volume of the business and difficulties in financial transactions increased. When the time of environment stabled under the predicted conditions of interest rate the risk management would be easy. Most banks faced risks in the process of granting loans to certain clients.

"There can be more risk involved if the loan is extended to unworthy debtors." Some risks came from the banks offered securities or collaterals and other forms of investments.

Effective credit risk management is very important for the success and development of FIs and banks if the banks were is vital for success operating with a low margin compared to other business. " Thus, it is recommended that the lending institutes needs to focus on monitoring loan utilization systems of borrowers and technical support needs of the target borrowers through delivering better awareness creation to organize the more viable borrowers, close supervision and follow-ups and strengthening their internal and external weaknesses though better integration with key partner stakeholders."

Concept of Credit Assessment in Determining the Feasibility study of Debtors.

Pre-feasibility study (PFS), the present feasibility study (FS) provides a more detailed set of design features for a Credit Guarantee Scheme (CGS) in Ukraine to maximize the scheme's economic and financial viability, as well as initial recommendations on its formation and framework requirements for its operation.

The PFS presents recommendations on primary features for a CGS in Ukraine based on international practice, including mission, targeting, type of CGS, and type of product, the approach to identify potential partner institutions, and project risks, as well as mitigation measures. The PFS defines the CGS mission as an instrument to increase access to finance in Ukraine's agricultural sector, and confirms the target as farms of 100-2000 hectares (ha) in Cherkassy, Vinnytsia, Poltava, and Kharkiv. It suggests that a public/private CGS be established for Ukraine, with international donor participation. The PFS also presents a method for screening potential partner banks (OECD (2016) .

Before a credit facility granted, the financial institutions must be sure that the loans should be completely paid. Confidence is gained from the study of credit before the credit was disbursed. Research of credit by banks can be done in various ways to gain the confidence of its customers, such as through a correct assessment procedure and earnest. In conducting the criteria and aspects assessments remain the same. Usually, the common criteria assessment should be made by financial institutions to get customers who deserve to be given. (Tesfaye Kefale Torban,2020).

i) Character is the personality of an individual. The person who will be given the credit really should be trusted. To be able to read the personality of prospective borrowers can be seen from the customer background, both the background and the work of a personal nature as a way of life or enslaving lifestyle, family situation, hobbies, and social life.

iii) Capacity it is an investigation to find out the ability of customers to pay for the credit. Financial institutions should have and information certainty on the ability of prospective borrowers by analyzing its business from the beginning up to the end business time. Returns are expected when customers are able to make repayments on credits in the future. If not, the predicted incapable, the financial institution may reject the request of prospective borrowers at the time of feasibility study of debtors.

iv) Capital it is the provision of assets owned by the financial institutions that managed the prospective borrowers. “The institution must observe the debtor in addition to the amount of capital is also its structure. To see whether the effective use of capital, it can be seen from the financial statements presented by performing such measurements regarding liquidity and solvency, profitability and other sizes”.

v) Condition

“Financing provides also need to consider the economic conditions associated with the prospective customer's business prospects. Condition assessment and business fields financed should have good prospects, so the possibility of problematic loans is relatively small”.

According to Love, Aris (2014),investigated macroeconomic distress can feed into banks’ balance sheets through the credit risk diffusion channel subsequent weakening in the credit quality of loan portfolios which leads to major losses for banks and a banking crisis. A large number of researchers found that bank loan portfolio quality can be explained by both macroeconomic conditions and other idiosyncratic features. Recent studies show that borrower type, loan category, quality of institutions, and form of banking organization are major problems of credit.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

In this Chapter, the researcher tried to identify the procedures and techniques were used in the collection process and data. This chapter focused on the research design, the target population of the study and the data collection instruments and the data analysis techniques were used.

3.2 Research Design

The purpose of this research was to assess CM in SFPI. The strength analysis of credit management on borrowing and lending process of the institution had been conducted to assess CM of the institution. The researcher used descriptive research design due to simplify the data in meaningful way and reducing the data information in summary.

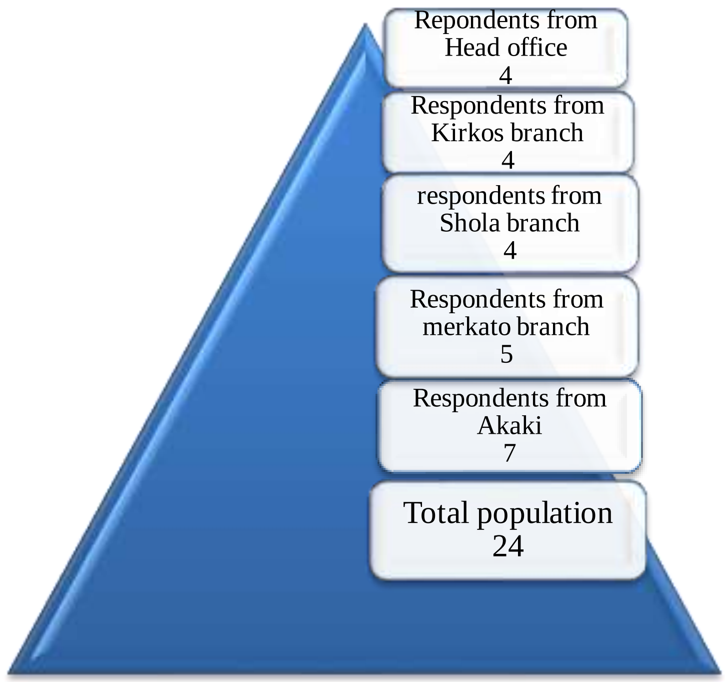
3.3. Research Method

The research method was used a survey for collecting data from a pre-defined respondents to get information through questioners. The data was qualitative. Qualitative method was used to assess the opinion of the respondent's towards the variables. The quantitative method was used to analyze numerical data and appropriate statistical methods to indicate the frequency and percentage, mean and standard deviation. The selected application was SPSS.

3.4. Target Population

According to (Kumar, 2008), A population is also known as a "universe" refers to all the items in the field of inquiry. Therefore in this research the population of the study consisted of 24 respondents from management staff, loan and saving expertise and accountants, those were directly related or dealing to credit management process.

Figure 1 Total number of population presents in smart Art



Therefore the researcher took all 24 respondents for samples which is all population's size of respondents.

3.5. Data Collection

3.5.1 Type and Sources of Data

The source of data was used secondary data from different literature review and primary data to collect information..The primary sources of information were collected through questioning of experts, credit department manager and branch managers of SFPI.

3.5.2 Data Collection Instrument

The researcher used questioner for data collection. The questionnaire was used for obtaining and gathering information to assess credit management process of SFPI. A questionnaire was defined as an opinion instrument anticipated to self-administered questions. The method was being as primary data collection.

The questioner had eight parts. The first part dealt with the demographic characteristics of respondents. The second section dealt about the credit management practices. The Third part was about CM practices. The fourth section dealt about Process of credit management and the fifth one credit collection techniques, the sixth one was NPL performance, The seventh one was credit assessment in determining of FS on debtors and the last one was measures taken previously in assessing CM.

The questionnaires were sent to 24 respondents in SFPI. The researcher informed the respondents that the instruments were used for research purpose only and the responded information from the respondents kept secret and confidential.

3.5.3. Data Analysis

The data analysis was engaged after all data collection procedures made. The type of data analysis tools used depends on the type of data. The statistics was descriptive .Descriptive analysis helped to realize frequencies and percentage,

CHAPTER FOUR: RESULT AND DISCUSSION

4.1. Introduction

This chapter consists basically three categories that are the presentation, analysis, interpretation and results or findings of the data which are gathered through questioner that collected from SFPI employees. The information focused on credit management process of SFPI. The mission of the collection information is to show the real image of the credit management practice of the institution and to apply on others branches.

The data collection mechanism was questionnaire which was prepared and sent for 24 respondents and all respondents had given the response. The analysis includes, Descriptive Analysis and percentage of respondents response observed from the results. .

The questioner consists of demographic characteristics and semi closed ended scale and open ended questions. It has been challenge to capture the substantial attributes of human perception, behavior and performance in technical measurements. The perception and opinion of the clients are such qualitative features which amenable for quantitative transformation for the mentioned reason. Therefore the Likert scale is a psychometric scale commonly used in questionnaires, and is the most widely used scale in survey research (RinsesLikert, 1932).

4.2. The questioner Likert Scale consists five Level

5	4	3	2	1
Very high	high	moderate	low	very low
>80%<=100%	>60%-<=80%	>40%<=60%	>20%-<=40%	<=20%

4.3. Questionnaires collection process

Table 1 Performance of Questionnaires

Questionnaires	Frequency	Percent	Valid percent
Distributed	24	100.0	100.0
Collected	24	100.0	100.0
Total	24	100.0	100.0

Source: Researcher's Survey Result from Primary Data Sources

As it can be seen from Table1 24 questionnaires were distributed to experts and managers of SFPI from head office and four branches that are working and experienced in credit and saving area. In this cases 24 (100%) percent of the distributed questionnaires were collected. The distribution of questionnaires was managed by own self with a great support given by the experts and managers.

4.4. Demographic Characteristics of Respondents

The respondent's demographic nature had a great contribution in the assessing of credit management of SFPI. Thus, in this research process the demographic characteristics of respondents like age, gender, work position, service year and their credit related experience.

Table 2 Ages

Age	Frequency	Percent	Valid Percent
24-45	21	87.5	87.5
>45	3	12.5	12.5
Total	24	100.0	100.0

Source: Researcher's Survey Result from Primary Data Sources

Most of the age of the respondents was in the range of between 24-45 years old which is 87.5% of the total and the others were above 45years old 12.5% of the total as shown in table 2. The data shows the human resource can work actively to meet the mission and goals of the institution and to take major corrections in this area.

Table 3 Gender

Gender	Frequency	Percent	Valid Percent
Female	11	45.8	45.8
Male	13	54.2	54.2
Total	24	100.0	100.0

Source: Researcher's Survey Result from Primary Data Sources

The combination of gender of respondents was 45.8% female and 54.2% male as it is shown in table 3.

Table 4 Work position

Position	Frequency	Percent	Valid Percent
Experts	19	79.2	79.2
Head office Credit department and branch Managers	5	20.8	20.8
Total	24	100.0	100.0

Source: Researcher's Survey Result from Primary Data Sources

As per the above table 4 shows 79.2 % of the respondents are at expertise position and 20.8% are in managerial position which includes head office credit department manager and branch managers.

Table 5 Service year in SFPI in the area

Service Year	Frequency	Percent	Valid Percent
1 - 5	9	37.5	37.5
>5	15	62.5	62.5
Total	24	100.0	100.0

Source: Researcher's Survey Result from Primary Data Sources

As it can be seen on table 5, 62.5 percent of the respondents have an experience of more than five years in the area and 37.5 percent have an experience between 1 to 5 years. It helped the researcher to confine better quality of data for the assessment of credit management because most of them are familiar with borrowers and SFPI credit management process.

4.5. Credit risk performance

Mr Roger Cole (2000), Credit risk management is the part of the general credit management and also the part of the control system. Credit risk can be considered as one of the major risk because it is associated with every active trade.

Credit Risk management strategy is handled by financial institutions which include the principles of risk management processes including risk identification, monitoring and measurement. The aim of the credit risk management is to maintain the efficiency of the business activities and the continuity of the business. Credit risk is the possibility of losing a lender takes on due to the possibility of a borrower not paying back a loan. Lenders and borrowers credit risk can be measured by the five Cs: credit history, capacity to repay, capital, the loan's conditions, associated collateral and data management, risk tools and debt recovery plan.

Table 6.Process or functions of Credit management (source: primary data)

No.	Item	Frequency of responses	
		No.	Percentage
1	SFPI managers ensure that appropriate plans and procedures for credit risk management are in place: Yes No	24 -	100% -
2	The institution performs client screening procedures and before lending money Yes No	10 14	41% 59%
3	The institution performs market area analysis of borrowers. Yes No	16 8	67% 33%
4	There is approval of loan on time in the institution Yes No	22 2	91% 9%
5	There is comprehensible credit administrations and loan document procedures Yes No	24 -	100% -
6	There is complete and formal credit evaluation or assessment process that can be easily understandable by borrowers: Yes No	6 18	25% 75%
7	There is easy loan collection method in the institution Yes No	4 20	17% 83%

In table.. Item 1 describe that 24(100%) of the respondents reply that SFPI managers ensure that appropriate plans and procedures for credit risk management are in place and there was no respondents were disagree. Item 2, tells that 10(41%) of respondents agree that the institution performs client screening procedures before lending money .But 14(59%) respondents were disagree. Item 3, shows 16(67%) of respondents reply the institution performs market area analysis of borrowers and 8(33%) were not agree. Item 4, describes 22(91%) of respondents were agree there is an approval of loan on time in the institution but 2(9%) of them were disagree. Item 5, shows that 24(100%) of respondents were agree there is comprehensible credit administrations and loan document procedures and no one was disagree. Item 6, describes that 6(25%) of respondents replied there is complete and formal credit evaluation or assessment process that can be easily understandable by borrowers but 18(75%) of respondents were disagree. Item 7, shows that 4(17%) of respondents replied there is an easy loan collection method in the institution but 20(83%) of them were disagree.

From the above data, the study shows that SFPI managers ensure that appropriate plans and procedures for credit risk management are in place. There is also a good performance in the institution performing market area analysis of borrowers. The approval of loan on time in the institution is another good experience in the institutions and it is clearly shown in the result comprehensible credit administrations and loan document procedures is a good experience. But the other results should be revised and assessed by the institution.

Table 7.Credit Collection Techniques in SFPI

No	Item	Frequency of respondents	
		No	Percentage
1	The institution uses telephone call to remember customers to request repayments. Yes No	 24 -	 100% -
2	The institution uses online payments Yes No	 - 24	 - 100%
3	Personal visiting made by the institution for loan collection method Yes No	 22 2	 91% 9%
4	Formal letter were used to collect loan by the institution when there is late payments Yes No	 7 17	 29% 71%
5	Legal measures used for collection of loans by the institution when there is unpaid balance for long time Yes No	 18 6	 75% 25%

In the above table item 1, 24(100%) of respondents replied the institution uses telephone calls to remember customers loan repayments. Item2, no respondents were agree the institution uses online repayment of loans but 24(100%) of respondents were disagree. Item 3, 22(91%) of respondents replies yes that personal visiting made by the institution for loan collection method but 9% of respondents were replies no. Item 4, 7(29%) of respondents said that formal letters were used to collect loan repayments when the respondents late to pay but 17(71%) of respondents were not agree. Item 5, 18(75%) of respondents replies legal measures used for collection of loans when the future hope is reducing to collect repayments but 6(25%) were disagree.

The above result shows there is a strong practice of using telephone calls to remember customers loan repayments, personal visiting made by the institution for legal measures used for collection of loans when the future hope is reducing to collect repayments.

Table 8. Credit management performance

Descriptions	Very high	high	moderate	low	Very low	scale *count						No. of respondents*scale	% of each measurements
There was Credit history management problem	7	6	4	3	4	35	24	12	6	4	81	120	68%
Capacity to pay problem	6	5	6	4	3	30	20	18	8	3	79	120	66%
Recourse or capital problem	6	2	6	6	4	30	8	18	12	4	72	120	60%
Condition/interest rate/ problem	5	7	6	2	4	25	28	18	4	4	79	120	66%
Collaterals problem	2	6	5	6	5	10	24	15	12	5	66	120	55%
Lacking Risk Tools	4	4	5	4	7	20	16	15	8	7	66	120	55%
Nonperforming loan problem	3	4	6	8	3	15	16	18	16	3	68	120	57%
Difficulties of debt recovery plan	4	8	9	2	1	20	32	27	4	1	84	120	70%
The assessment of credit management performance result shows in percentage 496/ 800% = 62% had a problem of CM and 38% of implementation was effective													

Source: Researcher's Survey Result from Primary Data Sources with likert scale

The above table result shows there were 68% of credit history management problem, 66% were a problem of capacity to pay, there were 60% of recourse or capital difficulties, 66% were a loan condition problems, there were a difficulties 55% of collaterals, about 55% of deficient risk tools, there were 57% of a problem of nonperforming loan and there were 70% of debt recovery plan difficulties. Therefore the total measurements described about there were 62% of credit management difficulty in the institution.

Table 9. **Non -performing loan performance of SFPI**

No	Item	Frequency of respondents	
		No	Percentage
1	There were Macro economy problem. Agree Neutral Disagree	 12 8 4	 50% 33% 17%
2	There were credit Appraisal problem Agree Neutral Disagree	 2 9 13	 9% 37% 54%
3	There were Loan interest rate problem. Agree Neutral Disagree	 18 3 3	 76% 12% 12%
4	There were Liquidity deficiency problem. Agree Neutral Disagree	 15 7 2	 62% 29% 9%
5	There were Client perception problem. Agree Neutral Disagree	 17 7 -	 71% 29% -

In the above table item 1, 12(50%) of respondents agree there were macro economy problem,. 8(33%) of respondent were neutral and the other 4(17%) of respondents were disagree. Item2, 2(9%) of respondents agree there were credit appraisal problem, 9(37%) of respondents were neutral and 13(54%) of respondents disagree. Item 3, 18(76%) of respondents were agree there were interest rate problem, 3(12%) of respondents were neutral and 3(12%) of other respondents were disagree. Item 4, 15(62%) of respondents were agree there were liquidity deficiency , and 7(29%) of them were neutral ,the others 2(9%) were disagree. Item 5, 17(71%) of respondents were agree there were client perception problem and 7(29%) of other respondents were neutral.

The above result shows there was a problem of macro economy, loan interest rate, liquidity deficiency and client perception problem for non performing problem reasons.

Table10. Credit assessment in determining feasibility study of debtors in SFPI

No	Item	Frequency of respondents	
		No	**Percentage**
1	The institution investigates character of customers Yes No	 16 8	 66% 34%
2	The institution investigates Capacity of customers Yes No	 9 15	 37% 63%
3	The institution investigates Capital of customers Yes No	 22 2	 91% 9%
4	The institution investigates Condition of customers Yes No	 14 10	 58% 42%

In the above table item 1, 16(66%) of respondents replied the institution investigates character of customers and 8(34%) of other respondents were disagree.. Item2, 9(37%) of respondents replied the institution investigates capacity of customers but 15(63%) of respondents were disagree. Item 3, 22(91%) of respondents replies yes that the institution investigates capital of customers and 2(9%) of other respondents were says no. Item 4, 14(58%) of respondents were replied the institution investigates condition of customers and the other 10(42%) of them were answers no..

The above result shows there is a strong practice of the institution investigates character, capacity, capital and conditions of customers.

4.6 Findings and summary

This section explains the research summary of finding with comparing of literature review and primary data and the result shows:

- 24(100%) of the respondents reply that SFPI managers ensure that appropriate plans and procedures for credit risk management are in place and there was no respondents were disagree.
- 10(41%) of respondents agree that the institution performs client screening procedures before lending money .But 14(59%) respondents were disagree.
- 16(67%) of respondents reply the institution performs market area analysis of borrowers and 8(33%) were not agree.
- 22(91%) of respondents were agree there is an approval of loan on time in the institution but 2(9%) of them were disagree.
- 24(100%) of respondents were agree there is comprehensible credit administrations and loan document procedures and no one was disagree.
- 6(25%) of respondents replied there is complete and formal credit evaluation or assessment process that can be easily understandable by borrowers but 18(75%) of respondents were disagree.
- 4(17%) of respondents replied there is an easy loan collection method in the institution but 20(83%) of them were disagree.
- The study shows that SFPI managers ensure that appropriate plans and procedures for credit risk management are in place. There is also a good performance in the institution performing market area analysis of borrowers.
- The approval of loan on time in the institution is another good experience in the institutions and it is clearly shown in the result comprehensible credit administrations and loan document procedures is a good experience.
- 24(100%) of respondents replied the institution uses telephone calls to remember customers loan repayments.

- Non respondents were agree the institution uses online repayment of loans but 24(100%) of respondents were disagree.
- 22(91%) of respondents replies yes that personal visiting made by the institution for loan collection method but 9% of respondents were replies no.
- 7(29%) of respondents said that formal letters were used to collect loan repayments when the respondents late to pay but 17(71%) of respondents were not agree.
- 18(75%) of respondents replies legal measures used for collection of loans when the future hope is reducing to collect repayments but 6(25%) were disagree.
- 68% of credit history management problem, 66% were a problem of capacity to pay, there were 60% of recourse or capital difficulties, 66% were a loan condition problems, there were a difficulties 55% of collaterals, about 55% of deficient risk tools, there were 57% of a problem of nonperforming loan and there were 70% of debt recovery plan difficulties. Therefore the total measurements described about there were 62% of credit management difficulty in the institution.
- 12(50%) of respondents agree there were macro economy problem,. 8(33%) of respondent were neutral and the other 4(17%) of respondents were disagree.
- 2(9%) of respondents agree there were credit appraisal problem, 9(37%) of respondents were neutral and 13(54%) of respondents disagree.
- 18(76%) of respondents were agree there were interest rate problem, 3(12%) of respondents were neutral and 3(12%) of other respondents were disagree.
- 15(62%) of respondents were agree there were liquidity deficiency, and 7(29%) of them were neutral, the others 2(9%) were disagree.
- 16(66%) of respondents replied the institution investigates character of customers and 8(34%) of other respondents were disagree.

- 9(37%) of respondents replied the institution investigates capacity of customers but 15(63%) of respondents were disagree
- 22(91%) of respondents replies yes that the institution investigates capital of customers and 2(9%) of other respondents were says no.
- 14(58%) of respondents were replied the institution investigates condition of customers and the other 10(42%) of them were answers no.
- There was a strong practice of the institution investigates character, capacity, capital and conditions of customers.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

This research examined the assessment of credit management process of SFPI micro finance institutions. In the sense SFPI Credit management means the total process of lending starting from inquiring potential borrowers up to recovering the amount granted. The general objective of this thesis focused assessment of credit management in SFPI microfinance institutions. The study tried to address how the credit management process in SFPI process performed and practices.. The study focused on Credit management process area with further details on four A.A Branches of SFPI. The study covered primary data and secondary data from literature reviews.

The major objective of this institution is facilitating socio-economic empowerment of under-privileged people both in rural and urban Ethiopia. SFPI specially tried to empower peoples like women, by providing them to support services such as training, credit, saving and technical (Consultancy) assistance and the institution provides credit, saving and Training services to different regions.

The expected output of this study will have a great input with different aspects in SFPI micro finance institution and other similar MFIs. The study lends hand what would be exactly assessing the credit management process of the institution had. Besides it helps to understand at what area that the institution should focus and take an action.

The other projected aim was the institution had a gap of research documents in this field of study about their services; therefore it would be a great input for assessing or studding further about the credit management process in all their branches.

Most researchers' ideas were taken in this research as a major input from different literatures. According to the objective of the study, qualitative and quantitative method was applied. As the study shows there were about 24 respondents, their age range was 87% of them were in between 24-45, 13 % were above 45years old. The combination of gender was about 46% was female and others are males. The position of their work is 21% are managerial position and others are expertise. The work experience of the respondents were about 63% more than five years and 37% have an experience bin between 1upto 5year and they all were participated in the questionnaires .

The researcher used questioner for data collection method. The questionnaire was used for obtaining and gathering information to analyze assessment of credit management in the SFPI .A questionnaire was defined as an opinion instrument anticipated to self-administered questions. The method was being as primary data collection. All respondents explained the analysis and clearly shown in the previous chapter.

- Most respondents reply that SFPI managers ensure that appropriate plans and procedures for credit risk management are in place and there was no respondents were disagreeing.
- The institution is better to improve the performance of client screening procedures before lending money
- comprehensible credit administrations and loan document procedures were a good practice showed within the institution
- The institution is better to work further on the complete and formal credit evaluation or assessment process that can be easily understandable by borrowers.

- SFPI is better to work on changing loan collection method in order to make easier.
- The institution is better to use online repayment for betterments and to minimize cost and time consumption.
- The institution is better to work further in credit history management problem, problem of capacity to pay, recourse or capital difficulties, loan condition problems, collaterals, and problem of nonperforming loan
- SFPI is better to make some revision interest rate problem and liquidity deficiency

5.2. Recommendations

The following are some of the suggestion that I would like recommend to specialized financial promotional micro finance institution management and concerned parties.

-Even though credit management is the first way to avoid non repayment loan there were still become a bad debt but because of the institution do not use the procedure of credit management systematically or technologically. So it is advisable to assess and use systematic procedure by using technology.

-The Institution is advisable to assess borrowers past financial history, business alignments, over and under financing process, borrowers income and perform detail financial analysis before extending loans to avoid non-performing loans.

-Since there were limitation in perceptions, it is advisable if the institution works hardly in the area of giving training, continuous supervision and giving awareness to the borrowers in order to develop client’s perception for mutual benefits.

-It is advisable that the institution gives some more emphasize on macro economy causes like interest rate by revising the interest rate based on the economy problem and borrowers capability. This helps to build good business relationship, business growth and sustainability with clients.

-The institution advisable frequently follow-up by visiting borrowers business to create long-lasting relationship and assure future payment.

-The institution is advisable to develop different types of credit facilities to its clients as per their potential. Specially to solve collateral problems it is useful to assess client's resources problem and group loan problem. In addition it is better to give a grace period after lending money at least three or affordable time.

-Hence today's competitive environment and political situation problem the institution must try to develop a clients perception by giving training, developing awareness, developing borrowers skill to manage loan, practicing technology to better use and developing saving cultures in line with the existing situation of the market.

-Therefore it is advisable the institution to practice its recovery plan and encouraging the client with decreasing the penalty and making other optional solutions.

Finally, there is a good trend in SFPI to handle their clients in good manner and the lending process is encouraging. The research has done with the cooperativeness of all respondents such as SFPI staffs. Even if, it was tough it was interesting and knowledgeable, so I would like to thank all the participants those helped me.

5.3. DIRECTION FOR FURTHER RESEACRCH

Since the business environment and National economy is dynamic, it presents new challenges and opportunities. Therefore it will be very important to SFPI to conduct further study on the repeated issue and CM impact on the society for sustainable of business.

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,

Appendix 1 Questionnaires

Saint Mary University

Faculty of Business

Finance and Accounting Masters Program

Conducted by SelomeTilahun

<u>Questionnaire</u>

Dear respondents:

The questionnaire were developed for data collection method on assessment credit management in Specialized financial promotional micro finance institution of A.A Branch for the purpose of partial fulfillment of Masters degree in finance and accounting.

I am sure that your response will be in secret. Since each of your response is very use full for study, please go through each question particularly and give general answer. Please (√) for boxes and fill the blanks space provided in some question?

Note : you can select more than one choice.

Part l .

<u>Demographic characteristics</u>

1. **Gender male** ☐ **female** ☐
2. **Age 18-25** ☐ **25-45** ☐ **>45** ☐
3. **Educational status : completed grade 12** ☐ **certificate** ☐ **Diploma** ☐ **Degree** ☐ **MBA** ☐
4. **Your Status in the Organization? owner** ☐ **Manager** ☐ **Employee** ☐ **other** ☐
5. **Service year 0 year** ☐ **1-5 year** ☐ **> 5 year** ☐

Part II.

<u>Question in Credit management and practices</u>

6. How long will it take to process a given loan application?

<8days ☐ 9-15 days ☐ 16-30 days ☐ >30days ☐

7. Is there any loan granted without collateral?

Yes ☐ No ☐

8. If your answer is yes for question ≠11 ,would you explain the reason?

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9. Do you believe the procedure of the loan approval in SFPI satisfactory?

Yes ☐ No ☐

10. If your answer is No for Q≠13 , could you explain your reason?

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11. Is there any problem associated with implementing the credit management policy of SFPI as planned?

Yes ☐ No ☐

12. Could you explain the assessment and implementation of credit management process ?

----

13. Does the Institution assess borrowers ,

Financial status or history ,Yes ☐o ☐

Credit worthiness, Yes No ☐ ☐

Feasibility study of the business, Yes ☐ No ☐

Life standard,Yes No ☐ ☐

Collaterals Yes No ☐ ☐

Awareness of the credit procedure Yes ☐ No ☐

Awareness of the credit policy Yes ☐ No ☐

Awareness of the credit limits Yes ☐ No ☐

Awareness of interest rates Yes ☐ No ☐

Understanding of the loan repayment procedures Yes ☐ No ☐

Understanding about the purpose of the loan Yes ☐ No ☐

14. If your answer is no for Q≠17, could you explain why each?

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Part III . The table contains General items and problems describes Credit Management of SFPI by saying very high, high, moderate, low and very low. Please (√) for the table

Credit management performance

Descriptions	Very high	high	moderate	low	Very low
There was Credit history management problem					
Capacity to pay problem					
Recourse or capital problem					
Condition/interest rate/ problem					
Collaterals problem					
Lacking Risk Tools					
Nonperforming loan problem					
Difficulties of debt recovery plan					

Part IV. The table contains General items function of CMs that have of SFPI by saying Yes or No. Please (√) for the table

Process or functions of Credit management

No.	**Item**	responses	
		yes	**no**
1	SFPI managers ensure that appropriate plans and procedures for credit risk management are in place:		
2	The institution performs client screening procedures and before lending money		
3	The institution performs market area analysis of borrowers.		
4	There is approval of loan on time in the institution		
5	There is comprehensible credit administrations and loan document procedures		
6	There is complete and formal credit evaluation or assessment process that can be easily understandable by borrowers:		
7	There is easy loan collection method in the institution		

Part V. The table contains General items Credit collection techniques that have of SFPI by saying Yes or No. Please (√) for the table

Credit Collection Techniques in SFPI

No	Item	responses	
		yes	no
1	The institution uses telephone call to remember customers to request repayments.		
2	The institution uses online payments		
3	Personal visiting made by the institution for loan collection method		
4	Formal letter were used to collect loan by the institution when there is late payments		
5	Legal measures used for collection of loans by the institution when there is unpaid balance for long time		

Part VI. The table contains General items non performing loans that have of SFPI by saying agree, neutral and disagree Please (√) for the table

Non -performing loan performance of SFPI

No	Item	responnses		
		agree	neutral	Disagree
1	There were Macro economy problem.			
2	There were credit Appraisal problem			
3	There were Loan interest rate problem.			
4	There were Liquidity deficiency			
5	There were Client perception problem.			

Part VII. The table contains General items Credit assessment in determining feasibility study od debtors that have of SFPI by saying Yes or No. Please (√) for the table

Credit assessment in determining feasibility study of debtors in SFPI

No	Item	responses	
		Yes	No
1	The institution investigates character of customers		
2	The institution investigates Capacity of customers		
3	The institution investigates Capital of customers		
4	The institution investigates Condition of customers		

VIII. <u>Measure taken Previously assessing credit management.</u>

1. **What are credit management risks in SFPI before?**

   ----

2. **What are the measures taken to solve problems of credit management risks in SFPI?**

DECLARATION

I, the undersigned, declare that this is my original work, prepared under the guidance of my Advisor, Simon Tarekegn (Assistant Professor). All sources of resources used for the thesis have been properly acknowledged. In addition, I confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

Selome Tilahun

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Name Signature

ENDORSEMENT

This thesis has been submitted to Saint Mary's University, School of Graduate Studies, for examination with my approval as an advisor.

Simon Tarekegn (Assistant Professor) ________________

Advisor Signature March, 2021

Saint Mary University

Addis Ababa