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Assessment on loan recovery performance of microfinance institution;
The case of Addis credit and saving institution Akaki Kality sub city Addis
Ababa Ethiopia.

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June, 2021

Addis Ababa; Ethiopia

Assessment on loan recovery performance of microfinance institution;
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Ababa Ethiopia.

By;

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A Thesis Submitted to collage of Business and Economics in partial fulfillment Requirement for
the award Master of Business Administration in Addis Ababa University

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June, 2021

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Statement of declaration

First, I declare that, this thesis is my original work, this thesis is not submitted to any other university and that all sources of materials used in this thesis have been properly acknowledged.

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Abbreviations

ADCSI	Addis credit and saving institutions
AEMFI	Association of Ethiopia microfinance institution.
FSCCO	first saving and credit cooperative
MDGs	millennium development goals
MES	microenterprises
MFIs	microfinance institutions
NBE	national bank of Ethiopia
NGOS	non-government organizations

Abstract

Microfinance is created in the economy for the economic benefit of the poor and to alleviate poverty. The objective of the study was to assess the loan recovery performance of microfinance institutions the case of Addis credit and saving institution, The existence of inconsistent loan recovery performance and there is no researcher done on Loan recovery performance at the study area that inspired the researcher to conduct the study. The institution was selected purposively. Based on the nature of the study the research approach is both quantitative and qualitative or mixed approach and to achieve the objective of the study the researcher was adopted a descriptive research design. Data were collected from primary and secondary sources. Primary data were collected from questionnaires 83 employees were taken from the institution by using senses survey methods and interview with the manager of the branch. From the total respondents (92.7%) were collected. Furthermore, Secondary data were collected from the annual report of the institution related to the loan, including published and unpublished materials, from the loan portfolio reports and balance sheet of akaki kaliti sub city Addis credit and saving institution for the study period Dec 2016 up to Dec 2020. IBM SPSS 25 software was used. Besides, this qualitative data was analyzed through narrative explanation. finding of the study shows that the credit policy and procedures were not considered the business situation, method of loan collection, type of lending, and loan guaranty system, was not properly implement credit policy and procedures elements. From the institutions loan assessment aspect, the institution was not properly implemented credit analysis element, customers were not given or provide fact information to the institution for loan assessment process, was not working properly evaluation necessary documents. The institution has not effective loan disbursement timing based upon progress of the project, was not have good advanced and operational loan documentation and credit administration methods. From the loan monitoring aspect, the institution has not sufficient human resource, materials and facilities to provide effective loan monitoring activities. Based on the finding the researcher concluded that the institution's credit policy and credit procedures were not effective for loan recovery performance, loan assessment practice, loan disbursement timing, and loan monitoring of the institutions were affected loan recovery performance of the institution. Therefore, based on the conclusion the researcher recommended that the institution focus and make adjustments or action on that the related to the preferred study facto to improve or effective loan recovery performance.

Key words, Microfinance institutions, Loan recovery performance, loan repayment, Addis Credit and Saving institution, credit policy and procedures, loan assessment practice, loan disbursement timing and loan monitoring.

CHAPTER ONE

1. Introduction

This chapter deals with the introductory part of the study that includes the background of the study, the background of the organization, statements of the problem, basic research questions, objectives of the study, significance of the study, the scope of the study, limitation of the study and organizations of the study.

1.1. Background of the study

Microfinance is the effort to create access to small deposits and loans for the poor society ignored by formal financial institutions like banks. Microfinance is “the stipulation of financial facilities to very poor self-employed and low-income poor people” but also, it plays a great role at an institutional level. It supports to start of an institution that gives financial provision to the poor who has been denied access to financial service. Microfinance can be defined as financial tools such as savings, credit, insurance, and other financial products that are modified only for the poor. Microfinance is created in the economy for the economic benefit of the poor and to alleviate poverty (Mishra & Srinivasa Suresh, 2016).

Microfinance has been recognized as an essential socio-economic and financial mechanism for poverty alleviation, promoting entrepreneurial development, and increasing the profile of disadvantaged people in numerous countries throughout the world (Hossain, Rees, & Millar, 2012). And as Prof. Muhammed Yunus and Grameen Bank phrased, Micro-credit is a means by which large people can find ways in which they can break poverty Grameen Bank was a source of ideas and models for many institutions in the field of micro-credit that have sprung up around the world (Garomsa, 2017).

The microfinance services are considered as an intervention instrument that Government and Non-government sectors are using to enable low-income groups of the community to improve their lives through increasing income, increase their productivity levels, enhance the ability to provide quality inputs to the market, reducing poverty, and ensuring food security (Garomsa, 2017).

In developing countries, like Ethiopia according to (Pasha and Negese, 2014) Microfinancing institution (MFI) is one of the major micro-financing institutions of Ethiopia working to provide credit and saving services to urban and rural poor peoples who do not have access to financial services from formal banks.

(Garomsa, 2017) stated that the credit package by microfinance has been changed to empower low-income families in urban areas of the nation in the form of urban loan financing systems which had started its process in 1994. From its start, this loan system was recognized by some non-governmental organizations, Government departments, and some donors in unpredictable means. To determine this challenge Ethiopian government acquired inspirations to develop controlling frameworks that administer the functional activities of similar industries.

In Ethiopia, Microfinance institutions have grown meaningfully in terms of sustainability. Even though the growth of microfinance institutions started very recently though the industry displayed remarkable growth .as of 2019, there are 38, microfinance registered under the national banks of Ethiopia (NBE). Their overall performance was encouraging as overall capital is 20.3% or birr 16.6 billion and total asset is 24.1% or birr 83.5 billion and its improved meaningfully. At the same time, their deposit mobilization and credit provision increase remarkably. Deposit reached birr 41.9 billion and while their outstanding credit birr 58.7 billion.

Loan recovery performance refers to the process and the rate at which the clients pay back the principal plus interest amount extended to them in form of loans, it is determined by repayment rate, portfolio quality ratios, profitability ratios, productivity and efficiency ratios, and scale of the depth of outreach (Mpinge, 2014).

(Philip, 2011), stated that loan recovery rates allow the measuring of performing and non-performing asset ratios (capacity to measure the reprocess of financial resource levels) hence empowering the institution to appreciate public confidence. Efficient and quick loan recovery minimizes default risk. Loan recovery is a process involving the procedures the MFIs use to collect their money from debtors and this may take the form of calling clients by telephone, sending reminders letters, contracting collection agencies, and legal actions. Loan recovery may also refer to the number of loans that were previously written off but now collected.

1.2. Background of the study Organization

The Government of Ethiopia was prepared a legal framework for organizing and operating microfinance institutions to provide or exercise financial services of a poor household. Addis credit and saving organization is one of microfinance institution which is founded the city of Addis Ababa and Oromia special zone. It was recognized & registered at the National Bank of Ethiopia in January 2000. Per proclamations 40/88. It is owned by six shareholders, namely, Addis Ababa City Administration, A.A. City Women, Youth & Teachers associations' karaalo Akababi Hulegeb peasant's cooperative & one physical person (National Bank of Ethiopia, 2019). Currently, the institution has 10 branch offices at the sub-city level, 121 service delivery post centers at Woreda levels, and 21 micro bank branches in the city and Oromia special zone. According to (Assessment *et al.*, 2010) The mission of Addis Credit and Saving Institution is to become exemplary MFIs in Ethiopia by contributing to poverty alleviation, employment creation, and women's empowerment. Moreover, the major objective of the institution includes: develop the saving culture of the community beneficiary of the service, enlarge the community to develop self-confidence with particular attention to women provide sustainable and reasonable loan service. From its founding, the organization has been giving credit, saving, insurance, counseling service, and now starting third-party fund management. The institution has been increasing its service from time to time make it adaptable outside the institution and make its service suitable to customers and for those working with the organization (Addis Credit and Saving Institution S.c./ AdCSI/, 2012). One of the Addis credit and saving institutions is Akaki kality sub-city branch. Under this branch, there are thirteen (13) service delivery-post centers and in the branch, there are ninety-one thousand, one hundred eighty-four (9184) number of clients and seven-hundred fifty-three million, three hundred seventy-five thousand, forty-five birr (753,375,045) five-year leading size of the branch (annual report of the ADCSI 2012E, C). Hence, in this study, the researcher focuses on an assessment of the loan recovery performance of Addis credit and saving institution at of akaki kality sub city branch.

1.3. Statement of the problem

Microfinance institution contributes an important role in supporting the economic activity of the urban and rural poor societies in a developing country. The study indicated that microfinance organizations are essential actors in the financial sectors.

According to (Debeb, 2015) increasing access to financial services is an important development tool, because it supports creating employment chances for the unemployed and increases their income and consumption, which would in the final analysis reduce poverty. Access to financial services to the poor also facilitates economic growth by enabling liquidity constraints in production, by providing capital to start up new enterprises or adopt new technologies, and by helping producers to assume production risk.

According to (Chali & Ashe, 2016) stated that if there is high repayment efficiency in the organization the relationship between the microfinance institutions and their client will be good. A high repayment rate supports gaining the next higher amount of loans and other financial services. Loans taken from the credit organizations differ from nation to nation, region to region, sector to sector. But most credits of developing countries were found to share one common characteristic that is suffering from a large amount of default.

According to (Shuke Kitawa, 2015) argue that improving repayment rates supports reducing the dependence of the microfinance organizations on subsidies, which would improve sustainability. He is also maintained that high repayment rates reflect the competence of microfinance organization services to customer needs. To sustain the sustainability of microfinance institutions, one dynamic thing is to identify the socio-economic and institutional factors which meaningfully affect the credit repayment performance. The main factors from the lender side are high-frequency of collections, tight controls, good management of information system, credit officer incentives and good follow up, credit size, the interest rate charged by the lender, and timing of loan disbursement have also an impact on the repayment rates. The main factors from the borrower side consist of socio-economic characteristics such as gender, level of education, marital status, income level, and peer pressure in group-based schemes, etc. Addis credit and saving institution is one of the major microfinance institutions in the nation providing services in and around the capital city, which also experiences the considerable problem of default.

As of (Muganyizi, 2015) stated that the most common loan repayment problems of microfinance institutions are delinquency and default. A loan is said to be delinquent when a repayment is late

and non-payment is the failure to pay back a loan. A delinquent loan becomes a defaulted loan when the chance of recovery becomes minimal. Delinquency is measured for the reason that it indicates an increased risk of loss, warnings of operational problems, and may help to predict how much of the portfolio will eventually be lost because it never gets repaid. Defaults refer to failure to pay a credit at the right time or those who did not repay the loan within the due date.

Thus, studying loan recovery performance and knowing the related factors that may contribute to showed that, the existence of poor loan recovery performance of the institution's factors like credit policy and procedures, Loan assessment practices, loan disbursement timing, loan monitoring, and other unexpected cause of credit recovery this initiates the researcher to conduct this study. There is no researcher done on Loan recovery performance in Addis credit and saving institutions at the study area so far to my knowledge is concerned and most of the previous study on the institution focuses on factors that the borrower said and also single loan type. This study fills these gaps by taking the case of Addis credit and saving institutions.

1.4. Research Questions:

The study tried to answer the following questions;

- What does the institution's loan recovery performance look like?
- What is the institution's credit policy and procedures for effective loan recovery performance?
- How does the institution's loan assessment practices affect the loan recovery performance?
- How does the institution's loan disbursement timing affect the loan recovery performance?
- How does loan monitoring performance affect loan recovery in the institution?

1.5. Objective of the study

1.5.1. General objective

The general objective of the study for assessing the loan recovery performance of the Addis credit and saving institution akaki kality sub city branch from the year Dec. 2016 up to Dec. 2020 five years.

1.5.2. Specific objectives of the study were to; -

- Determine the level of loan recovery performance of Addis credit and saving institutions.
- Assess the effectiveness of credit policy and procedures of the institution in helping it recover credit.
- Examine the loan assessment effectiveness of the institution in recovering loans.
- Examine the loan disbursement timing of the institution in recovering loans.
- Assess the effectiveness of loan monitoring of the institution in recovering loans.

1.6. Significance of the study

The result of this study would help to: -

- The study would be show management and other interested parties, the true picture of loan recovery Performance of ADCS institution of akaki branch, and would help the institution to improve the efficiency and effectiveness of loan administration operation.
- Planed effective financial programs that improve the loan recovery performance of the MFIs. Moreover, the study may help in guiding financial institutions or loan facilitating organizations to set appropriate criteria and standard procedures of loan recovery.
- The study has a policy implication for policymakers, governmental financial institutions, and nongovernmental financial institutions.
- The study would be also contributing to the existing body of knowledge regarding the loan recovery performance and it would be provided new insight fulfilling the gap in the knowledge about the loan recovery procedure.
- Finally, apart from these, the results of the study may serve as a starting point to conduct further studies in the area.

1.7. Scope of the Study

It is impossible to assess the loan recovery performance of all Micro Financial Institutions at the city level, due to resource& time constraints, geographical problems unable to collect the entire questionnaires from the respondents. therefore, this research assessed only the loan Recovery performance of one branch of Addis Credit and Saving Institution (ADCSI) that is akaki kality sub-city Branch. The study was limited in its time scope to collect data and complete the study from Dec 2016 up to Dec 2020 five years. Loan recovery performance can be affected by different factors, however; this research due to time and data constraints the study focuses only

on four basic variables factors as credit policy and procedures, loan assessment, loan Disbursement timing, and loan monitoring.

1.8. Limitation of the Study

The problems, which I face in conducting this research such as shortage of resources, financial and information or data, current covid 19 diseases, lacks cooperation of the respondents to give information and their commitment to complete filling the questionnaires and unable to collect the entire questionnaires from the respondents.

1.9. Structure of the study

This study is structured into five chapters. Chapter one covers the background of the study and organization, statement of the problem, research questions, research objectives, significance of the study, the scope of the study, limitation of the study, and organization of the paper. Chapter two is about literature review which organizes into four subheadings namely; theoretical literature and empirical literature of the topic, research conclusion and gap, and conceptual framework. Chapter three research methodology they are; selection of study area, research design, research approach, target population, census serve used by the study. And also, it elaborates the type and sours of data, data collection methods, method of data analysis, research validity and reliability, ethical consideration, an operational definition of variables, and their measurement. Chapter four covers the presentation and discussion of the results of the findings. This chapter was organized based on research objectives. Chapter five the last chapter of the thesis which provides the summary of the study, conclusion, and recommendations.

Chapter two

2. Review of related literature

2.1. Introduction

This chapter presents relevant literature, theories, and concepts on the basics of microfinance Institutions and loan recovery performance. First, it provides the theoretical framework of the study topic, second, empirical study link between loan recovery performances of the microfinance institution, thirdly conclusion and research gap than finally conceptual framework adopted in this study.

2.2. Theoretical reviews

2.2.1. What is Microfinance?

The concept of microfinance is associated with As Prof. Muhammad Yunus, the Nobel Peace Prize winner in 2006, and is regarded as the “Father of Microfinance”. His work developing Grameen Bank led to microfinance programs and institutions emergent up in the developing world. Citigroup reports that the microfinance industry continues to grow and opens the way towards financial inclusion.

According to (Thobias, Anne Rayah 2019) Microfinance refers to financial facility largely credit and saving providing to society who run small enterprises or micro-enterprises where properties are produced, recycled, repaired, or sold; who deliver services: who work for incomes who loan income from renting out small amounts of land and other persons and groups at the local levels of evolving countries, both rural and urban. Many such families have several bases of income.

the fact that microfinance addresses the social and economic desires of the poor, has been kept high in the global agenda. Summits were held which acknowledge its expansion and development.

(Bureau, 2014) defined as microfinance is the source of savings, loans, insurance, money transfers, and other financial facilities to low-income people. MFIs which include an extensive variety of providers that vary in legal structure, mission, and methodology offer these financial services to customers who do not have access to normal banks and microfinance as the provision of small credits (called “micro-credit”) or savings facilities for society omitted from the formal banking system.

According to (G/Mariam, 2018) the words microcredit and microfinance are frequently used interchangeably, but it is significant to highlight the difference between them because both terms are often confused. “Microcredit refers to small loans, whereas microfinance is suitable where NGOs and MFIs improve the loans with other financial services (savings, insurance, etc.)”. Therefore, microcredit is an element of microfinance and contains providing credit to the poor, but microfinance encompasses additional non-credit financial facilities such as savings, insurance, pensions, and payment services.

2.2.2. What is Microfinance Institution (MFI)?

A microfinance institution is an organization, engaged in encompassing micro-credit loans and other financial and non-financial services to poor customers for income-generating and self-employment activities. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristics of providing financial services to clients who are poor and more vulnerable than traditional bank clients. MFIs are usually not a part of the formal banking industry or government. It is usually referred to as a Non- Government Organization, (Bureau, 2014).

2.2.3. History of microfinance institutions

2.2.3.1. Microfinance institution in the world

Historically microfinance is often associated with the growth of non-governmental organizations (NGOs) providing microcredit services to the poor and the development of a handful of microfinance banks. As (Bureau, F 2014) cited in, that Professor Mohammad Yunus, a Bangladesh, addressed the banking problem confronted by poor peoples in southern Bangladesh through a program of action research. With his former student at Chittagong University, he deliberates an investigational credit package to help the peoples. The package spread quickly to hundreds of societies. Through a special new relationship with local commercial banks, he disbursed and improved thousands of loans, but the bankers rejected to take over the project at the end of the pilot phase. They are afraid it was too affluent and risky despite its achievement. When we see the situation of most microfinance customers, giving credits to them looks risky. Because receiving the money back from the debtor needs different follow up and also the absence of guarantee for lending exaggerates the fear. A turning point in the history of microfinance in that MFIs such as Grameen Bank and British Banks began to show that they could provide small loans and savings services profitably on a large scale. They

received no continuing subsidies, were commercially funded and fully sustainable, and could attain wide outreach to clients ((N.Kumar, 2010).

As defined by the UN the final goals of Microfinance institutions are achieving the Millennium Development Goals (MDGs). such are as follows: Eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, Combat HIV/AIDS malaria other diseases and Ensure environment sustainability.

The history of microfinance in those microfinance institutions such as Grameen Bank and British Banks began to show that they could provide small loans and savings services profitably on a large scale. They received no continuing subsidies, were commercially funded and fully sustainable, and could attain wide outreach to clients (N. Kumar, 2010). As defined by the UN the final goal of Microfinance institutions is to achieve the Millennium Development Goals (MDGs). such are as follows: Eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, Combat HIV/AIDS malaria other diseases, and ensure environmental sustainability.

2.2.3.2. Microfinance institutions in Ethiopia

The idea of microfinance is not new in Ethiopia but, as an industry, it is a comparatively new incidence. Traditionally, people have saved with and taken small loans from informal channels for unpredicted phenomena from the so-called Iqub i.e., an association of people shares mutual objective mobilizing finance and allocate it to members through rotating and Idir i.e., service insurance established and operated by the volunteer community. The first saving and credit cooperative (FSCCO) in Ethiopia was established by the employees of Ethiopian Airlines in 1956. Global donors, NGOs, and the government of Ethiopia have also supported the growth of credit and saving to the rural poor in the 1970s to 1990s. During the time the accesses of rural credit contribution loans in Ethiopia were supported through formal banks such as Agricultural and industrial development banks. The emergence and expansion of current microfinance institution in Ethiopia is a new phenomenon that occurs because of the formal financial scheme like commercial banking system was very limited and could not address the financial need of poor households for the fact that they are not their ultimate target client ('1.0 Research title': 2015). By the end of 2018/19 as per the yearly report of NBE, 38 MFIs have been registered with

the national bank of Ethiopia and operate under the support of proclamation no. 40/1996 in the country (rural and urban areas) their total performance was inspiring as their total capital and overall asset improved significantly by 20.3 and 24.1 percent respectively and accordingly their overall principal and overall asset reached Birr 16.6 billion and birr 83.5 billion respectively. Similarly, their Deposit mobilization and credit offering activity also revealed a remarkable increment i.e., reached ETB 41.9 billion and 58,7 billion in that order. The five largest MFIs namely, Amhara, Dedebit, Oromia, OMO, and ADCS, institutions accounted for 83.4% of the overall capital, 91.4 % of the saving, 87.7% of the credit, and 88.1% of the overall assets of MFIs at the end of 2018/19. The Ethiopian microfinance institution sector is categorized by its fast growth, main saving mobilization, and forceful initiative to complete-scale, wide geographic coverage and focus on rural households. The increases in the number of microfinance institutions show that the Ethiopian (National Bank of Ethiopia, 2019).

2.2.4. Addis Credit and Saving Institution (ADCSI)

Addis Credit and saving institution (Share, Co.) is one of the most important microfinance institutions in Ethiopia, which is working in Addis Ababa, the capital city of Ethiopia and special zone of Oromia. It established in 2000 for the provision of financial services to active poor people in Addis Ababa for both micro business and small business operators. It is owned by six shareholders, namely, Addis Ababa City Administration, A.A. City Women, Youth & Teachers associations' karaalo Akababi Hulegeb peasant's cooperative & one physical person. According to the revised proclamation No. 626/2009, Objective of ADCSIs is to collect deposits and encompass credit to rural and urban farmers as well as micro and small-scale rural and urban entrepreneurs. Its specific objectives are: Provision of credit and saving services to as many active poor as possible; Enhance the development of micro and small enterprises; Give priority to women in the provision of financial services; Improve the culture of saving of the target group and the public at large; Create long term self-employment in income generating activities and assure financial and operational self-sufficiency of the institution.

Major Services of ADCSI are; providing credit service to MES operators and potential operators, providing saving service, Counseling and provision of advice for the target group on business and financial affairs, facilitating business development services for clients, managing loan able fund for Governments, NGOs and others, effecting payments and collecting revenue for other institutions.

Credit Service Methodology; Since its establishment, ADCSI has been using solidarity group lending methodology. But starting from the mid of E.C year 1995 changes in the policies, procedure & methodology of the institution, has started to provide individual loan on personal guarantee & or collateral basis. Cooperatives and joint ventures are also entertained on the same line.

Types of Loan Product; providing, there are six types of loan products. These are micro business loan sometimes called general loan, small business loan, micro lease and housing loan product, Consumer loan product and Short-term loan. A micro business loan product has a nature of installment repayment and it is disbursed for high turnover activities like retail trade activities, gulit and so on. Ranging from Birr seven-hundred (700) the maximum loan size for this loan product is birr five-thousand (5000.00).

A small business loan is disbursed relatively for well established businesses and technical and vocational school graduate students who want to enter in to productive venture and the size of the loan is usually greater than five-thousand (5000.00) birr and less than one-million, five-hundred thousand (1,500,000.00) for each entrepreneur. Agricultural Loan which is focused on urban agriculture in Addis and surrounding Oromia Special Zone. Individual, groups and cooperatives are entitled up to one-million, five-hundred thousand (1,500,000.00) based on the feasibility of the business. The repayment modalities are based on the negotiation between the customers and the Institution; either installment or term loan. Micro lease loan-Clients choose the machines for their operations and ADCSI purchases these machines and hand it over to them. The operators assume ownership after completion of payment. This type of loan is rendered mostly to people who are organized into cooperatives. Asset Loan, the aim is to enable clients construct a new house, complete a construction in progress or to purchase vehicles. The maximum loan size is 500,000 birrs with loan term of 60 months (or 5 years) and repayable monthly. Consumer loan product: it targets government and related employees that have fixed monthly salary; the loan is guaranteed by employers and deducted from payroll on monthly basis. The loan size depends on the borrower's salary less than 20,000 and loan term is up to 24 months. Short-term loan: a short-term loan repayable with in maximum of six months. It targets clients that face very urgent financial problem or working capital shortage to do some urgent business. Depending upon the nature of the business, the loan products are characterized into term loan and installment loan.

- Term Loan- A type of loan disbursed and collected within a given time. It is mainly for urban agriculture and other activities, which have gestation period.
- Installment Loan- Collection of payment is made monthly.

Purpose of loan; The purpose for which credit is sought is an important consideration to the institution, because of to start &/or expand businesses engaged in; Weaving and Tailoring, Metal and wood works, Food processing, Production of construction inputs(materials), Municipal services like solid waste disposal and parking, Retail trade, Urban agriculture, Contractors (Construction services), Leather products.

Addis credit and saving institution Loanees are A.A. City residents & special zone of Oromia, 18 years old and above, Edirs (legally registered), Cooperatives, Joint ventures and other business associations.

Loan size; - The feasibility of the project is given the prime importance in the determination of the amount of loan to be given on credit and for controlling purpose; we decide the loan size accordingly. This includes both working capital as well as investment. Individual new client loan size up to thirty-thousand (30,000) and for existing individual clients up to one-million, five-thousand (1,500,000) birrs. For new clients of joint venture and others up to sixty-thousand (60,000) birrs and also for existing clients joint venture and others up to one -million, five-thousand (1,500,000) birrs. For new cooperatives clients up to seventy-thousand (70,000) birrs and for existing cooperatives one -million, five-thousand (1,500,000) birrs. For new and existing Edirs clients on the agreement (Addis Credit and Saving Institution S.c./ AdCSI/, 2012).

Time of repayment; - Addis credit and saving institution loan repayment time for birrs up to two-thousand (2000.00) Maximum loan term is eighteen months (The duration varies with the loan size & business ability to pay). For birrs two thousand one (2001.000 up to five thousand (5000.00) Maximum loan term is Twenty -four months. For the above five-thousand (5000.00) birrs are thirty-six months. term lean and asset loans are eighteen and sixty months respectively (Addis Credit and Saving Institution S.c./ AdCSI/, 2012).

Interest rate & Service Charge; - ADCSI charges 10% interest flat rate for installment loan per annum, 11% flat rate on term loans per annum, 11% for asset loan per annum on decline rate, for the asset loan the rate is 11% per annum on decline basis and 2% on short term loan per a month on flat rate basis. Additionally, customers should pay 2% service charge is paid for all loans. (Addis Credit and Saving Institution S.c./ AdCSI/, 2012).

2.2.5 Characteristic of Microfinance Institutions

Microfinance is providing financial and non-financial facilities to poor people, who wish to access money for initial income-generating activity. The individual loans and savings of the poor customers are small. Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients can be bankable ‘, that is, they can repay, both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs. Microfinance as a discipline has created financial products and services that together have enabled low-income people to become clients of a banking intermediary. (Anjulo, 2014) stated the characteristics of microfinance products which include but not limited to: Small amounts of loans and savings and application procedures are simple, Short- terms loan (usually up to the term of one year), Payment schedules attribute frequent installments (or frequent deposits), Easy entrance to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the clients ‘financial and social status, Short processing periods (between the completion of the application and the disbursement of the loan), The clients who pay on time become eligible for repeat loans with higher amounts, The use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time, No collateral is required contrary to formal banking practices. Instead of collateral, microfinance intermediaries use alternative methods, like, the assessments of clients ‘repayment potential by utilizing social information rather than cash flow analyses.

2.2.6. Loan recovery performance

The loan can be defined as a procedure in which a creditor gives money or assets to a client and the client agrees to return the assets or repay the money, regularly along with interest, at some future point(s) in time. Usually, there is a planned time for refunding a loan, and usually, the creditor has to permit the risk that the debtor may not refund a loan, though current capital markets have developed many ways of managing this risk (N. Kumar, 2002’, 2010).

Loan recovery refers to the collection of amounts due to the borrower. Loan recovery depends on the purpose, time, condition, and business running process. Normally loan amount is recoverable on an installment basis. It is argued that not an easy task to maintain a 100 percent recovery rate, since some of the borrowing clients may create several problems with different circumstances hence, what is required by the institutions to maximize loan recovery is the efficiency of loan recovery practices (Thobias, Anne Rayah 2019).

2.1.7. Indicators of Loan Recovery.

The following are the measures used to determine loan recovery. The repayment rate measures the amount of payment received concerning the amount due. Portfolio quality ratios; involve the arrears rate portfolio risk and the ratio of delinquent borrowers. The arrears ratio rate shows how much of the loans have become due and have not been received. Portfolio rate refers to the outstanding balance of all loans that have an amount due. Delinquent borrowers determine the number of borrowers who are delinquent relative to the volume of delinquent loans.

The profitability ratio measures microfinance institutions' net income about the structure of their balance sheet. This helps investors and managers determine whether they are earning an adequate return on funds invested in microfinance institutions. Productivity and efficiency ratios provide information about the rate at which microfinance institutions generate revenue to cover their expenses. The productivity ratio focuses on the productivity officers because they are the primary generators of revenue. The ratio includes;

- Number of active borrowers per credit officer (performing assets).
- Total amount disbursed in the period per credit officer.
- Portfolio outstanding per credit officer (non-performing assets)

Efficiency ratios measure the cost of providing loans to produce revenue; these are stated as working costs and should contain neither funding costs nor loan loss supplies.

Scale and depth of outreach, Microfinance institutions collect data on their client's base both the scale of their activities (number of clients served with types of instruments) and the depth of outreach (type of client reached and their level of poverty).

Outreach indicators include; the number of active borrowers, total balance of outstanding loans average outstanding, the real annual average growth rate of loans outstanding during the past years loan size, average minimum and maximum, average disbursed loan size, average outstanding raters, average loan term, nominal interest rates, effective annual interest rates, the value of loans per staff member and several loans per staff member (Philip, 2011).

2.2.8. Loan repayment:

According to (GENET KEBEDE, 2012.) Credit repayment is a process that a creditor gives money or property to clients or customers who agree to return the property and repay the money, frequently with interest at the same next time. Frequently there is prearranged time for repaying a loan and commonly the lender has to accept the risk that customers may not repay a credit,

normally it is a time that a customer to repay his debt at the right time. clients who satisfy the whole credit exchange situations and repay their loan without any problem. Defaults: - Defaults are defined as failure to pay a debt loan at the right time or who did not repay the loan within the due date.

2.2.9. Credit Risk

The granting of credit facilities is subject to the risk of default by the borrower when repayment is due. The primary danger in loan granting is the possibility of default by the borrower.

According to (Kabanda, 2019), risk identification refers to the process by which a business systematically and continuously identifies the property, liability, and personnel exposures as soon as or before they come out. According to his study, the first step in business risk management is to identify the various types of potential losses confronting the borrower, and secondly, to measure these potential losses concerning issues such as their likelihood of occurrence and their probable severity. This gives rise to the need to assess the inborn risk of a credit facility, the existing operational management to mitigating the risk, and determining the actual risk. The assessment gives a fair idea of the intended quality of the credit facility. stressed on the primary danger of loan granting stating that a creditor „offers“ money and does not give it away and there will always be some risk that the borrower will default repayment. The microfinance institution, therefore, needs to critically assess any credit request with reasonable assurance that repayment would not be a problem.

2.2.10. Factors that effects on loan recovery performance of microfinance institutions.

2.2.10.1. Credit Policy and procedure

(Mpinge, 2014) defines credit policy as a set of policy actions designed to minimize costs associated with credit while maximizing the benefit from it. credit policy as the only way in which the financing manager can affect the volume of credit sales and collection period. Credit policy can also be defined as an institution's method of analyzing credit and its decision criteria for accepting or rejecting applications. The objective of such a policy is to have an optimal investment in debtors. A credit policy may be lenient or stringent. A lenient credit policy tends to give credit to customers on very tolerant terms and standards. Credit is granted for longer periods even to those customers whose creditworthiness is not fully known or whose financial position is

doubtful. Here credit is usually granted at high discount rates. Stringent credit policy gives credit on a highly selective basis only to those customers whose creditworthiness has been ascertained and who are financially strong. The credit periods are shorter and discounts are lower. This may be advantageous in the sense that the low costs involved may be determined by sales returns (clients). The above two credit policy alternatives represent the two extremes in credit policies. In practice, however, firms follow credit policies that range between the two extremes. Thus, to maximize its operations a firm needs to formulate an optimum credit policy. A credit policy spells out guidelines that are followed in extending credit to customers including the procedures for recovering loans in arrears. A credit policy is important because of its impact on customer retention and outreach strategies adopted by MFIs. In most cases, microfinance institutions use Branch accountants to analyze the credit information contained in loan files before credit decisions are taken. This ensures that loans advanced are subjected to minimal transactional risk from the Branch which helps in portfolio quality control. Though most consumers expect to pay cash or use a credit card when making a purchase, commercial customers typically want to be billed for any products and services they buy. You need to decide how much credit you're willing to extend them and under what circumstances. There's no one-size-fits-all credit policy--your policy will be based on your particular business and cash-flow circumstances, industry standards, current economic conditions, and the degree of risk involved. As you create your policy, consider the link between credit and sales. Easy credit terms can be an excellent way to boost sales, but they can also increase losses if customers default. A typical credit policy will address the following points

- **Credit limits.** Create dollar figures for the amount of credit you're willing to extend and define the parameters or circumstances.
- **Credit terms.** If you agree to bill a customer, you need to decide when the payment will be due. Your terms may also include early-payment discounts and late-payment penalties.
- **Deposits.** You may require customers to pay a portion of the amount due in advance.
- **Credit cards and personal checks.** Your bank is a good resource for credit card merchant status and for setting policies regarding the acceptance of personal checks.
- **Customer information.** This section should outline what you want to know about a customer before making a credit decision. Typical points include years in business, length of time at the present location, financial data, credit rating with other vendors and credit

reporting agencies, information about the individual principals of the company, and how much they expect to purchase from you.

- **Documentation.** This includes credit applications, sales agreements, contracts, purchase orders, bills of lading, delivery receipts, invoices, correspondence, and so on.

An often-overlooked element in setting a credit policy is the design of invoices and statements. The invoice is the document that describes what the customer is being billed for; the statement is the follow-up document that indicates the status of the account. One collection and creditor rights expert says that invoices and statements that are clear, easy to read, and allow the customer to quickly identify what is being billed are likely to be paid faster (Mpinge, 2014).

Elements of credit policy and procedures

The term credit policy is used to refer to a combination of three decision variables,

These include I. Credit standards ii. Credit terms iii. Collection efforts/procedure

Credit Standards, this is a principle used to choose the kind of customer to whom credits should be prolonged (Mpinge, 2014) and (Philip, 2011), noted that it's important that credit standards be based on the individual loan request by considering character valuation, capacity, condition, collateral and security capital.

Character refers to the willingness of a customer to settle his obligations. It mainly involves the assessment of the moral factors. Social collateral group members can guarantee the loan members know the character of each client; if they doubt the character then the client is likely to default. Saving habit involves analyzing how consistent the client is in realizing own funds, saving promotes loan sustainability of the enterprise once the loan is paid. Other sources of income another source should be identified to enable him to serve the loan in time. This helps microfinance institutions not to only limit loans to short-term projects such qualities have an impact on the repayment commitment of the borrowers it should be noted that there should be firm evidence of this information that point to the borrowers' character.

Capacity is a personal decision of a client's capacity to pay. It may be evaluated using a client's capacity to pay. It may be evaluated using the client's past histories, which may be added by physical or observation.

Capital, refers to how well the debtor or customers has been able to his/her financial affairs. There are three situations to consider, net worth, liquidity, and financial responsibilities. Net worth is customer total properties minus his/her liabilities and individually with systematically

net worth has a greater incentive to keep investment and repay duties. Liquidity is the capacity of clients to meet their obligations with the cash required or to change properties to cash rapidly.

Condition, this is the impact of the present economic trends on the business conditions which affects the firm 's ability to recover its money. It includes the assessment of prevailing economic and other factors which may affect the client's ability to pay.

Collateral security is what customers offer as saving so that failure to honor their obligation the creditor can sell it to recover the loan. It is also a form of security that the client offers as a form of guarantee to acquire loans and surrender in case of failure to pay; if borrowers do not fulfill their obligations the creditor may seize their asset.

Credit Terms: - According to (Philip, 2011) stated that credit terms are typically observed as the loan period terms of reduction and the amount of credit and choice of tool used to indication credit. Credit terms may include; Length of time to agree on loans, this is the time taken from candidates to the loan disbursement. It is assessed by the situation of the customer as indicated by the ratio analysis, trends in cash flow, and looking at the capital position.

Collection Efforts: - (Philip, 2011) defines a collection effort as the procedure an institution follows to collect past due account. Collection policy refers to the procedures microfinance institutions use to collect due accounts. Microfinance institutions may send a letter to such individuals (borrowers) when say ten days elapse or phone calls and if payment is not received within thirty days, it may turn over the account to a collection agency. Thus, collection efforts aim at accelerating collections from slower payers to avoid bad debts.

The relationship between credit policy and loan recovery

According to (Brunt land, 1987 cited by Hable Asrat), the term microfinance is used to refer to the provision of profitability microfinance services such as micro saving and microloan to economically active poor people by sustainable financial institutions. These services are provided by competing institutions at the local level. Credit policy and procedures have continued to be an important aspect in the loan recovery performance of microfinance institutions. They determine the structure of microfinance institutions' performance since these operations are based on granting a loan to its customers breaking a benefit on the interest rate. Based on the above concept credit policy and the procedure is an important instrument for effective loan recovery performance of Addis credit and saving institutions. because of Credit policy and procedures of the institutions are enabled on how to analyze credit request from

customers and provide them with a decision criterion for accepting or rejecting applications based on the elements of credit policy. Therefore, the credit policy and procedures of the institutions should reflect the borrower's financial needs and capacity of repayment otherwise the institution will be vulnerable to risk arising from failures to non-loan recovery. non-credit recovery affects microfinance institutions' sustainability in the dynamic business environment and lack of clear loan policy can lead to default of microfinance loans, if microfinance does not have stringent credit policies, then they stand to lose their money hence creating liquidity issues.

2.2.10.2. Loan Assessment

The first stage in the loan granting process is credit assessment. The stage at which the necessary documentations are presented to the microfinance institution by the loan applicant to obtain a credit facility is credit assessment. As of (Kabanda, 2019) Credit Appraisal The 'heart' of a high-quality portfolio is credit appraisal, it involves determining the loan applicant's ability to repaying and minimizing the default between the creditors as principals and the debtors as negotiators through the process of gathering, processing and analyzing of quality information about the borrower. The credit assessment process is usually guided by the microfinance institution's credit policy, procedures, and directives.

Character, Capacity, Capital, Collateral, and Conditions are the various principles of lending on which microfinance institution base their credit appraisal.

The principles are designed to ensure that actions that will facilitate repayment and reduce default rates are taken by lending institutions. Financial institutions take measures like requesting collateral, shorter loan repayment period, high-interest rates, and another form of payment when the information gathered signals the possibility of the borrower to default payment (Kabanda, 2019).

The relationship between loan assessment and loan recovery

Credit evaluation is the process for collecting essential information on a capable client in another manner risk assessment practices to determine related risk. This is sensibly completed by financial organizations before providing any loan. This is also complete to check the feasibility of the planned project to assume. The risk related to the loan can be reduced by doing the above. Credit risk simply means the risk of default as a result of customers' failures to repay the taken from a financial organization. Appropriate loan assessment of customers determines the financial

situation and also helps measure the capability of the customers to repay the loan when due (Asrat, 2018)).

Based on the above concept, this is an essential idea in the loan process. It is said to be the heartbeat of a healthy credit and this helps to loan recovery performance of Addis credit and saving institutions. Therefore, the institution, the factor that fundamental the assessment of customers should be based on the loan assessment producers of the financial institution which is the basic principle of leading such as capacity, Character, capital, collateral, and conditions used by the microfinance institution is important for effective loan recovery performance. Therefore, for the institutions to achieve credit recovery effectively they will be used a clear loan assessment process.

2.2.10.3. Loan Disbursement timing

According to (Kabanda, 2019) that credit disbursement refers to the money is not given all necessary papers or documentation and requirement are presented and approved. It is an important or necessary credit process of a financial institution to protect financial healthy, due to proper management of credit risk the process includes proper documentation, collateral, and guarantees. These are significant in the advent of the customers' incapability to pay because the organization would be appropriately protected and have legal remedies to confirm the payment of debt.

The relationship between loan disbursement timing and loan recovery

(Kabanda, 2019) stated that Loan disbursement is the act of giving or paying out money to the customer who has been accessed and approved to be given credit. Disbursement ensures that the money available to the customers after all assessment has been done and approval has been given. Loan disbursement timing of the Addis credit and saving institutions is a fundamental point out to recover credit. This would ultimately decrease the delivery for bad debts that financial organizations have which will expand their loan recovery position. Because the institution provides or gives the credit to the customer on the specific period or agreed time and the institution also enables to recover credit. Therefore, the institutions are Loan disbursement timing is appropriately made the institutions enhance to recover credit on time.

2.2.10.4. Loan monitoring

After disbursement, the account officer frequently visits the borrower's business to ensure that the credit facility loan is being used for the specific purpose for which the loan was granted, and to remind borrowers of their next repayment date. According to (Sc, 2015) this is one area many lenders pay little attention but if it is properly followed, the incidence of unsettled loans can be reduced considerably. He identified internal records, visits, and interviews, audited and management accounts as some of the things that help in the monitoring and control process.

Monitoring can help minimize the occurrence of unsettled loans as follows: Confirming the utilization of the credit for the proposed purpose and classifying initial notice indicators of any problem connecting to the processes of the business that are likely to affect the performance of the credit. Lender providing loan, the chance to discuss the problems and prospects of the debtor's business. Borrowers who miss repayments are pressured at this stage; if the arrears continue to pile up, legal action is initiated against the borrower and guarantor(s) to recover any amounts owed, but usually, after the designated collateral has been seized and offset against the indebtedness.

The relationship between loan monitoring and loan recovery.

Loan monitoring is an important process of credit activities. The financial organization has a great obligation to keep the quality of properties and to recover the interest and principal due in time. A financial organization requests also to put in place a very sound credit monitoring method for observing clients' accounts from several perspectives for fast actions (Asrat, 2018). According to the above concept, microfinance institutions should apply good monitoring practices that help them for better loan recovery. Monitoring of credit facility given to customers is an important aspect of ensuring that the project which loan recovery will be made successfully. Efficient credit monitoring of Addis credit and saving institutions leads to high credit recovery performance. Therefore, strong credit monitoring system is important for the institution to recover credit.

2.3. Empirical review

2.3.1 Empirical studies of other countries

There is a different empirical study related to loan recovery performance out said the country some of the studies are summarized below.

According to (Solomon, Emmanuel, and Uket, (Oct 2017) they study on Loan Recovery Performance of Group-Based Micro Credit Finance Institutions in Delta State, Nigeria, the finding of study indicated that five of the estimated determinants factors such as fund size, membership size, duration of group existence, supervision and proportion of credit repaid were positive and statistically significant while interest charge was negative and significant. The major constraints in loan administration by financial institutions include government laws and regulations, lack of infrastructural facilities, diversion of loans, delay in loan repayment, and lack of funds among others.

Roslan and Zaini (2009), investigate the effect of borrowers' characteristics, project characteristics, and loan characteristics on loan repayment of agro bank micro-credit scheme. The characteristics of the borrowers are (i) gender, (ii) marital status, (iii) race, (iv) level of education, (v) age, (vi) occupation, (vii) number of dependents, experience, membership in business society and training. The characteristics of the project are ownership structure of the project, type of the project, the distance of the project to the nearest agro bank office, and revenue from the project. The loan characteristics are the amount of the loan and the length of the repayment period. In general, the finding of the research showed, that the probability to default is not influenced by race, education, age-previous occupation, number of dependencies, experience, membership in business society, the distance of the business/project to the nearest agro bank office, and revenue from the business or project. Loan repayment was positively related to factors such as timeliness of loan disbursement, enterprise profitability, the number of supervisory visits by credit officers, having additional sources of income, established previous loan history, and lower client debt- asset ratios.

According to (Philip, 2011) From the findings, the researcher concluded that credit policy has a significant impact on loan recovery of B. Blue microfinance institution Kisoro, Kampala; therefore, it should be very selective in choosing credit policies that will yield desired results and fit in its resources and at the same time choose credible and trained officers to carry out monitoring and supervision of loaned amount. The collection procedures were accepted out

mostly by personal visits by loan officers on weekly basis and during these visits' meetings are organized, clients were not in favor of weekly meetings because it interfered with their businesses. The clients were required to make a weekly deposit to avoid defaults. Clients were not happy with the short loans given out because it affected their repayment in time.

(Pasha and Negese, 2014), they study the determinants of loan repayment under the original financial system in southeast Nigeria, the analyzed data are the amount of loan received, age of beneficiaries, household size, educational attainment, and occupation that can influence loan repayment. Similarly, in the study on the Determinants of loan repayment performance of fishermen, Ghana, their results indicated that the low level of education, lack of another income-generating activity, unwieldy loan processing procedures, are likely to have high loan default. The study identified fishing income, the amount borrowed, and the size of loans invested into fishing as significant predictors of loan repayment. The study of (G/Mariam, 2018), analyzed the determinants of repayment performance of credit groups in Madagascar. He concluded based on the findings groups with a higher level of social cohesion have a better repayment rate. Moreover, the programs that provide saving services to their members have a significantly higher repayment rate.

2.3.2 Empirical studies in Ethiopia

From the different empirical studies in Ethiopia, the researcher has used the following study related to the research title.

According to (Debeb, 2015) study on the loan recovery performance of Rural Saving and Credit Cooperatives in Laygaint Woreda, Amhara Regional State, indicate that the finding, family size, mode of delivery, lending interest rate, coordination of committee, loan size, land size, and saving are variables that had a significant influence on the loan recovery performance of rural saving and credit cooperatives.

According to (Mekonnen, 2020) in his study, the loan recovery performance of development bank in Ethiopia, the study indicated that the major causes of repayment failures are internal bank-specific and external macroeconomic. The bank-specific factors are mis practice of loan police and procedures, lack of close follow up, lack of skilled manpower and inadequate customer due to diligence assessment and the macroeconomic factors are the rate of inflation, Gross Domestic Product, and interest rate. The study shows that the five C 's of credit assessment is not properly used for the selection of borrowers to give a loan. The result of the

research shows that the Bank faced during recovery of non-performance Loan are unavailability of additional collateral, complicated Bank procedure, complicated Legal procedure and deprecation of collateral are the major problems for recovering the non-performing loan.

As of (abafita, 2015) study factors that influence microfinance and loan repayment performance shows that education, income, loan supervision, suitability of repayment period, and availability of other credit sources are important and significant factors that enhance the loan repayment performance. Income from activities financed by loan, repayment period suitability, and loan supervision are positively and significantly related to loan repayment performance. Moreover, loan diversion is significant and negatively related to the loan repayment rate.

As of (Belayneh and August, 2016) they conducted that age has a significant positive effect on the loan repayment performance which means as age increased; the probability of being a defaulter is decreased. Moreover, the percentage of female defaulters was higher than non-defaulter. To review, training, repayment period experience, and loan size are found to have a positive impact on repayment performance.

According to (Kebede, 2018) the study also concludes that internal factors and external factors are affecting the loan recovery performance of the bank. Internal factors that increase the occurrence of non-performing loans that were mentioned by the respondents were poor customer requirement, poor analysis, poor follow up, poor monitoring and poor recovering, too much reliance on collaterals are. On the other hand, major external factors that increase the occurrence of the non-performing loan were social instability, market problem, environmental factors, macro problems especially regarding the international market are factors.

2.4. Conclusion and gap in the literature

Loan Recovery is one of the critical issues of a microfinance institution that considered all participants where the high loan default rate is the main reason for the failure of MFIs. Many empirical studies such as (study on the loan recovery performance of Rural Saving and Credit Cooperatives in Laygaint Woreda, Amhara Regional State, the loan recovery performance of development bank in Ethiopia, the trend of loan recovery performance in bank industry, and on the determinate of successful loan repayment performance of privet borrowers in development bank of Ethiopia) indicate that borrowers' characteristics, lenders characteristics, and loan characteristics are the major factors that affecting loan repayment performance. The agency problem, adverse selection, and moral hazards that appear as a result of information asymmetries

are also the main reason for loan default (G/Mariam, 2018). Due to the creditors cannot observe the activities of their customers either they are honest and dishonest or creditors can only observe the result of their credits either the customers repay or not. Therefore, to alleviate the loan recovery problems, a close relationship between the lender and the borrower is very important.

As stated above, several studies were shown on the assessment of loan recovery performance of financial institutions in Ethiopia and diverse nations. Maximum of these studies were focused on the socio-economic factors that impact the loan repayment performance of MFIs. Similarly, In the banks conducted related topic but the bank is different from the microfinance institution by the targeted populations, the activities, and the stated variable used to study. In the microfinance institutions as per the researcher level of understanding, there is no research done on the related topic and related variables of factor that affects the loan recovery performance in the study area, therefore the researcher was trying to fill this gap by taking Addis credit and saving institution on the title assessment on loan recovery performance of microfinance institution the case of akaki kality sub-city branch.

CHAPTER THREE

3. Research Methodology

3.1. Introduction

This chapter discussed the methodology and a technique used in conducting the thesis and is organized into different sub-sections. Research methodology is defined as the systematic way of answering a research problem, by using various methods for data collection and drawing conclusions about the research data. It contains a selection of the study area, research design, research approach, source of data, data collection instruments, target population, census survey, data analysis techniques, reliability and validity section, ethical consideration, an operational definition of variables and their measurement.

3.2. Description of the study area

Akaki Kaliti Sub-city Administration is one of the 11 sub-cities in Addis Ababa city administration with an area of 118.08 Sq.km and population density per sq. m is 1,653.7 within 13 Woredas. It borders with the Bole sub-city in the north, a Nifasilk Lafto sub-city in the west, Oromia in the South and East. Its population is estimated 220,740 with 114,095 female and 106,645 males (CSA, 2007). Akaki kaliti sub-city as a study area was selected purposively from the existing 10 branches of Addis credit and saving institution in Addis Ababa city because it is difficult to manage the study when the whole sub-cities are taken in the study. Furthermore, the one in which no prior research was conducted related topic in the branch, it is the area where diversified economic activities being is carried out, the branch near to the researcher and the researcher have some information about the branch because the researcher was working there.

3.3. Research design

(Saunders, M., Lewis, P. Tornhill, 2007) research design is the general plan of how we will go about answering our research question. The design of the research is a master plan that specifies the procedure and method for gathering and analyzing collected information. As noted by (C.R. KOTHARI, 2004) A research design is the procedure of environments for collection and analysis of data in a means that purposes to associate importance to the research purpose with economy in procedure. It is guided by the objective of the study, the purpose of the study, the type of study, the significance of the study, the stage of knowledge in the study area, the period over which the data is to be collected and the type of analysis to be carried out, that is whether quantitative or

qualitative and the type of data analysis tools that the researcher use. Therefore, the researcher was used descriptive statistics because the study was survey research that helps to get detailed information and gives us the narration of the data.

3.4. Research approach

According to (Creswell., 2003), three research approaches are advanced Quantitative research approach, qualitative research approach, and mixed research approach and the three approaches are not as discrete as they first appear. Because of their numerous benefits in achieving the stated research objectives the researcher was used mixed research approach because the basic assumption is that the uses of both quantitative and qualitative methods, in combination, provide a better understanding of the research problem and question than either method by itself. The quantitative approach focused on quantification in the collection and analysis of data. Quantitative data was collected from primary sources and secondary used to measure quantifiable responses. On the other hand, the qualitative approach was used to collect, describe and analyze non-quantitative data from the primary sources. It's convenient to analyze both qualitative and quantitative data and significant to understand deeply the attitude, opinions, ideas, and tendencies of the respondents about the loan recovery performance of the institution.

3.5. Type and Data Source

One of the outstanding features of research is the decision around who to collect the research data, from and in what ways the research data should be gathered. Therefore, the researcher conducted based on both primary and secondary data source, primary data was used to this study because its help to answer specific research questions and data were current. secondary data like annual report, magazine, and published and unpublished material from the study area five years 2016 up to 2020 G, C.

3.6. Data collation instruments

The primary data were collected through questionnaires and interviews. The researcher has used a questionnaire as the main tool for gathering data for analysis. The questionnaires of this study were including both close-ended and open-ended. Closed-ended questions were structured or Likert scale. Open-ended questions were added to get more or depth data. The questionnaires were designed in English language and translate into a local language which is Amharic to facilitate proper responses from respondents and distributed the questionnaires for the

employees. In addition, qualitative data were collected through open-ended questions and unstructured interviews. Direct communication with the managers of the akaki kality sub-city branch. The major source of secondary data was collected from the annual report of the institution related to the loan, including published and unpublished materials, from the loan portfolio reports and balance sheet of akaki kality sub city credit and saving institution for the study period Dec 2016 up to Dec 2020 G, C.

3.7. Target population

(Phyllis Muthoni, 2016) Target population “as the total number of subjects of interest to a researcher”. It refers the entirety of members from a formulation of people, events, or objects that are either real or hypothetical, as the researcher attempts to create a generalization of the findings from the results of the study the target population of the current research encompasses all employees and manager of the institution that currently working in the akaki kality sub-city Addis credit and saving Microfinance Institutions. The set of sampling size considered for this study include all workers of the institution which are found in akaki kality sub-city and thirteen service delivery- post centers. The number of employees is eighty -three, service delivery -post center coordinators nine and one branch manager data found in akaki kality sub-city Addis credit and saving institution. Hence, the total population of the study is **83**.

3.8. Census survey

The current study was adopted the census survey technique. The Census method is that the process of the statistical list where all members of the population are analyzed. A population relates to the set of all observations under concern. Therefore, the respondent includes all employees and managers of the institution’s this led to the elimination of sampling errors and bias.

3.9. Method of Data Analysis

In this study, the researcher after collected data were analyzed and interpreting using qualitative and quantitative data analysis methods. Quantitative data analysis is describing the collected data in numeric form information obtained from the questionnaires and secondary data. The statistical analysis was carried out using SPSS windows version 25. The results were defined by descriptive statistics like mean, standard deviation, frequency, percentages and they presented in the table. In the quantitative data analysis mean and standard deviation the researcher was used

the data of the four variables for each. And, as Mitiku Debessa & Mitiku.Bekele Cited (abdullha et.al, 2008) the mean score can be explained as if mean value < 2.49 = low, mean value $> 2.5 < 3.49$ = moderate, mean value $> 3.5 < 4.49$ = good, mean value $> 4.5 < 4.75$ = very good, mean value $4.75 - 5$ = excellent and standard deviation refers the variation of each variable from the mean. The qualitative data analysis method is describing and explains collected data in narrative way data obtained from the interviews and open-ended questions.

3.10. Research reliability and validity

3.10.1. Pilot Study

A preliminary study before the main study is important for research. Therefore, a pilot study was conducted for the current study. The researcher from the total respondents engaged eight (10%) employees of the institutions who were not part of the respondents. This was done to determine whether the questionnaires needed any adjustments to fit the requirements of the study.

3.10.2 Reliability of Research Instrument

According to (Kothari (2008) described reliability as the consistency of the data collection instrument considering the results it gives out after different tests. Cronbach alpha coefficient is the most recommended method to test the reliability of the data collection instrument (Kimberlain & Winterstein, 2008). Therefore, the study was used Cronbach alpha (α) with coefficients ranging from 0.00 to 1.00 to indicate the reliability of the questionnaire concerning all variables. The SPSS output indicated that the overall reliability of the questionnaires, as indicated by the overall Cronbach's α , was .878. According to Nunnally (1978), the value of alpha (α) equivalent to 0.70 and above shows that items are reliable.

The total result of Cronbach's Alpha indicates .878 therefore, it is acceptable and reliable.

Reliability Statistics	
Cronbach's	
Alpha	N of Items
.878	21

❖ **Related to credit police and procedures.**

The Cronbach's alpha (α) result is .955 which is more than .7 which is acceptable and reliable.

Reliability Statistics	
Cronbach's Alpha	N of Items
.955	6

❖ **Related to credit assessment practice.**

The Cronbach's alpha (α) result is .856 which is more than .7 which is acceptable and reliable.

Reliability Statistics	
Cronbach's Alpha	N of Items
.856	5

❖ **Related to loan disbursement timing.**

The Cronbach's alpha (α) result is .757 which is more than .7 which is acceptable and reliable.

Reliability Statistics	
Cronbach's Alpha	N of Items
.757	5

❖ **Related to loan monitoring.**

The Cronbach's alpha (α) result is .945 which is more than .7 which is acceptable and reliable.

Reliability Statistics	
Cronbach's Alpha	N of Items
.945	5

3.10.3 Validity of the Research Instrument

According to Mugenda & Mugenda (2009), the validity of a data collection instrument means that it measures what is intended to measure. the respondent rate is more than 30-50% that provides enough data for representing the sample size. But the researcher for this study was used the census method because of the few numbers of respondents and also the researcher was used data triangulation to test the validity of data.

3.11. Ethical consideration

According to Christians (2000), the minimum considerations are knowledgeable consent, privacy, secrecy, and accuracy. The information gathering for the study from respondents was highly confidential. The researcher tries to keep the privacy of respondents, moral values, cultures, and norms as well as accepting and respecting the principles of anti-plagiarism.

3.12. Operational definition of variables and their measurement

In the quantitative method of data collection, remises Likert’s scale statement having five-category response continuums of strongly agree, agree, neutral, disagree, strongly disagree. The researcher was used to measures the variables under the study in using this, each respondent ware selected the response that is most suitable in describing each statement. The responses are weighted from 1-5 and average for all items to rank them and make inference accordingly.

Variables	Definitions	Measurements
Credit policy and procedures	Defined as an institution’s technique of examining credit and its decision criteria for accepting or rejecting applications.	Five-point Likert scale (1=strongly disagree to 5=strongly agree)
Loan assessment	Refer to the necessary documentations are presented to the institutions by the loan applicant to obtain a credit facility.	Five-point Likert scale (1=strongly disagree to 5=strongly agree)
Loan disbursement timing	The practice of giving out money to customers who have been accessed and accepted to be given a loan.	Five-point Likert scale (1=strongly disagree to 5=strongly agree)
Loan monitoring	Refers that the checking of the pattern of use of the disbursed fund to ensure whether it is used for the right purpose or not.	Five-point Likert scale (1=strongly disagree to 5=strongly agree)
Loan recovery performance	Refers to the process and the rate at which the clients pay back the principal plus interest amount extended to them in form of loans.	The amount of payment received with respect to the amount due. (Recovery rate)

Table 3.1 operational definition of variables and its measurements.

CHAPTER FOUR

4. Data analysis and presentation

4.1. Introduction

This chapter included a presentation, data analysis, and discussion of the study. It displays the results of the study which seek a response to the study questions concerning the study objectives. The data were gathered from the study area. primary data were collected through questionnaires from the institution employees and interviews from the branch manager and secondary data obtained from the branch annual reports related to loans and other documents are presented, analyzed, and interpreted. Descriptive statistics were used to analyze the data.

4.2. Descriptive analysis

4.2.1 Response rate

Table 4.1. Performance of questionnaires administered

Questionnaires	Freq.	%
Distributed	83	100
Collected	77	92.7

Source: researcher survey results from primary data sources.

As indicated the above table 4.1, eighty-three (83) questionnaires were distributed to employees of the Addis credit and saving institution. In this case seventy-seven (92.7 %) of distributed questionnaires were collected and the remaining six (7.2 %) of questionnaires were not collected or omitted and rejected questionnaires. As the distributions and collections of questionnaires are achieved by self and associated of other whom the researcher believed to have experience in the area together with high relationship rend from the employees. Therefore, the result was to essential level and this has qualified to sufficient and appropriate information to the objective of the study.

4.2.2 Profile of the respondent

Table 4.2. Profile of the respondents

	Items	Freq.	%
Educational levels	Under diploma	0	0
	Diploma	28	36.4
	Degree	49	63.6
	Masters and above	0	0
	Total	77	100
Work positions	Loan officer	26	33.8
	Finance officer	25	32.5
	Casher	13	16.9
	Supervisor	13	16.9
	Total	77	100
Work experience	less than 1-year	9	11.7
	1-5 Years	32	41.6
	6-10 years	24	31.2
	above 10	12	15.6
	Total	77	100

Source: researcher survey results from primary data sources.

From the analysis of the above table 4.2, respondents have the following demographics characteristics. Educational levels of respondents were twenty-eight (36.4%) are diploma holders and forty-nine (63.6%) of respondents were degree holders. As indicated that the results almost all of the respondents were graduated and the response given is relevant. This enables the institutions to perform and become competitive. From the total respondents of the employees were twenty-six (33.8%) loan officers, twenty-five (32.5%) are finance officers, thirteen (16.9%) of the respondents are cashier and supervisors. This shows that all levels of the work position are involved in gathering this information. As indicated that the result the study obtained diverse and relevant information from different respondents' observations. According to the above table shows that 11.7% less than 1-year, 41.6% 1-5 Years, 31.2% 6-10 years, and 15.6% above ten

(10) years. This showed that most of the participants have been in this sector for a long period which means respondents are more experienced and the study obtained reliable and valid information. In general, from the demographics characteristics of the respondents can be obtained relevant or necessary and detailed information to achieve the objective of the study.

4.2.3. Research related questionnaires

Level of agreements: - **SD** = strongly disagree **D** = Disagree **N** = neutral

A = Agree **SA** = strongly agree

Table 4.3. Related to credit policy and procedures

No	Statements		Level of agreements					Total	Mean	Std.
			SA	A	N	D	SD			
1	The existing credit policy and procedures provides suitable opportunity for effective loan recovery.	Ferq.	8	15		34	20	77	2.44	1.34
		%	10.4	19.5		44.2	26.0	100		
2	The credit policies and procedures related to customers to make clear understanding about the loan recovery.	Ferq.		8	7	30	32	77	1.88	0.96
		%		10.4	9.1	39.0	41.6	100		
3	In the institution credit policy and procedures in place is clear in practical implemented.	Ferq.		13	12	26	26	77	3.06	1.40
		%		16.9	15.6	33.8	33.8	100		
4	The institution credit policy and procedures are revised at reasonable time for acceptable reasons.	Ferq.		4	4	40	29	77	2.15	1.07
		%		5.2	5.2	51.9	37.7	100		
5	The institutions Credit policy and procedures is directly related to occurrence of non- loan recovery perform.	Ferq.	21	26	4	19	7	77	3.45	1.36
		%	27.3	33.8	5.2	24.7	9.5	100		
6	The institution properly implements credit policy and procedures elements such as credit standard, credit term and collection efforts.	Ferq.		16	7	34	20	77	2.24	1.06
		%		20.8	9.2	44.2	26.0	100		
Over all(aggregate) mean								2.53	1.19	

Source: researcher survey results from primary data sources.

As indicated in the above table 4.3, the first statement shows that eight (10.4%) of the respondent strongly agreed and fifteen (19.5%) of respondents were agreed or twenty-three (29.9%) respondents were agreed. While thirty-four (44.2%) of respondents have disagreed and twenty

(26%) of the respondents were strongly disagreed or fifty-four (70.2%) of the respondents were disagreed about the existing credit policy and procedures provides a suitable opportunity for effective loan recovery. Based on the above analysis the research can be concluded that the credit policy and procedures of the institution do not provide the suitable opportunity to recover the loan.

In the above same table statement two, indicate that eight (10.4%) of participants were agreed and seven (9.1%) of participants were neutral while thirty (39.0%) of participants disagreed and thirty-two (41.6%) of participants have strongly disagreed or sixty-two (80.6%) of the respondents disagreed about the statement which is the credit policies and procedures related to customers to make clear understanding about the loan recovery. The study results indicate that the institution does not create a clear understanding of loan recovery for customers.

According to the above table 4.3, statement three indicate that thirteen (16.9%) of respondents were agreed and twelve (15.6%) of the respondents were neutral to the statements while twenty-six (33.8%) of the respondents disagreed and twenty-six (33.8%) of respondents were strongly disagreed or fifty-two (67.6%) of the respondents were disagreed in the institution credit policy and procedures in place is clear in practical implemented. Therefore, the research finding indicates that the institution's credit policy and procedure are not clear in practical implements in the institution's work activity.

According to the above table 4.3 statement four, When employees were asked on the institution credit policy and procedures are revised at a reasonable time for acceptable reasons for this questions from the total respondents fourteen (18.2%) were strongly agreed and twenty-four (31.2%) of participants were agreed and four (5.2%) of the respondents were neutral while twenty-three (29.9%) and twelve (15.6%) of participants were disagreed and strongly disagreed, respectively or thirty-nine or (45.5%) of participants have disagreed. The research finding indicates that the institution loan policy and procedures of the organization are not revised at the resealable time for acceptable reasons.

According to the above table 4.3 statement five, the institution's Credit policy and procedures are directly related to the occurrence of non-loan recovery perform the respondents answered twenty-one (27.3%) and twenty-six (33.8%) of the participants were strongly agreed and agreed respectively and four (5.2%) of participants were neutral while nineteen (24.7%) of the respondents disagreed and seven (9.2%) of participants were strongly disagreed. It indicates that

forty-seven (61.1%) of participants were agreed. Therefore, the researcher can be concluded the problem of non-loan recovery performance is directly related to the institution's policy and procedures.

In the same table statement six, the respondent's response the institution implements credit policy and procedures elements such as credit standard, credit term, and collection efforts. Out of the total respondents, sixteen (20.8%) respondents were agreed and seven (9.2%) of the respondents were neutral besides thirty-four (44.2%) and twenty (26.0%) of participants were disagreed and strongly disagreed, respectively. or fifty-four (70.2%) of the participants have disagreed. The research result implies that the institution does not properly implement credit policy and procedures elements such as credit standard, credit term, and collection efforts. (Philip, 2011) defined that the credit policy element such as credit standards based on the individual credit application by considering character assessment, capacity, condition, collateral, and security capital. loan terms are generally observed as the loan period terms of discount and the amount of loan and choice of tool used to evidence credit. And also, Collection Efforts defines a collection effort as the procedure an institution follows to collect past due account.

The aggregate mean and standard deviation value of the variable is 2.53 and 1.19 respectively. This indicates the mean score value is greater than the range of 2.5, but the practice of credit policy and procedures is moderate but not sufficient.

In addition to that, information obtained from the open-ended questions and interviews which is in the credit policy and procedure of the institution has problems to recovery loans because the current credit policy and procedures of the institution are rigid or not flexible, not considered the current economic or business situation, not revised reasonable time and not considered the demand of customers, moreover the branch manager said that the lending policy like the type of lending, time of repayment, collateral system and method of guaranty are a major problem to recover loans. The institution is not given training or did not create proper awareness to employees and customers about the loan policy and procedures to implement in the institution. Based on the credit policy and procedures concept, the institution's credit policy and procedures should reflect the borrower's financial needs and capacity of repayment otherwise the institution would be weak to risk arising from failures to non-loan recovery. Non-credit recovery affects microfinance institutions sustainability in the dynamic business environment and lack of clear loan policy can be led to the default of microfinance loans, if microfinance does not have

stringent credit policies, then they stand to lose their money hence creating liquidity issues and Credit policy and procedure of the institution must be considered credit policy elements. In general, from the above analysis, the researcher can conclude that the credit policy and procedures of the Addis credit and saving institution have great limitations and negative consequences or not effective to loan recovery.

Table 4.4. related to loan assessment.

No	Statements		Level of agreements					total	Mean	Std.
			SA	A	N	D	SD			
1	The institutions implement credit analysis element such as character, capacity, capital, condition, collateral carefully assessed before granting loan.	Ferq.		23	4	38	12	77	2.49	1.08
		%		29.9	5.2	49.4	15.6	100		
2	All customers provide fact information about their credit history and background honestly for loan assessment.	Ferq.		14	10	21	32	77	2.07	1.13
		%		18.2	13.0	27.3	41.6	100		
3	Document screening and due diligence assessments have done with the required quality.	Ferq.		25	5	24	23	77	2.41	1.22
		%		32.5	6.5	31.2	29.9	100		
4	Due diligence assessment predicts the real loan recovery capacity.	Ferq.		13	5	25	34	77	1.64	0.70
		%		16.5	6.5	32.5	44.5	100		
5	The institution Loan assessment is directly related to occurrence of non-loan recovery performance.	Ferq.	40	21	4	3	9	77	4.03	1.34
		%	51.9	27.3	5.2	3.9	11.7	100		
Over all(aggregate) mean									2.52	1.09

Source: researcher survey results from primary data sources.

On the above-mentioned table 4.4 statement one, twenty-three (29.9%) of the respondents were agreed and four (5.2%) of the respondent were neutral about the institutions implement credit analysis element such as character, capacity, capital, condition, collateral carefully assessed before granting loan while thirty-eight (49.4%) and twelve (15.6%) of the respondents were

replied disagree and strongly disagree respectively or fifty (65%) of the respondent replies disagreed. which means that the institution does not properly implement credit analysis elements such as character, capacity, capital, condition, collateral carefully assessed before granting the loan. According to (Kabanda, 2019) The credit assessment process is usually guided by the microfinance institution's credit policy, procedures, and directives. Character, Capacity, Capital, Collateral, and Conditions are the various principles of lending on which microfinance institution base their credit appraisal. The principles are designed to ensure that actions that will facilitate repayment and reduce default rates are taken by lending institutions.

On the same table statement two, fourteen (18.2%) and ten (13.0%) of the respondents replied were agreed and neutral respectively while twenty-one (27.3%) of respondents have disagreed and thirty-two (41.6%) of the respondents were strongly disagreed or fifty-three (68.9%) of the respondents disagreed about all customers provide factual information about their credit history and background honestly for loan assessment. This shows that the customer does not give or provide fact information to the institution for loan assessment process or practice which means it is very difficult to evaluate borrowers based on the requirements and it one and a major problem to loan recovered and other activity of the institution. According to (Asrat, 2018) an appropriate loan assessment of a customer determines the financial situation and also helps measure the capability of the customers to repay the loan when due.

The above table 4.4 statement three, raise the question to employees about whether the institution document screening and due diligence assessments have done with the required quality with this regard twenty-five (32.5%) of the respondents were agreed and five (6.5%) of the respondents were neutral while twenty-four (31.2%) and twenty-three (29.9%) of the respondents were disagreed and strongly disagreed respectively or forty-seven (61.1%) of the respondents were replied disagree. Therefore, the researcher concluded that the institution document screening and due diligence assessments have not been done with the required quality which led to the failure of the recovered loan.

The finding indicated that the table 4.4 statement four, thirteen (16.9%) of the respondents were agreed and five (6.5%) neutral while thirty-four (44.5%) of the respondents were strongly disagreed and thirty-five (32.3 %) of the respondent disagreed or fifty-nine (77%) of the respondents have disagreed about the due diligence assessment predicts the real loan recovery

capacity. The finding indicates that the level of agreement about the due diligence assessment does not predict the real loan recovery capacity.

According to the above table statement five, out of the total respondents, forty (51.9%) of the respondents were strongly agreed and twenty-one (27.3%) of participants were agreed and four (5.2%) of the participant were neutral on the other hand, three (5.2%) and nine (11.7%) of the participants were disagreed and strongly disagreed, respectively. Of the total respondents, sixty-one (79.2%) of the respondent replied agreed about the question raised about the institution's Loan assessment is directly related to the occurrence of non-loan recovery performance. Therefore, the researcher can conclude that the loan assessment practice is directly related to the occurrence of non-loan recovery performance. The total mean and standard deviation scores are 2.53 and 1.09 respectively. This indicates that the mean value found in the range of greater than 2.5 therefore the Loan assessment is practiced moderately. In addition to that, data collected from the open-ended questions and interview results indicate, in the institution, there are loan assessment manual but also the institution not implement practically the loan assessment procedures and that the institution not properly implement credit analysis element such as character, capacity, capital, condition, collateral carefully assessed before giving a loan. because of political interference in the institution from the government to assess customer like (micro-enterprise) collateral system and the current loan assessment methods of the institution was not related to loan assessment procedures and very difficult to evaluate their customer due to the borrowers not only residents of the sub-city it includes all sub-city of the city and Oromia special zone residents in this case the institution was not properly assessed customers and not cooperation with concerned organization. Generally, the loan assessment practice, the researcher can be concluded that the loan assessment practice of the institution problems is directly affected the loan recovery performance in the case of implementation and practice in the institution to recovered loan.

Table.4.5. related to loan disbursement timing.

No	Statements		Level of agreements					total	Mean	Std.
			SA	A	N	D	SD			
1	The institution has properly developed and operational loan documentation and credit administration methods at the service delivery post centers.	Ferq.		14	2	46	15	77	2.19	0.96
		%		18.2	2.6	59.7	19.5	100		
2	The credit administration and documentation system support by its data base system at the service post center.	Ferq.		12	6	35	24	77	2.07	1.01
		%		15.6	7.8	45.5	31.2	100		
3	The Addis credit and saving institution has effect disbursement timing based upon progress of the project.	Ferq.		4	8	33	32	77	1.79	0.83
		%		5.2	10.4	42.9	41.6	100		
4	The loan disbursement timing procedure and manual of the institution well developed.	Ferq.		27	4	19	27	77	2.40	1.29
		%		35.1	5.2	24.7	35.1	100		
5	The institution Loan disbursement timing is directly related to occurrence of non-loan recovery performs.	Ferq.	34	25	2	16		77	4.03	1.14
		%	44.2	33.5	2.6	20.8		100		
Overall(aggregate) mean									2.49	1.04

Source: researcher survey results from primary data sources.

As shown in the above table 4.5 the question raised related to loan disbursement timing, employees were also expressed their perception toward the institution has not properly developed an operational credit administration and loan documentation system at the service delivery post centers. In this regard, fourteen (18.2%) of the respondents were agreed and two (2.6%) of the respondents were neutral while forty-six (59.7%) and fifteen (19.5%) of the respondent were disagreed and strongly disagreed respectively about the statement or sixty-one (79.5%) of the respondents were disagreed. The researcher's findings indicate that the organization has not well

advanced and operational loan documentation and credits administration methods at the service delivery post centers. As of (Kabanda, 2019) documentation and payment are significant in the management of credit because they guarantee that the organization has appropriate documentation, security, and guarantees. These are significant in the advent of the customers' incapability to pay because the institution would be appropriately protected and have legal alternatives to ensure the payment of debt.

As indicated in table 4.5 statement two, employees were asked, twelve (15.6%) of participants were agreed and six (7.8%) of participants were neutral while thirty-five (45.5%) and twenty-four (31.2%) of participants were disagreed and strongly disagreed respectively, or fifty-nine (76.7%) of participants were replied disagreed about the credit administration and documentation system support by its database system at the service post center. Therefore, the researcher result that the credit administration and documentation system not supported by its database system at the service-delivery post center and the branch level.

In the same table statement three, raised the question about whether the Addis credit and saving institution has effective disbursement timing based upon the progress of the project. With this regard, four (5.2%) and (10.4%) of participants were agreed and neutral respectively, while thirty-three (42.9%) of participants have disagreed and thirty-two (41.6%) of participants were strongly disagreed or fifty-five (84.5%) of participants disagreed. The finding indicates, the institution has not effective loan disbursement timing based upon the progress of the project for providing loans to their customers.

As indicated in the above table 4.5 statement four, out of the total respondents twenty-seven (35.1%) of the participants were agreed and four (5.2%) of the participants were neutral in addition to that nineteen (24.7%) of the participants disagreed and twenty-seven (35.1%) of the participants strongly disagreed or forty-six (59.8%) of the participants disagreed about the loan disbursement timing procedure and manual of the institution well developed. In this case, the study finding implies that the institution loan disbursement timing procedure and manual have not been well developed.

The above table 4.5 statements five show that the institution loan disbursement timing is directly related to the occurrence of non-loan recovery performance. In this regard, from the total respondents, thirty-four (44.2%) of the respondents were strongly agreed and twenty-five (33.5%) of the respondents were agreed while two (2.6%) and sixteen (20.8) of the respondents

were neutral and disagreed respectively. The level of the agreement indicates on this statement out of the total respondent's fifty-nine (77.7%) of the respondents were replied agreed. As indicated by the finding, that the institution loan recovery performance problem is directly related to loan disbursement timing.

The aggregate mean score is equal to 2.49. This implies that modeling the waypoint of view measurement loan disbursement timing is normal in the institution.

In addition to the closed-ended questions, information obtained from the open-ended question and interview of the manager result indicates there is a problem related to loan disbursement timing such as lack of financial capacity in the institution, not properly present required documents to disbursed loan on time. The institution has not good advanced and operational credit documentation and loan administrative methods at the service delivery post center, shortage of manpower, shortage of office facility, the credit administration, and documentation system was not supported by its database system at the service post center still now working manually. Due to lack of technology infrastructure, lack of financial capacity, lack of focus by the higher officials this leads to loan disbursement timing more affected loan recovery based on the annual plan because of the late disbursed loan that related to the late recovered loan. According to (Kabanda, 2019) stated that credit disbursement refers to that money does not give to customers before providing any necessary agreements and required papers are submitted. It is also used so that collateral and necessary documents are obtained before the loan is disbursed. If the loan disbursement activity is week overall credit process may be weakened and abused. Generally, the researcher concluded that the loan disbursement timing is directly and significantly affects the loan recovery performance of the institutions.

Table. 4. 6 related to loan monitoring.

No	Statements		Level of agreements					total	Mean	Std.
			SA	A	N	D	SD			
1	Strict monitoring ensures loan recovery performance.	Ferq.	28	31	2	10	6	77	3.84	1.26
		%	36.4	40.3	2.6	13.0	7.8	100		
2	The institution Loan monitoring is directly related to occurrence of non-loan recovery performance.	Ferq.	36	33	4	4		77	4.37	0.79
		%	46.8	42.9	5.2	5.2		100		
3	The institutions undertake monitor to check proper utilization of funds released for the intended purpose.	Ferq.		8	8	36	25	77	1.98	0.92
		%		10.4	10.4	46.8	32.5	100		
4	Strong loan collection campaign and monitoring made to keep loan recover timely.	Ferq.	14	24	10	19	10	77	2.38	1.34
		%	18.2	31.2	13.0	24.7	13.0	100		
5	The institution has sufficient human resource, materials and facilities to provide effective monitor activities.	Ferq.	2	17	6	24	28	77	2.23	1.23
		%	2.6	22.1	7.8	31.2	36.4	100		
	Over all(aggregate) mean							2.96	1.11	

Source: researcher survey results from primary data sources.

As indicated in the above table 4.6, employees were asked related to loan monitoring. Regard to this, twenty-eight (36.4%) of the respondents were strongly agreed and thirty-one (40.3%) of the respondents were agreed and two (2.6%) of the respondents were neutral while ten (13.0%) and six (7.8%) of the respondents disagreed and strongly disagreed respectively about the question raised strict monitoring ensures loan recovery performance. It implies majority or fifty-nine (77.7%) of the respondents agreed about strict monitoring ensured loan recovery. Therefore, the researcher concluded that the institution focused on strict loan monitoring to ensure effective loan recovery performance. According to (Sc, 2015) this is one area many lenders pay little attention but if it is properly followed and monitor the incidence of unsettled loans can be reduced considerably. He also identified internal records, visits, and interviews, audited and management accounts as some of the things that help in the monitoring and control process.

In the same table statement two, when employees were asked the institution loan monitoring is directly related to the occurrence of non-loan recovery performance. Concerning, thirty-six

(46.8%) of the respondents were strongly agreed and thirty-three (42.9%) of the respondents were agreed while four (5.2%) of the respondents were neutral and the same percent disagreed. It shows that, sixty-nine (89.7%) of the respondents were agreed loan monitoring is directly related to non-performing loan recovery. The finding implies that the loan monitoring is directly related to the occurrence of non-recovery loans.

According to the above Table 4.6 statement three, from the total participants eight (10.4%) of the respondents were agreed and neutral while thirty-six (46.8%) and twenty-five (32.5%) of the participant were disagreed and strongly disagreed respectively or sixty-one (79.4%) of the respondents have disagreed about the institutions undertake monitor to check proper utilization of funds released for the intended purpose. Therefore, the researcher concluded that the institutions did not undertake monitor to check the proper utilization of funds released for the intended purpose. According to (Sc, 2015) the Ensuring the use of credit for the planned objectives and classifying early notice signs of any problem relating to the processes of the business that are similar to affect the performance of the loan.

The same table above statement four, the question raised for employee's strong loan collection campaign and monitoring made to keep loan recover timely about this fourteen (18.2%) of the respondents were strongly agreed and twenty-four (31.2%) the respondents were agreed and ten (13.0%) of the respondents were neutral while nineteen (24.6%) and ten (13.0 %) of the respondents were disagreed and strongly disagreed respectively. It indicates that out of the total respondents' thirty-eight (49.4%) were replied agreed. The finding indicates that the institution's has strong loan collection campaign and monitoring made to keep loan recovery timely.

As indicated in the above table 4.6 statement five, from the total respondents two (2.6%) and seventeen (22.1%) of the respondents were strongly agreed and agreed respectively while six (7.8%) of the respondents were neutral and twenty-four (31.2%) of the respondent's response disagreed and twenty-eight (36.4%) of the respondents were strongly disagreed or fifty-two (67.6%) of the respondents were disagreed about the institution has sufficient human resource, materials, and facilities to provide effective monitor activities. According to the finding, the researcher concluded that the institution has not sufficient human resources, materials, and facilities to provide effective loan monitoring activities. The aggregate mean and standard deviation scores are 2.96 and 1.11 respectively. The aggregate mean score is found greater than

the 2.5 ranges. Therefore, loan monitoring practice is moderately or to some extent implemented.

In addition to that, information obtained from open-ended questions and the researcher through interview with manager, loan monitoring is an important aspect of the institution for effective loan recovery but not actively run or monitored customers because of the institution and customer both said problems. From the Institution side, there is not enough human resource even the existing employees were not more interested to actively monitor because customers far from their office, the cost to monitor and method of monitoring were a problem of the institution. on the other hand, from the customer's side, they did not leave permeants place and even they change their working place without informing to the institution, were not timely start the project or business, were not properly attained in business to control their activity and also have a negative understanding about the follow-up and monitoring. In general, based on the result of the study the researcher concluded that the loans monitoring practice or activity of the institution are affected the loan recovery performance of the institution.

4.3. Secondary data analysis

4.3.1 Loan recovery performance of Addis credit and saving institution Akaki branch.

Table 4.7. Amount of loan Disbursement and loan recovered in the branch.

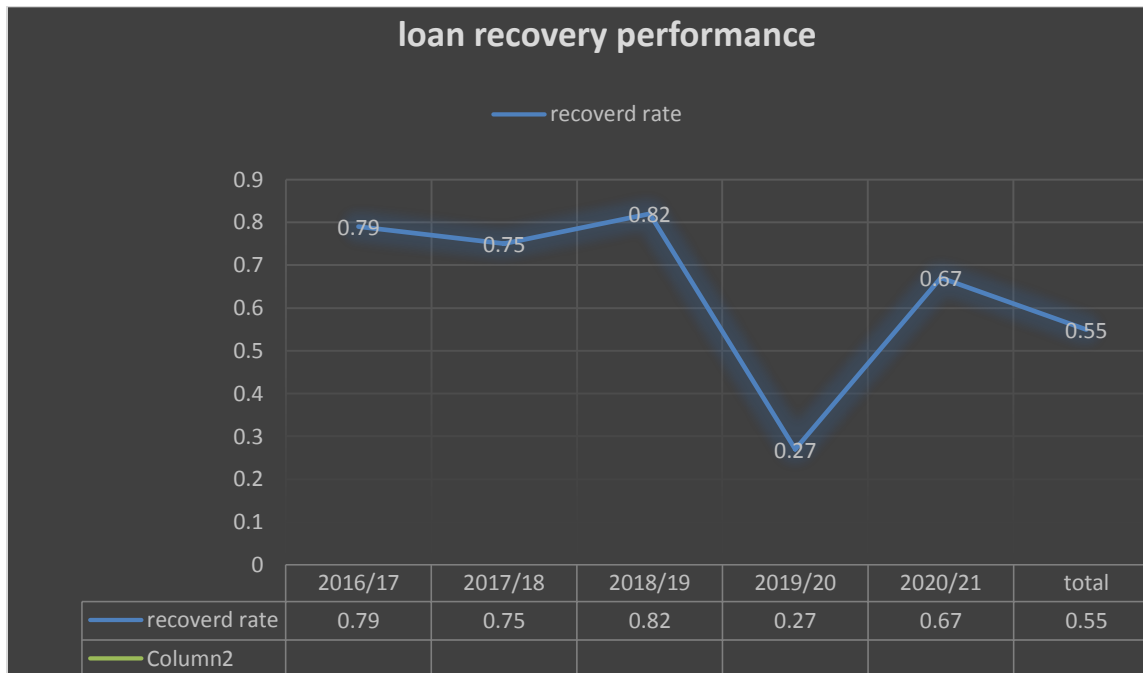
Years	Loan disbursed birr	Loan recovered birr	Recovered rate
2016/17	92,595,800	73,362,880	0.79
2017/18	119,305,884	89,892,991	0.75
2018/19	113,313,205	93,619,482	0.82
2019/20	317,174,531	84,924,717	0.27
2020/21	110,983,625	74,603,534	0.67
Total	753,373,045	416,403,604	0.55

Source: loan portfolio report from secondary data of the institution 2012.

As indicated in the above table 4.7 Disbursed amount of loan and collected amount of credit for the years between 2016/17 – 2020/21 by the institution showed that the total amount of disbursed amount was relatively increased but the amount of recovered was varied or up and down from year to year. For the first-year recovery rate was seventy-three- million-three hundred sixty-two

thousand-eight hundred eighty (79%) from the total disbursed amount. The second-year recovery rate was eighty-nine million-eight hundred ninety-two thousand-nine hundred ninety-one (75%) from the total disbursed amount it showed that decreased from the first year compared and declined compared with the institution yearly plans. Third-year collected amount or recovered rate was ninety-three million-Six hundred ninety-nine thousand four hundred eight-two (82%) when it compared with second-year recovery rate increased but compared with institution plan was not achieved sufficiently. The Fourth-year recovered rate was eighty-four million-nine hundred -twenty-four thousand seven hundred- seventeen (27%) it indicated that the loan recovery performance of the institution was more or severely declined compare with previous years and from the yearly plan even if the disbursed amount increased. The final or Fifth-year loan recovery rate was showed seventy-four million-six hundred three thousand-five hundred thirty-four (67%) it increased compared with the fourth-year recovered rate even if the collection was increased but also not directly related to the normal repayment status of the credit plan. The total five-year loan disbursed amount of the institution was seven-hundred fifty-three million-three hundred seventy-three thousand- forty-five (753,373,045) birrs, and the total loan recovered amount was four hundred sixteen million-four hundred three thousand- six hundred four (416,403,604) birrs (55%) were collected within five consecutive years. In general, the secondary data implies that the institution loan disbursed amount or presents were relatively increased year to years, and the amount of collection or recovered rate varied or up and down. The five- years total amount of recovery rate indicated that there is a problem within the institutional loan recovery performance. So, it needs serious attention to loan recovery. Therefore, the above analysis indicates that there are factors that affected related to loan recovery performance. The study indicated that the main reasons were poor loan recovery rates that related to factors such as credit policy and procedures, loan assessment practice, loan disbursement timing, and loan monitoring of the Addis credit and saving institution.

Figure 4.1. loan recovery performance of the institution.



Source; researcher construct graph 2013.

As indicated in the above graph the performance of the loan recovery rate was not progressive or developmental from the institution's yearly plan. Therefore, to overcome the above degradation of recovery performance of the institution should be focused on their credit policy and procedures, loan assessment practice, loan disbursement timing, and loan monitoring activities based on the institution legal framework.

4.4. Discussion of main findings.

The findings presented in previous chapters are discussed in combination with support from the theory presented in the literature review, conceptual framework, and the research methodology concerning data management. This is aimed at integrating and discussing the findings presented in the qualitative and quantitative methods.

The research finding indicates that the credit policy and procedures of the institution were not providing the suitable opportunity to recover the loan. The credit policy and procedures were not considered the business situation, method of loan collection, type of lending, and loan guaranty system. The institution did not properly implement credit policy and procedures elements such as credit standard, credit term, and collection efforts. Because these elements important portion of the policy such as credit standard indicates that the creditworthiness of the customer, credit term

looked that the amount and length of loan and collection efforts refer to the procedure of the institution use to collect loans.

From the institution's loan assessment aspect, the institution was not properly implemented credit analysis elements such as character, capacity, capital, condition, collateral carefully assessed before granting the loan. That the customers were not given or provide factual information to the institution for the loan assessment process means it is very difficult to evaluate borrowers based on the requirements and the institution was not working properly evaluating necessary documents which lead to the failure of the recovered loan. The institution document screening and due diligence assessments have not been done with the required quality which led to the failure of the recovered loan. That the level of agreement about the due diligence assessment did not predict the real loan recovery capacity. Because of loan assessment practice by itself not only predict the real loan recovery without another element or process of the recovered loan.

The institution loan recovery performance problem is directly related to the loan disbursement timing of the institution and that the institution does not have good advanced and operational loan documentation and credit administration methods at the service delivery-post centers. The institution has not effective loan disbursement timing based upon the progress of the project.

From the loan monitoring perspective, the finding of the study indicates that the respondent's level of agreement strict monitoring ensures effective loan recovery performance, that the failure or unrecovered loan are directly related to the loan monitoring system or activity. the researcher's finding indicates that the institution has not sufficient human resources, materials, and facilities to provide effective loan monitoring activities.

Generally, to come up with continuous and dynamic business environments following the right credit policy and procedures properly assesses each loan activities to effective recovery, and disbursement timing is an important process of credit analysis before giving a loan so that the institution focusses on fulfilling each requirement. Finally, loan monitoring is checking the pattern of use of the disbursed fund to ensure whether it is used for the right purpose or not.

CHAPTER FIVE

5. SUMMARY, CONCLUSION, AND RECOMMENDATIONS.

5.1. Introduction.

The final chapter of the study includes a summary of the results, conclusions of the study and makes recommendations based on the results of the data analysis. The summary section presents the main findings on the loan recovery performance of Akaki Kality Sub-City Addis credit and saving institution. Based on the key findings, conclusions are drawn and possible recommendations are forwarded in this section as follows;

5.2. Summary of the study

The study has conducted an assessment on loan recovery performance MFIs of akaki kality sub-city branch. There is no research done on Loan recovery performance in Addis credit and saving institutions in the study area, the existence of weak loan recovery and previous study on the ADCSI focus on factors that the borrower said and also single loan type. It also filled some research gaps, mainly by providing alternative empirical and theoretical insights from the loan recovery performance perspective into the potential determinants of loan recovery performance, the research design employed was descriptive research design with quantitative and qualitative data that extracted from the primary and secondary data. To support the finding of the questionnaires, opinions, and views collected from the open-ended questions from the respondents and also interview with the manager of the brunch were analyzed qualitatively. Based on the purpose of the study data were collected from employees in addition that data were collected through the interview from the branch manager. According to the finding of the research indicate, the educational levels of respondents were that the graduated and the response is given are relevant information. The total respondents show that all levels of the work position are involved in gathering this information. According to the finding indicated that most participants waited in this department for long periods which means respondents are more experienced and the study obtained reliable and valid information. In the light of the research findings, by identifying factor that affects loan recovery performance such as credit policy and procedures, loan assessment practice, loan disbursement timing and loan monitoring. From the credit policy and procedures perspective, the research finding implies that the credit policy and procedures of the institution have problems or limitation and not effective for loan recovery

performance due to; were not provide suitable opportunity, were not create a clear understanding of the loan recover concept for customers, were not revised at a resealable time for acceptable reasons and not clear in practical implemented. Whereas, the institution's loan assessment practices affect the loan recovery performance. In this regard, the finding shows were not properly implemented credit analysis elements such as character, capacity, capital, condition, collateral carefully assessed before granting the loan. Their customers not give factual information about their credit history and background honestly for loan assessment. document screening and due diligence assessments have not been done with the required quality; due diligence assessment does not predict the real loan recovery capacity. whether the institution's loan disbursement timing affect the loan recovery performance or not? The researcher's findings indicate that the institution has not good advanced and operational credit documentation and credit administration methods at the service delivery post-centers about the institution has effective loan disbursement timing and the institution not made based upon the progress of the project while, loan disbursement timing procedure and the manual has not well developed to disbursed for their customers on time. The strict monitoring ensured loan recovery but also the institution not monitor or supervise strictly and did not check proper utilization of funds released for the intended purpose. on the other hands, in the institution has not sufficient human resource, materials, and facilities to provide effective monitor activities. The other research question was raised, what does the institution's loan recovery performance look like? In this regard, the response obtained from the interview of branch manager and secondary data annual report of the institution five-year loan recovery is fluctuated or up and down not increased continuously recovery rate year to years and not sufficiently recovered loan.

5.3. Conclusions.

Based on the research finding the following conclusion were made and conclusions that are highly related to the research objective of this study are offered.

- The researcher concluded that the credit policy and procedures of the Addis credit and saving institution has great limitations and not effective loan recovery performance. The institution's credit policy and procedures were not effective for loan recovery performance due to; no provide suitable opportunities and not flexible, not create a clear understanding of the loan recovery concept for customers, not revised at a resealable time for acceptable reasons, and not clear in practical implementation. Moreover, in the institution not properly considered credit policy elements of the financial institution.
- From the loan assessment practice aspect, the researcher concluded that the loan assessment practice of the institution is affected the loan recovery performance in the case of implemented and practice of loan assessment in the institution such as were not given fact information about their credit history and background honestly for loan assessment. Document screening and due diligence assessments have not been done with the required quality and due diligence assessment does not predict the real loan recovery capacity and not properly implement credit analysis elements like capacity, Character, capital, collateral, and conditions.
- Based on the finding, the researcher concluded that the loan disbursement timing was directly affected the loan recovery performance of the institutions. Because the institution was not effective loan disbursement timing based upon the progress of the project and disbursement timing procedure and manual was not well developed.
- Based on the result of the study the researcher concluded that the loan monitoring practice or activity of the institution was affected the loan recovery performance of the institution. Due to the institution was not exercised strict monitoring, not undertake monitor to check proper utilization of funds released for the intended purpose of the borrowers and the institution were not sufficient human resource, materials, and facilities to provide effective loan monitoring activities.

5.4. Recommendations.

Based on the research concluded the following key point the researcher recommended.

- The institution to increased or effective loan recovery is performed seriously update or revised, flexible, considered current dynamic business environment and create clear understanding to employees and customers about the institution credit policy and procedures. the institution must be considered credit policy element such as credit standard, credit term, collection efforts at a time of develop credit policy and procedure of the institution.
- The loan assessment practice and manual of the institution should be developed based on the credit analysis concept and elements. And to assessed, each customer or borrowers should be based on the institution credit policy and with clear evaluation criteria. document screening and due diligence assessments should be done with the required. the credit assessment of customers should be depending on the loan evaluation principle of the financial institution which is the basic principle of leading such as capacity, Character, capital, collateral, and conditions used by the microfinance institution is important for effective loan recovery performance.
- Loan disbursement timing manual or procedures of the institution should be developed well and considered business efficiency, loan disbursement is given or made based on the specific period or agreed time with customers and given loan to customers on the progress of the project without any subjectivity.
- The institution should be developed and exercised or implemented strict monitoring, check proper utilization of funds released for the intended purpose of the borrowers, and the institution are provided sufficient human resource, materials, and facilities to provide effective loan monitoring activities.

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Appendix.

Addis Ababa University College of business and economics

Department of accounting and finance.

Dear Sir/Madam

This questionnaire is prepared to gather data for the study's to be conducted on the topic “**Assessment on Loan Recovery performance of microfinance institution**” the case of Addis credit and saving institution, akaki kality sub city Addis Ababa. which will be used as an input for thesis in a partial fulfillment of MBA in Finance.

I kindly request you to spare some minutes of your time and respond to the questions below either by ticking or filling where applicable your answers and also, I assure you that the data will not be used for other purposes and treated with utmost confidentiality.

Thank you for your cooperation in advance!!

Instruction; please put a tick (√) in the appropriate box.

I. Background of the respondents

1. Educational Level

A. under diploma B. Diploma C. Degree D. Masters and above

2. Current position of employees

A, Loan officer B, accountant C, Casher D. supervisor

3. Work experience related to Addis credit and saving institutions for only employees

A, less than 1-year B, 1-5 Years C, 6-10 years C, above 10

II. Question related to factors that effect on loan recovery performance of the institution.

For each of the following statement, please tick (√) where applicable the extent to which you agree using the Likert scale. **5** = strongly agree (SA) **4** = Agree (A) **3** = neutral (N) **2** = Disagree (DA) **1** = strongly Disagree (SD)

1. Related to loan policy and procedures.

	Statements	Agreement scale				
		SA (5)	A (4)	N (3)	DA (2)	SD (1)
1	The existing credit policy and procedures provide suitable opportunity for effective loan recovery.					
2	The credit policies and procedures related to customers to make clear understanding about the loan recovery					
3	In the institution credit policy and procedures in place is clear in practical implementation.					
4	The institution's credit policy and procedures are revised at a reasonable time for acceptable reasons.					
5	The institution's Credit policy and procedures are directly related to the occurrence of non-loan recovery performance					
6	The institution implements credit policy and procedures elements such as credit standard, credit term, and collection efforts.					

7, please state additional information about the current credit policy and procedure of Addis credit and saving institution?

2. Related to loan assessment.

	Statements	SA (5)	A (4)	N (3)	DA (2)	SD (1)
1	The institutions implement credit analysis elements such as character, capacity, capital, condition, collateral carefully assessed before granting the loan.					
2	All customers provide factual information about their credit history and background honestly for loan assessment.					
3	Document screening and due diligence assessments have been done with the required quality.					
4	Due diligence assessment predicts the real loan recovery capacity.					
5	The institution Loan assessment is directly related to the occurrence of non-loan recovery performance.					

6, please state additional information about the current credit assessment process of Addis credit and saving institution?

3. Related to loan disbursement timing.

	Statements	SA (5)	A (4)	N (3)	DA (2)	SD (1)
1	The institution has properly developed and operational loan documentation and credit administration methods at the service delivery post centers.					
2	The credit administration and documentation system support by its database system at the service post center.					
3	The Addis credit and saving institution has effective disbursement timing based upon the progress of the project.					
4	The loan disbursement timing procedure and manual of the institution are well developed.					
5	The institution Loan disbursement timing is directly related to the occurrence of non-loan recovery performance.					

6, please state additional information about the current loan disbursement timing of Addis credit and saving institution?

4. Related to loan monitoring.

	Statements	SA (5)	A (4)	N (3)	DA (2)	SD (1)
1	In The institution, strict monitoring ensures loan recovery performance.					
2	In the institution, Loan monitoring is directly related to the occurrence of non-loan recovery performance.					
3	The institutions undertake monitor to check the					

	proper utilization of funds released for the intended purpose.					
4	Strong loan collection campaign and monitoring made to keep loan recovery timely.					
5	The institution has sufficient human resources, materials, and facilities to provide effective monitor activities.					

6, please state additional information about the current loan monitoring system of Addis credit and saving institution?

Interview questions for the Addis credit and saving institution akaki kality sub-city branch manager.

1. What looks like the loan recovery performance of your institution?
2. Are the current credit policy and procedures of the institutions being appropriate for loan recovery?
3. Loan assessment practices are effective to credit recovery performance of the institution?
4. Does the institution's loan disbursement timing affect the loan recovery performance?
5. Does the institution have a well-designed system of monitoring the status of the loan as per the institution's schedule?
6. The institution has sufficient human resource, materials, and facilities to provide effective loan monitoring activities?
7. The institution has supported by a database system?
8. What are the main challenges do you think your institution will face in implementing necessary changes to your current loan recovery performance?
9. What strategy to be done to improve loan recovery performance by Addis credit and saving microfinance institution?

Thank you for your cooperation in advance!!