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ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS

**Assessment of Credit Management Practice and Its Effect on Loan Performance In six
Selected Microfinance Institutions in Addis Ababa**

BY

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Addis Ababa, Ethiopia

March, 2021

**A Thesis Submitted to Accounting and Finance Coordination Office, College of Business
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Degree of Master of Accounting and Finance**

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DECLARATION

I hereby declared that the report of thesis entitled "Assessment of Credit Management Practice and its effect on loan performance "at six selected micro finance institutions

In Addis Ababa

is my original work, executed under the advisor of Dr. Habtamu Berhanu. All sources of materials used for the thesis have been accordingly recognized. Moreover i confirm that the thesis has not been submitted either in part or in full to any other higher learning organization for the reason of earning any degree.

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APPROVAL

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ENDORSEMENT

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Table of Contents

LIST OF TABLES.....	xi
Number of Employees in the sample MFIs	xi
LIST OF FIGUR.....	xii
LIST OF ABBREVIATIONS AND ACRONYMS	xiii
ABSTRACT.....	xiv
CHAPTERONE: NTRODUCTION	1
1.1. Background of the study	1
1.2. Problem Statement	4
1.3. Basic Research Questions	6
1.4. Objective of the study	7
1.4.1 General Objectives of the Study	7
1.4.2 Specific objective.....	7
1.5. Significance of the Study.....	7
1.6. Scope and delimitation of the Study	8
1.7. Organization of the Study	8
CHAPTER TWO: LITERATURE REVIEW	9
2.1. Overview Microfinance	9
2.1.2 Characteristics of Microfinance	10
2.1.3Concept of Credit Management	11
2.1.4 Dimension of Credit Management.....	12
2.1.5 Credit Management Policy.....	13
2.1.5.1 Reminders	13
2.1.5.2 Credit Procedures	13
2.1.5.3 Factoring debtors.....	14
2.1.5.4 The use of litigation	14
2.1.5.5 Final writes off.....	14
2.1.5.6 Process of Credit Management	14
2.1.6. Types of Credit	15

2.1.7. Components Of Credit Policy	15
2.1.8. Credit Process	16
2.1.9. Credit Culture/Administration	17
2.1.10. Credit Analysis and Evaluations	18
2.1.11. Credit Approval and Implementation	20
2.1.12. Credit Monitoring and Follow-up	21
2.1.13.Credit Collection Techniques.....	22
2.1.14. Effect of Credit Management on Loan Performance	22
2.1.15. Causes and the Possible Solutions of Default	23
2.1.16.Default Problems	24
2.1.16.1 Causes at borrower level	24
2.1.16.2.Causes at financing institution level	25
2.1.16.3.Causes at economy level	25
2.1.17.Non-Performing Loan	25
2.1.18.Creditdefault	26
2.1.19. Recovery Rate	26
2.2 Empirical Evidence	26
Summary of Knowledge Gap	30
2.2.1.Conceptual Framework	31
CHAPTER THREE: RESEARCH METHODOLOGY.....	33
3.1 Introduction.....	33
3.2. Research Design.....	33
3.3 Types, Sources, and Methods of Data Collection	34
3.3.1 Types of Data.....	34
3.3.2 Sources of Data	35
3.3.3 Data Collection Methods	35
3.4 Target Population and Sampling Design	35
3.4.1 Population of the Study.....	35
3.4.2 Sampling Frame	35
3.4.3 Sampling Unit	36
3.4.4 Unit of Analysis	36

3.4.5 Sampling Techniques/Procedure.....	36
3.4.6 Sample Size and Sampling Techniques/procedure	36
Table 3.1Number of Employees in the sample MFIs	36
3.5 Methods of Data Analysis.....	37
3.5.1 Quantitative Data Analysis	37
3.5.2 Qualitative Data Analysis	38
3.5.3. Model specification.....	38
3.5.4 Definition of Variables.....	38
3.6. Ethical Considerations:	40
3.7. Preliminary Tests	40
3.7.1 Normality test.....	40
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION	41
4.1Introduction.....	41
4.2 Response Rate.....	41
4.3. Demographic Characteristics of the Respondents.....	42
4.4. Credit Management Practice	45
4.5.1 Research Question 2: how is the loan performance in the study area.....	58
4.6 Effect of Credit Management on Loan performance	65
4.6 .1 Model Fit Test.....	65
4.6.2 Exploratory Factor Analysis (EFA)	66
4.6.3Confirmatory Factor (CFA)	67
4.6.3 Structural Equation Model (SEM)Analysis-AMOS	68
4.7 C/Structural Measurement	70
4.7.1 Regression Weight result and discussion.....	72
CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS	73
5.1 introduction.....	74
5.2Conclusions of the Study	74
5.3. Recommendation.....	76
5.4 Research limitations and future research directions.....	76
REFERENCE.....	77

LIST OF TABLES

No	Description	page
Table3.1	Number of Employees in the sample MFIs	36
Table3.2	Summary of the Chronbach Alpha	40
Table 4.1	Performance of Questionnaires Administered	40
Table 4.2	Age category of respondents	41
Table 4.3	Credit policy	47
Table 4.4	Descriptive Statistics Mean of credit policy	50
Table 4.5	Credit story	51
Table 4.6	Descriptive Statistics Mean of credit story	53
Table4.7	Credit Term	54
Table 4.8	Descriptive Statistics Mean of credit Term	55
Table 4.9	Credit Collection	56
Table 4.10	Descriptive Statistics Mean of Credit Collection	57
Table 4.11	Loan performance	60
Table 4.12	Mean of Loan performance	61
Table 4.13	Descriptive Statistics Mean of Credit MGT	64
Table 4.14	EFA	65
Table 4.15	CFA	66
Table.16	B/ Model Fitness (GOF)	68
Table 4.17	Path Analysis-regression Weight	69

LIST OF FIGUR

No	description	page
Figure 4.1	Education level of respondents	42
Figure 4.2	Work experience in years	43
Figure 4.3	Extent of Flexibility of loan policy and procedure	45
Figure 4.4	Understandability of policy and procedure of MFIs	46
Figure 4.5	Ranking internal factors of credit decision making	50
Figure 4.6	Ranking factor cause for loan default	58
Figure 4.7	Extent of credit management effect on quality loan portfolio	59
Figure 4.8	None performing loan	62
Figure 4.9	Recovery Rate	63
Figure 4.10	Figure 4.9 Measurement model	67
Figure 4.11	Path Analysis-regression Weight	69

LIST OF ABBREVIATIONS AND ACRONYMS

CGAP Consultative Group to Assist the Poor

GB	Grameen Bank
MFI	Micro Finance Institution
NBE	National Bank of Ethiopia
SHG	Self Help Group
SEM	Structural Equation Modeling
CFA	Confirmatory Factor Analysis
SPSS	Statistical package for social sciences
AMOS	Analysis of a moment structures
MSMEs	Micro small and medium enterprise
AVE	Average variance extracted)
MSV	Maximum shared Squared Variance
CR	Composite reliability
ASV	Average shared square variance
SMSR	Standardized root mean Square Residual
RMSEA	Root mean square error of approximate
CFI	Comparative fit index

ABSTRACT

This study was conducted with the aim of assessment of credit management practice and its effect on loan performance in six micro finance institutions found in Addis Ababa from period of 2017 to 2020. This research adopted a descriptive and explanatory research design. The major purpose of descriptive research design is to describe the state of affairs as it is at the presents. This study has used both primary and secondary data, which also entail both quantitative and qualitative types in order to achieve this objective, The Primary data were collected using three methods: survey questionnaire from 211 sampled respondents and in-depth interview with key informants. The target population of this study is 16 MFI found in Addis Ababa, of which 6 MFNs were selected. This study, the researcher has employed both probability and non-probability sampling techniques to select representative samples for primary data collection and employees of credit management, credit analysts and credit portfolio was the target group. The quantitative data collected through questionnaire were first edited, coded and filtered and entered in to SPSS program version 25 and AMOS 21, using Structural Equation Modeling and path analysis processed and thus descriptive and inferential statistical analysis were carried out. The results indicated that there is a positive relationship among the four explanatory variables i.e., CP, CS, CT and CC and are statistically significant at 1% level. conclusion, it was observed that there was a positive significant association among the study variables. Moreover, the path analysis confirmed that credit management practice has significant positive effect on the performance of the financial firms. In general, the researcher recommended that financial institutions firms must take proper awareness of effective credit management that could enhance institutional profitability.

Keywords: credit policy, credit terms and collection policy credit story affect the loan performance

CHAPTER ONE: INTRODUCTION

1.1. Background of the study

Credit management is a wide-ranging process made up of the monitoring of loan facilities, extension of credit, distinguishing the market segments as well as delineating the returns generated (Asante, 2015). The banks and microfinance institutions are exposed to different types and scale of risks to which depends upon a number of factors such as its size, complexity of the business activities, volume etc. As (Yusuf 2003; Cooperman, Gardener and Mills, 2000). mentioned that microfinance institutions are exposed to variety of risks among them Credit, Market, Liquidity, Operational, Compliance /legal/ regulatory and reputation risks from which credit risk is known to have the adverse impact on profitability and growth. More over most financial institutions have no in position to ensure the adequate management of the credit facilities they advance to their customers. Default in loan payment, bad debts as well as other unfortunate occurrences is the result of credit management negligence. the success of most financial institutions lies on the achievements of their Credit management in mitigating risk to the acceptable level. CharlesMensah (1999).

As AsieduMante (2011). stated that Credit management process needs special attention because proper credit management greatly influence the achievement or malfunction of financial institutions. It involves establishing formal legitimate policies and procedures that will ensure the proper authorities grant credit, the credit goes to the right people.

The policy on credit management is described as a combination of principles devised to reduce expenditure connected with loan delivery while taking full advantage of the gains that can be generated from them (McNaughton, 1996). The policy and procedures on credit management provides systems, principles and guidelines that serve as an outline for workers in the credit department in releasing loans and direction-finding the total collection of credit facilities (Asante, 2015).

The provision of loan facilities to deserving clients found in their jurisdiction is the main purpose of financial institutions. (Asante, 2015).

Limited access to financial service is among the major problems impeding rural livelihood development (Hermes and Lensink 2007; Wijesiri et al. 2017).

Such problem is specifically severe in the developing countries like Ethiopia, by some of the reasons are: one most of the conventional banks in the countries are found in the urban areas, while more than 78% of the population is rural. Secondly, whenever available, the banking sector excludes the rural poor due to the higher screening, requirements of collateral and enforcement costs of providing a small loan. Additionally, most the poor clients have no assets that can be required to secured by a bank as collateral (Shu and Oney 2014; Hermes and Lensink 2007; Cull et al. 2011).

As Adamu, Asongo and Nyor (2014) described that microfinance institutions and other non-financial institutions provide little forms of credit to persons who may not have collaterals to request for loans by the commercial banks. Filling the gap by helping the section of the markets that traditional banks have woefully not in position to meet their financial needs. However, a significant obstacle associated with this market segment the concentration risk associated with these segments is how microfinance's institutions would be able to successfully manage. such a risk in order to remain within their regulatory framework as well as to meet their shareholder's needs.

According to Ditcher (2003) any financial institution to be successful with its credit administration, it must highly depend on its tackle and approaches it may employ to assess its credit lines. As such, credit decisions ought to be based on careful evaluation of risk factors of the borrower as well as any other economic indicators that can equally affect the oblige ability to balance his or her obligation.

Microfinance institutions regulators and MFIs policymakers have to be wary about increasing loan delinquency in the industry and put in place appropriate management strategies to mitigate portfolio at risks Warue (2012). There for, most of approaches have employed by furthestmost financial institutions which includes simple methods (i.e., independent and casual approaches) and quite difficult ones that comprise the use of mock-up models and use of Credit Reference Bureau to inform their credit department's credit decisions (Horne & Wachowicz, 2007). In addition, MFIs management should regularly review credit performance techniques used and expand loan monitoring framework among Self Help Group for effective credit portfolio assessment. Furthermore, self-help management ought to build up group solidarity to facilitate and prompt loan repayment by the group members.

Micro-Finance Institutions (MFIs) are often defined in terms of the following characteristics: targeting the poor (especially the poor women); promoting small businesses; building capacity of the unfortunate; extending small loans with no collaterals; combine credit with savings; and taking commercial interest rates. MFIs are often pioneering and flexible in their design and execution (Dejene, 1998). Microfinance refers to small scale financial services for both credits and deposits that are awarded to people who are engaging in farm or fish or herd; operate small or microenterprise where goods are produced, cast-off, repaired, or traded; afford services; work for daily labor or commissions; gain income from renting out piece of land, vehicles, or machinery and tools; and to other persons and local groups in developing countries in both rural and urban areas. Robinson (2001). Activities of microfinance in urban areas are found more diverse and include service providers, shopkeepers, artisans, street vendors, etc.

The customers of Microfinance could be poverty-stricken and susceptible non poor who have a comparatively stable source of income ([www.mixmarket.org/en/who_are_microfinance .asp](http://www.mixmarket.org/en/who_are_microfinance.asp))

Microfinance is a system that distributes small loans to poor people in order for to generate income and start their own small businesses, since micro finance provides financial help to the unbanked sections of the society it has the ability to lessen poverty as well as promote entrepreneurship, social and economic development in poor communities especially in fast developing countries like Ethiopia.

MFIs also provide a wide variety of financial services, such as savings and insurance options in addition to providing loans. (Premchander 2009). Lack of credit risk administration and management policies was found broadly acknowledged by monetary establishments have helped altogether to the financial downturn around the world (Fraser & Simkins, 2010). As adverse results to this emergency, orders as well as credit risk administration nowadays are being given more imperativeness, predominantly in monetary related areas (Horne, 2007) like banks and other financial institutions. Microfinance institutions work in areas where customers are without credit histories or unavoidably expected borrowing behaviors (Vincent et al 2014).

As cited in Tilahun Gemchu(2018) Micro Finance institution was first started in 1980's by professor Mohammed Yunus in Bangladesh, he led the way with pilot group lending scheme for the landless people. Finally, this becomes a Grameen Bank which is now used as a model for many countries in the world.

According to proclamation (No. 40/1996) of the Federal Government of Ethiopia, the definition of Microfinance business is an activity of extending credit, in cash or in kind, to peasant, farmers or urban small entrepreneurs, of loan size of what shall be fixed by the National Bank.

The country's five years action plan starting from the year 1992 E.C has included Micro Finance services as one component part of agricultural extension package, to facilitate poverty alleviation and rural development in the country. Moreover, those microfinance institutions have been established since 1994/95 through government licensing under the supervision of National Bank of Ethiopia (NBE) with proclamation #40/1996.

Although the microfinance industry was started their financial services most lately, the industry has shown the remarkable growth in terms of clients outreaches and provision of diversified financial products for the needy societies at large (Wolday, 2000). The number has been extensively increased at an increasing rate to 35 microfinance institutions (Garomsa, 2017 and NBE, 2016). More than 80% of this micro finance institution in the country has been operating in the rural areas where access to formal financial institution was nearly impossible.

Currently there are many licensed Micro finance institutions in Ethiopia working in both rural and urban areas. So research focused found on urban Addis Ababa city credit and saving institution. This credit and saving institution gives credit and saving services for all types of businesses.

1.2. Problem Statement

Credit plays an important helping in the lives of many people and in almost all industries that involve monetary investment in some form. Shekhar,(1985) Credit is mainly granted by banks and microfinance institutions including to several other functions like mobilizing deposits, local and international transfers, and currency exchange service.

Credit management practices is important as MFI's reduce their exposure to non-repayment of loans and enhance their ability to compete in the market with other well established financial institutions like banks. Therefore, it's important for micro finance institutions to adopt credit management practices such as credit story, credit policies, credit terms and collection efforts (Ciborra, 2006).

According to Hogos Mirach (2010) the process of making credit evaluation decision is complex and unstructured. This complex and irregularity seen in the process of decision-making credit evaluation requires proper credit management by the concerned microfinance. Availability of credit management in MFIs could act as a catalyst for rapid development in their area of jurisdiction (Shekhar, 1985)

According to the report of National bank of Ethiopia (2020), the three years consolidated financial report on MFIs indicate that the sector's gross loans and advances increased from birr34.53 billion in July 7, 2017 to birr59.6 billion in June 30, 2020 which implies to a growth of 72.5 per cent. Even if, MFIs in Ethiopia has been adopting different credit management practice and credit policies. However, the MFI continue to increase in high default rate and high level of nonperforming loans. This trend threatens its sustainability in Ethiopia.

Despite the use of credit management practices in MFIs, there have been few empirical studies focusing on effects of credit management practices on loan performance.

For example, Omara (2007) in Uganda to investigate on the credit assessment process and repayment of bank loans; a case study of Barclays was done. A sample of 73 respondents were interviewed and the results of the study showed that there was delay by Barclays bank in scoring loans, the bank charged commitment fee to both new and existing customers. This negatively impacted on loan repayment.

The works of Alemayehu Yirsaw (2008) investigate the performance of six Micro Finance Institutions in Ethiopia, secondary data were used, and data were analyzed using alternative credit technologies (ACT). The results of the study showed that the majority of MFIs passed both operational and financial self-sufficiency.

Tilahun Gemechu (2018) equally studied credit management practices in Addis Credit & saving institution, A sample of 76 employees, 96 customers and 9 officials respondents were interviewed. Lack of the results of the study showed that proper collection of credit information; the standard and eligibility criteria were the main weakness

Yaw Adu Asante (2015) Assessing Credit Management Practices in Savings & Loans

Companies in First Allied Savings & Loans Ltd as a case study, descriptive survey method was used for the study, sample size comprised of 33 respondents, he had conduct a cross sectional

survey and found that compliance of credit management procedures by credit sectional heads was not in place.

Elizabeth Muturi (2016) Effect of credit management practices on loan

Performance of MFIs in Kenya, 10 Deposit Taking MFIs were selected as a sample multiple linear regression models were used. Finding deposit taking microfinance institutions were not very great extent on the adoption of credit standards, credit policy, credit terms and collection police

Solomon et al (2013) on his part measured factors influencing formal loan repayment performance of urban women in Tigray. A sample of 169 women respondent's borrowers were employed, descriptive statistics and the legit model been used and found that borrowers who are aged, have an access of another loan.

Therefore, as maintained above, the review of the preceding studies shows that there is still need for analysis of the credit management practices in the MFIs in Addis Ababa. There are research gap which qualifies this study to be conducted. These include, the preceding studies are few in number, which implies, there is still knowledge gap; there is mythological gap in a sense that majority of the prior studies have employed descriptive research approach and are not comprehensive and failed to include all the necessary variables to measure the subject under study; there is context gap-that majority of the previous studies are conducted somewhere else, thus, the findings of these studies cannot be adopted and transferred to the study area-MFIs in Addis Ababa, as lesson.

Hence, this study will aim to assess the credit management practices and its effect on loan performance in the selected MFIs in Addis Ababa, and thus, to fill the aforementioned research gaps through employing recent data and sound research methods.

1.3. Basic Research Questions

Based on the statement of the problem the researcher tries to answer the following research question.

1. How is the credit management practice of the MFIs?
2. How is the loan performance in the study area?
3. What is the effect of credit management practice on the loan performance in MFIs?

1.4. Objective of the study

1.4.1 General Objectives of the Study

The general objective of this study is to assess credit management practice and its effect on loan performance in the microfinance institutions found in Addis Ababa Ethiopia

1.4.2 Specific objective

1. To assess the credit management practices of the MFIs
2. To examine loan performance of the MFIs
3. To determine the effect of credit management practices on loan performance in the MFIs

1.5. Significance of the Study

MFIs are important for poverty reduction and creating employment opportunity especially in developing countries like Ethiopia. One of the key factors for profitability and sustainability of MFIs is the presence of good credit management practice.

The result of this study shall expect to have a great importance to evaluate micro finance institutions in providing efficient and effective services to the poor and lower income group who are in trouble of for start-up business and also for non-business activities such as for education and emergencies purpose.

This study tries to provide information for a better understanding on the general aspects of credit management issues like credit policy and procedure, credit application evaluation, credit administration and documentation and follow up, supportive supervision and monitoring of the MFIs from both lender and borrower's side.

Hence, this study is expected to be significant in representing, best practice and concepts for prudent lending to enhance the performance of credit management to all intended managers and policy makers of the MFIs as well as to all financial organizations. in addition to the above it may help as a reference for researchers who are in position to involved in the area to extend it further.

1.6. Scope and delimitation of the Study

This study focuses on the assessment of credit management practice of microfinance institutions in Addis Ababa Ethiopia by taking 6 microfinance institutions as a case. In addition, the study was use based primary and secondary sources from the July8,2016 to June30, 2020 and the entire MFIS was not include in the study due to time and financial constraint have a limitation on the findings of the study. Except the above-mentioned limitations, the study is believed to represent the true financial performance of the microfinance institutions.

1.7. Organization of the Study

The Study is organized into five chapters. The first chapter introduces the background of the study, the research questions and objective, significance of the study, scope and delimitation of the study and organization of the study. The second chapter presents theoretical and empirical review of the related literatures reviews.

The third chapter is deals with methodology used for the study. The fourth chapter describing the analysis, results and discussions and the last chapter is includes conclusion of the study and recommendation of the study and farther study topics.

CHAPTER TWO: LITERATURE REVIEW

2.1. Overview Microfinance

Before proceeding to the general concept regarding credit management practice in microfinance institutions, let me define the meaning and basic concepts of microfinance. Different literatures define microfinance in various ways. But the core of the concept revolves around related and similar context. But the researcher uses the one defined by taskforce on Supportive Policy and Regulatory Framework for Microfinance which has similar concept used in this research.

Accordingly, Micro financing is the provision of financial services to poor and low-income households without access to formal financial institutions (Conroy, 2003). Microfinance is stated also as banking for the smaller scale peoples.

The act of Microfinance construction permanent local financial organizations is considered like seating corner stone for financial systems, the poor as well as building sound domestic financial intermediaries that can supply financial services to poverty-stricken people on a permanent basis. Microfinance institutions must be capable to organize and recycle local savings, extend credit, and provide a wide range of services. According to (CGAP, 2004) Depending on source funding from donors and government-financed development banks will slowly reduce as local financial institutions and private capital markets mature

Micro credit is not usually the answer; Microcredit is not the exceptional one for every one or every circumstances. The poor and enable that have no income or means of repayment of loan need other forms of supporting mechanisms before they took or use loans. In many cases, the most appropriate tools for poverty alleviations includes small grants, infrastructure improvements, employment and training programs, and other non-financial services According the report of (CGAP, 2004)Wherever possible, such non-financial services must be coupled with building savings.

Microfinance is different in capacity from commercial banks since, they have limited banking services directed primarily to a designated natural landscape area or specific please. As it was written by (Moruf, 2013). The major functions of Microfinance institutions are to direct

concentration of supply credit to low-income group and Micro, Small and Medium Enterprises (MSMEs) (Moruf, 2013).

As per the world bank definitions Microfinance is "Small-scale financial services, mainly engaged providing on credit and savings to people who farm or fish and who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who offer services; who work for daily laborer or commission agents gain little amount of income from rent of machinery and tools; and to other group and individuals at the local level of on developing country, both urban and rural area" (Robinson, 2001).

The support of the microfinance in worldwide has of about three decades a history, yet has gone through stages of historical development. as cited in mesay samuel the microfinance industry is said to be in revolution: the service that was initiated in small scale and small village of South East Asia Bangladesh, "Chintanga" now it becomes to be un global program and an issue addressing one of the main problems i.e. deficiency in developing country of the world Arega, (2007).

Microfinance is a term of recent source and is usually used in addressing issues related to poverty mitigation, financial support to micro-entrepreneurs, sexual category development etc.

2.1.2 Characteristics of Microfinance

In the current day, it is the main purpose of microfinance institutions is providing financial and non financial services for those who have no access of money when the individuals need to generate or developing new ideas. As Murray and Boros (2002) described that most of microfinance products characteristics are include: small amounts of loans and savings, short loan terms, repeat loans in higher amounts for clients who pay on time and payment schedules featuring frequent installments.

McGuire and Conroy (2000) recognized three essential distinctiveness that make MFIs similar in their process: First, MFIs know their market. The poor are prepared to pay for access and convenience. Interest rates are market-oriented, but lending outlet are placed near by the customer, application procedures are simple, and loans are disbursed quickly. Second, they use unique techniques to hack administrative costs. Easy procedures are used and approvals are decentralized. The borrower groups are often taker most of the loan-processing load. Third, they use unique techniques to encourage repayments. MFIs have developed a wide range of techniques to make sure high repayment rates, including the use of self-selected groups in which

members guarantee each other 's loans, thorough supervision and inspiration of borrowers, incentives for borrowers, progressive lending, and compulsory savings requirements

2.1.3 Concept of Credit Management

Credit management in microfinance is concerned mainly with using the institutions' resource both productively and profitably to achieve a preferable growth. At the same time, it also seeks a fair distribution among the various segments of the society i.e. (poor, youths and women) so that the economic fabric grows without any hindrance as stipulated in the national objectives, in general and the institutions' industries, in particular.

According to Asante (2015), in any company or firms especially involving with credit line cannot be survive without having the important actions of Credit management. in order to be effective and to utilize up to the optimal level, microfinance firms have to have well-structured and accompanied with different techniques and strategies of Credit management

(Myers and Brealey, 2003) according (Nelson, 2002) look attentively credit management is a clear way for the institution's decision making in its credit sales in the way that makes high Opportunities for making higher profits. This is the preconditions for any business involved in this area since it is not possible to eliminate default credit risk. Credit management significantly influences the banks and other financial institutions for successes or release (Nzotta, 2004)

According (Van Horne, 2007).There is four approaches in Credit Management which helps to measure the customers' acceptance in advance and similarly to building up good attachment and beliefs with the financial institutions. The first approach of the four one is making evaluations on the customer's organizational nature of establishment. Taking such evaluation on the capacity of the customers in advance helps to decide about the installments.

The second approach one is that specifying the correct credit period and here the microfinance firms must give enough time for the loyal customers since it has the chance collecting full credit but great consideration to be taken to reduce the possibility of financial firm in a distressed situation. The third strategy is customers handling which means giving motivational incentives this can help to pay back his or her obligation on time and the incentive must be attractive enough.

The last but not the list strategy is whenever performing the above variable listed steps the expenditure remains with acceptable level of those debts. The main point here is that the MFs should not engaged to a credit where the cost to be spent on extract the commitment will

probably exceed the commitment itself. To be successful with preceding approaches there should be a conducive working environment or atmosphere to monitors and coordinators the human and material capital in

Safety of a financial institutions loan or advance is directly related to the basis on which the decision to lend is taken, the type and quantum of credit to be provided and the terms and conditions on which the loan will be made available. Consequently, a two- pronged approach is required to be followed to ensure the safety of each loan.

1. Pre-sanction appraisal: - To establish the tolerability of each loan application and
2. Post-sanction control: - The post-sanction control involves appropriate records of the facility and the after care or follow up and supervision through monitoring of transactions in the loan amount, scrutiny of periodical statements submitted by the borrower, physical inspection of the securities and books of account of the borrower, periodical reviews and renewals (Njenga, 2014)

2.1.4 Dimension of Credit Management

According to Pandey (1997) Credit management mainly performs the following core concepts with regarding to credit policy:

i. Formulation of credit policy: -

For firms with usual credit sales formulation of credit policy is the prime responsibility of which includes the decision about three credit terms that is cash discount, discount period and credit period. Credit term implies to the length of credit and the term payment of clients involving discount if any credit policies specify the attributes customer must show to get credit.

ii. Evaluation of credit policy: This includes revaluating the credit applicant's value. It involves three steps: a. Collection of credit information b. Analyzing and evaluating information. c. Making of credit decision

iii. Implementation of credit policy: - after the credit policy is evaluated and formulated the next step is adapt and use it.

iv. Administering and controlling credit policy: -the purpose of this step is to check and control whether implemented policy is properly working or not.

2.1.5 Credit Management Policy

Credit management refers as the doctrine and systems set up by top executives that oversee the company's credit division and investigate carrying out in the expansion of credit benefits against set down procedures Jim Franklin (2010). According to (McNaughton1996) credit management is importantly a located composition of rules intended to reduce expenses connected with credit while expanding advantages from it. A credit management arrangement includes the credit s, credit measures and credit terms. This credit policy becomes the corner stone which by guides the conduct and outlook of all employees entrusted with the responsibility of granting credit and also acts as a benchmark by which performance can be measured against standards set.

2.1.5.1 Reminders

According to Pandey (2008 reminder has many steps and the first strategy is sending of notice request or to inform the borrowers before the pay period is due. second steps continuous if there is no reply from the debtors this processes are gradually intensified using different mechanisms).These strategy include posting a letter of request which tells to come and settle his payment to the client and if still he fails to respond, then third steps is contacting the clients through telephone call or best option actually making personal visit to the debtors firm or himself/ herself. If fails the fourth and final one is taking to legal measures.

2.1.5.2 Credit Procedures

Microfinance institutions or any other financial firms to finalize their credit objectives as well, they must have to be included credit administration strategy which helps to how to utilize the credit strategies. Franklin (2010). These credit administration strategy are established by the top executive and middle managers of the organizations .this credit strategies are particular routes and imposes to the credit division to complete the credit management policies. The credit strategy has accompanied different systems which is how information could be utilized during the processes of examination and investigation procedure,

Credit collection strategy is one of the main determinant variables in credit managements and for any financial organization to be succeeded in the credit processes or any economic climate. in the credit procedure understanding the customers condition ability to pay in advance would help to how to motivate customers to pay their obligations.

(<http://www.bwaresolutions.com/>).

2.1.5.3 Factoring debtors

Factor debtors means when a one company has account receivables from some other one and he is in position to negotiate to sell his obligation to special financial organizations. This takes place to protect the organization from financial loss and it is safe oriented measures. This should be executed early or a head of time before incurring cash shortage in the company. Such advanced actions reduce expense of the organizations included with disbursement of loans.

2.1.5.4 The use of litigation

When customers have faced with defaults against his obligations and the financials firms is confirmed that the probability of collection is zero and as per the agreement made during the loan facility establishment and the firm will lead to take commencement of legal activity. This action is actually taken after the all steps of collection efforts have been made exhaustively and the last steps of collection strategy are taking the case to legal courts According to (Kasozi 1998). This is strategy of collection technique as the last measure and all the more so where the firm's relationship with the customers has been mutually beneficial.

2.1.5.5 Final writes off

Final writes off is happened whenever the companies tried to go through all the cash collection mechanisms and found that the loan is classified under the non performing which means it cannot be collected from now onwards. Then the next step is wiped out from the account receivable ledger account as per the book of business where the obligations is confirmed as it is irretrievable assets by providing true and reasonable representations to the organizations monetary related issues (BPP, 2000).

2.1.5.6 Process of Credit Management

in the issue of process of credit management it is true that in the first place it begins with assessment the back ground of the credit applicants carefully here the loan application forms should be well structured since it is the main part of the loan processes. Carefully examining of applicants credit worthy is base for deterring the credit term period as well as the amount of the loan would award certain customers, this is particularly important. Therefore, having appropriate credit administrations is vital for the long run or success of the financial firms

According to HabeleAsrat(20180) basically credit management has three basic steps credit analysis, credit approval and follow-up. The credit analysis, credit approval are pre-disbursement process while the follow-up is a post disbursement process.

Credit management of financial institutions simply put in the frame of the above category includes the-following:-

Credit application

Credit assessment

Credit disbursement

Credit monitoring

Credit recovery

2.1.6. Types of Credit

Regarding on their length of time, for which the outstanding credit can be classified in three categories: Long term and Medium-term credits. Credit transactions can be classified as secured loan and/ unsecured loans.

According to Clemens and Dyer (1977) cited in Kokeb (2010) Secured loan is guaranteed by collateral which is an item of equal or greater value than the amount of the loan, such as home, a car, or cash deposit. It is a secondary source of payment and is recommended for more than 75% of the bank's loan. There is no mere loan must be released based on the value of the collateral without a clear tangible indication of a secure primary source of repayment.

Customers with established characteristics of ability to repay: may be granted unsecured loan. The intended reason of the loan and the income of repayment must be clearly described. Generally, unsecured should not exceed 25% of the net worth. These could be obtainable from financial organization under many different guides or marketing packages; may also be granted to clients with established distinctiveness and capacity to repay (Westerfield, 1993).

2.1.7. Components of Credit Policy

According to (Pandey, 2010). And cited in (Tekeste gebrekidan2016) there are three components of credit policy. These are credit terms, collection Policy and credit standard

- **Credit standards:** - financial company are created credit standards after careful analysis of past customers and market situations was made and it is helpful as a guide lines are used to determine that a potential borrower is credit worthy. Credit standards are designed to limit the risk of a borrower no making credit payments or defaulting on loaned money.
- **Credit terms:** - identify the duration of credit period and the discount given early payment. The most common credit term for the financial firm to offer of “net 30” or “2/10 net 30”. Net 30 means the customer must pay its bill within 30 days of the invoice date. Term 2/10 net 30 means the customer is offered a 2% discount if payment is made within 10 days of the invoice date. If not the complete quantity of the receivables is due in 30 days. The stated conditions of credit addition will have a strong impact on the eventual size of the accounts receivable balance.
- **Collection policy:** - implies to the procedures that firms follow to acquire payment of past due account. As a overall rule, the most quick account receivable is changed into cash the better would be the profit. Collection strategy policy is the final part in credit policy. It involves to spot trouble in bringing payment of past due accounts

2.1.8. Credit Process

The primary objective of financial institutions and customers lending is to make profitable loans with minimal risk. Managers must aim specific firms or markets in which their lending officers have expertise. The credit procedure relies on each financial firms systems and controls to allow management and credit officers to evaluate risk and return trade- offs.

According Timothy (1995), there are three functions of credit process:.

i. Business Development and Credit Analysis

Financial institutions begin the work by business development this mainly concentrates on the search new market segments as well as expansions of the existing potentials clients. Searching and screening new customer or hunting form other competitive financial firms especially this is made when customers who has good credit name in the market would be the target of the business development. On the other hand they keep maintain the relationships with existing customer at the same time made an engagement with non-financial sectors. In this business development all employees of the financial company are participated strongly and they are accountable

in order to promote marketing efforts, many financial company use offer of cash bonuses or other motivation plans as a prize for those who has all rounded service and being efficient by their works. <https://www.academia.edu/17617463/>

ii. Credit Execution and Administration

Deferent financial institutions may has deferent organizational structure and policy depending the size, location, types of loan, number of employees and the capacity in general : based on this the board of Directors of the financial organization normally has the final opinion on which loans are approved and oversee the overall activists whereas the bankers are employed only authority to approve loans up to some fixed extent of amount

iii. Credit Review

the very purpose of review credit lines is efforts made on loan evaluation in order to reduce the probability of credit risk and default loan as well as if any problem in the credit management. The review process can be divided into two functions: controlling and evaluating the performance of obtainable loans and treatment problem loans. Many financial organizations have independent a formal loan review committee and loan officers who contacts and send the reports based on the organizational structure to his boos or any other assigned body

Loan review is made by loan officer or personnel of the bank he review the current capacity or financial conditions of the customer and this credit review has the acceptance by the loan documentation office. <https://www.coursehero.com/file/p58kvc>

2.1.9. Credit Culture/Administration

According to (Kamath et al, 2010) and cited in Telahun Gemechu(2018):Institutional or organization culture is something that related system of sharing meaning held by the members of the inside the institutions which affect the way of people carry out their work.

in addition to the above, credit culture can be defined as a microfinance institutions observing all the issue or activists with regarding of credit risk management or they look at on the way that attaining positive credit portfolio , the culture of organization should be coordinated with the strategic direction and financial institution. Credit culture as a structure of shared value of principles, perspectives and credit related activities. More over credit culture has impact on practices of the financial firms regarding credit management. (Basu and Rolfes, 1995)

The financial organizational culture is designed to bringing potential which deliveries computable service to the clients as per their request. Otherwise the financial organization

culture may lead to less competitive in the market and the loan expertise may not satisfied by the culture of the organizations.

. Therefore according to Middlemiss (2004) states that financial institutions should have a more “morally acceptable approach” to assessing credit and should enact a certain level of social responsibility. the credit culture of the firm must have the ability to make balance the new credit risk and imposing some amount of limit and it should be able to bounded all other resistances. .

Microfinance institutions must consider their topography, character arrangement with operational readiness and employees involvements the credit and other decisions activists. Such cultural arrangement helps to have effectively implemented all the policies and procedure this lead to be successful in the credit management process.

Microfinance institutions has untouched or underserved target market yet such as enterprise and less-income households, ranging from the microenterprise to small growing enterprise that provides service in their communities.

MFI has to deal challenge working conditions in which maintaining for high staff productivity, low staff turnover and even in low salary expenses (Craig and franker wiz, 2006)

The main role of credit policy is to provide a framework for consistent credit decisions, compatible with the goals of the credit function. in order to be flexible, the credit policy must be reviewed at regular time and should have separate clear documentation. Wilson et al.'s (1995). Typically, credit policy includes the specification of credit goals and a range of policies covering such activities as credit risk screening, credit limits, payment terms, monitoring, and collection and funding

2.1.10. Credit Analysis and Evaluations

as specified by (Hoff and Stiglitz, 1990), lenders and borrowers may have information asymmetric about how risk affects one projects and what could be the incidence for the risk. There for the work of credit analysis is fundamental to answerer the information asymmetric because the main functions of credit analysis is to detect the capacity of the borrower's financial performance or liquidity scales unless the lender only knows the projection average risk and the expected returns, whereas, the borrower knows the predictable return and risk of his project, Credit investigation includes describing the financial position of the borrowers, estimating the likelihood of evasion and reducing the risk of non-repayment to intolerable level. Credit

assessments are most of the time undertaken based on the loan officer's personal opinion (or judgmental assessment technique).

With growing credit risks, MFIS have to ensure that loans are authorized to safe and gain back fully, for this, they need to refine their assessment criteria. A merge of formal and non-formal credit evaluation strategy will go a long way to make sure precision in credit appraisal.

as discussed in the above the credit office analyzed in formation all about the new customer or new applicants to whether he/she meet the financial institutional average risk projecting or not the essentially default risk analysis is credit analysis, in the way all steps taken by the officer to asses to know borrower's ability and willingness to pay his commitment. There are three distinct areas of commercial risk analysis identified to by Similarly Compton (1985) by rising to the statted questions:

- 1) What inherent risk are there with in the firms operations?
- 2) What extents the organizational managers have done yet to protecting the risk which are predetermined?
- 3) How the arrangement and management lender firm is way to solve its own risks during releasing funds loan?

The question raised in the first one opens the eye of the investigator officer to involve with credit evaluator and to produce factors that affect the firms of the borrowers or point to what could damage a borrower's capability to repay.

Are the executive management aware of the significant risks, and had it responded?

Credit analysis has three steps in the and evaluations processes

Gathering credit information:

The credit department of a MFI collects various significant information concerning borrower from various sources to evaluate the client. A number of sources would present for collecting information which based upon the nature of the industry, form of loan, amount of loan etc.

Credit worthiness of applicants

After collecting about the credit information, loan officer analyses is started to evaluate the creditworthiness of the borrower. This is called as Credit Analysis. It involves the credit examination of a potential client to decide the scale of risk in the loan. The creditworthiness of the candidate calls for a detailed examination

Credit Decision

After came up from end to end this complete process, the MFIS has to take conclusion about sanctioning of credit facility. The creditworthiness must be harmonized beside the credit principles of loan policy. The MFIS should be very mindful about this, for taking right conclusion to avoid the likely credit risks to happen in future.

2.1.11. Credit Approval and Implementation

Credit approval process has individual steps on their implementation and a substantial effect on the risks linked with credit endorsement. The worth of credit endorsement processes depends on two factors, i.e. transparent and comprehensive presentation of the risks when granting the loan one hand over, and a sufficient valuation of these risks on the other. Moreover, the degree of competence of the credit endorsement processes is an important rating element. Due to the substantial differences in the environment of deferent borrowers and the resources to be financed as well as the big number of products and their difficulty, there cannot be identical process to assess credit risks. <https://www.coursehero.com/file/>

The credit endorsement quality process from a risk standpoint is determined by the best likely classification and assessment of the credit risk resulting from a possible exposure.

(2000), the credit risk can be dispersed among four risk elements.

- a. Probability of Default
- b. Loss Given Default
- c. Exposure at Default
- d. Maturity

in credit management loss could be occurred do to in proper credit evaluations of the borrowers this takes significant parts in likelihood of default , and coverage of defaulting. While maturity is required to estimate the necessary capital, it plays a minor role in exposure review. The significance of probability of default, loss given default and exposure at default is described below.

a) Probability of Default

Reassess a borrower's likelihood of default is essentially done by evaluating the borrower's present and future capability to fulfill its interest and principal repayment obligations. Various characteristics of the borrower must take in to account during evaluation (natural or legal person), which must lead to a separation of the credit endorsement processes in harmony with the borrowers served by the financial firm.

Moreover, finance transactions has to be taken into account that —for certain — interest and principal repayments must be financed entirely from the cash flow of the object to be financed without the opportunity for option to further resources of the borrower. In this case, the credit review must address the feasibility of the ongoing organizations model, which means that the interest and principal repayment source of the cash flows required meeting obligations has to be incorporated in the review.

b) Loss Given Default

The loss given default is varied by both the portion of collateralized and the cost of selling the collateral. Therefore, type of collateral and calculated value also must to be taken into account in manipulative the credit endorsement processes.

c) Exposure at Default

In the enormous part of the cases manipulated here, the exposure at default corresponds to the amount owed to the busses. In addition the type of claim; the amount of the claim is another significant component in the credit endorsement process. <https://www.coursehero.com/file/>

2.1.12. Credit Monitoring and Follow-up

Credit is a funds borrowed with specified terms for refund. When there is no adequate accumulated savings to finance a business and when the return on borrowed funds exceeds the interest rate charges on the loan, it makes sense to borrow rather than not doing the business activity until sufficient savings can be accumulated; assuming the capacity to service the debt exists, (Wood j, 1999).

According to Action Aid (1992). Credit is provided for an activity which involves and needs appropriate choice of activity, source of funding, detailed arrangement, execution of saving components and evaluation,

As (Wood, 1999), explains that loans are generally made for productive purposes that is, to generate revenue within a business. Some micro finance also makes loans for consumption housing or special occasions. So, in order to use the credit properly there should be appropriate credit management, control system and continuous follow up procedure. According to him methods of credit delivery in the micro-enterprise lending program generally can be divided into two broad categories. These are individual and group-based lending approaches based on the program delivers and guarantees its loan Evaluation of customer's ability to repay the loan was highly suggested but it failed as loan defaults continued, However, the concept of credit

management became widely appreciated by MFI's in the late 1990's to reduce credit risk but this did not end loan defaults to this date (Modurch,1999).

2.1.13 Credit Collection Techniques

as identified in Hagos Mirach(2010) one of the determinant variables of credit management is credit collection technique is found in every financial institutions. and this has different collection steps .customers are required to pay his obligations on time in various payment mechanisms in order to reduce default rate and non-performing loans of the financial institutions . some of the fundamental techniques used by most of the financing institutions and other non-financials.

- Telephone Calls: is the also one of the collection strategy, and the firm is used to if the loan borrower customer not in position with the due date, hence telephone call can be done to the client in order to remained him/her as the repayment date is up to date and request to make immediate payment.
- Personal visits: - another option is if the telephone call made by lender is not fruitful and has no positive response personal vesting to the borrower is must to see his business and discussing the issue with the client can be a very useful collection procedure.
- Letters: - If the efforts made so far is unsuccessful and not resulted positive response polite letter is to be served reminding the customer of its obligation followed by caution writing for the action to be taken in future and its outcome.

Gathering letters are the initial footstep in the collection procedure for overdue loan accounts.

- Legal Action: legal action is one of the collection efforts and it is the most strict step. It is an optional to the use of a agency not only is direct legal action costly, but is may force the debtor in to liquidation, Hence minimizing the opportunity of future financial firm without collateral the final receipt of overdue amount.

(<http://www.articlesbase.com/finance-articles/3-top-credit-collection-techniquethat-Can-improve-cash-flow-to-your's-business-900152.html>)

2.1.14. Effect of Credit Management on Loan Performance

According to Myers and Brealey (2003) Credit management has different policies and strategies that governs the credit line of the financial institutions and helps to utilize both the human and material capital to the maximum degree of credit management

Credit analysis, credit rating, credit classification and credit reporting are components of financial management. downscaling the probability of dab debts as well as reducing the capital which tied up by borrowers is solved by establishing appropriated credit administration As stated by edwards (1993), any overdue account will affect his profit and to protect the financial institutions from such additions costs that come from the collection of lat payments, the firms should add up to his selling price and this also solved by implementing worth full credit management. .

The establishment of Micro-finance as an effort by the government to improve the access to loans and savings services for poor people is currently being promoted as a key development strategy to come with poverty eradication and financial development (Shreiner, 2005).

the author again stated that the main functions of financial institutions are aimed at collection strategy which means it should ensure customers to pay the obligations as per the pre determine agreement terms and specified condition and this come true by having effective credit management in place

2.1.15. Causes and the Possible Solutions of Default

According to (Stigliz and Weiss 1981). Involuntary default on borrowed funds could occur from adverse situation that may affect the capacity of the borrower to repay which means default on borrowed funds could be voluntary and involuntary. On the other side, voluntary default is when borrowers did not repay even if they are capable to do so. Hence, the lender should recognize the main causes and the possible solutions of default.

As stated by Norell, (2001) this could be happened if the employees of the financial institutions concerned about the profitability of their companies and shareholder of the companies the second means could be if the borrowers are not prepared to repay their loan obligation third one the MFI is not serious on loan repayment and is poor in collection strategies.

According to Norell (2001) in order to prevent from such loss irregularity or reduce the defaults rates the microfinance firms have to do more jobs on it by establishing different motivational stratagem for both of the actors of the repayment.

The first one is establishing motivating incentive mechanisms to the workers of the companies it could be in kind or in cash especially for loan officers

the second one is giving follow ups and trainings to the intended clients prior to the transactions or the credit term agreement made more attractive to pay his installment can be lower the loan defaults.

In addition the above to preventing high default rate microfinance firms should establish to make regular follow up for the who are not paying their obligation on time by making in categories . Downscale geographic scope limit the amount of time and money wasted by personal visiting from the office to clients' organization. To visit clients more often and to help in developing relationships between credit officers and customers, the loan officer has a specific geographic region. Loan must be assured to the borrowers who have been in business experience at. Some MFIs has used about six months as a minimum, but others used three. The lower the number of months is the riskier. <https://www.academia.edu>

for group without payment, loans at sixty days for individual with no payment), loan officers must visit every delayed payer and the loan officer must have to categorize the customer into one of the above four categories of customer.

Hence ones borrowers are classified, then after, the loan officer has to take corrective measurements. The possible measurement taken by loan officer in each group could be: (1) both loan officer supervisor may visit the customer's firm, (2) loan rescheduling must be under considered for customers with a supper justification, (3) the environment can follow legal act or update the society and pressured to the clients 'unwillingness to repay his or her obligation. Most of the time spiritual and society leaders can push them to pay. In addition to, the names of such defaulters person may be openly posted to the public and (4) following up on such groups is a 14 poor use of staff time.

2.1.16. Default Problems

According to Pandmanabhan(1986), consequences of Non-payment of loans has several unwelcome outcomes: It steadily destabilizes the credit system. administration of overdue loans have high cost of loan. Defaults increase lending costs without any corresponding increase in loan turnover

2.1.16.1 Causes at borrower level

Loan diversions take place by borrowers has serious back fires to both parts of the agreements. When the borrowers are used to uninvestigated or risk full activities the probability of repayment

his obligation to the lender firms very low and this lead to reduce the profitability of the lender firm not any that but also can lead to total bankrupt. To protect form risk of loan diversion by the causes of borrowers tightening evaluation for the un seen reasons like drought of credit worth before amendment of loan and giving training and continuous follow up.

According to Hagos Mirach(2010),like death and sickness has a negative effect on repayment at borrower household performance.

2.1.16.2. Causes at financing institution level

Repayment or loan default can be occurred in the financial level like the other during loan because of using malfunctioning procedures could lead to the financing of bad projects and resulting defaults. Borrowers repayment performance is highly affect like experience of loan officers, capacity and understanding in the sector, and their ability to judge borrowers as also the motivation packages available to them affect.

Using of improper repayment schedules and lack of flexibility often result in defaults. Likewise, when the process for repayment is awkward borrowers tend to delay repayments.

Defaults have a ‘stretch effect’ mainly in the marginal cases. When lenders show unwillingness to enforce sanctions against conspicuous defaulters, defaults tend to increase through a process of imitation. <https://www.scribd.com/document/>

2.1.16.3. Causes at economy level

the interest, rate Excessive government intervention Faulty monetary and fiscal policies rate marketing etc., discriminate against the specific sector, are the some of the cause in the economic level

2.1.17. Non-Performing Loan

According to (Radha .M, et al, 1980) the primary source of income of financial institutions are loans and advances. As any business institution a financial institutions also need to capitalize its profit. but the financial institutions must get care full in giving loans, they should not give to all of the cash to the borrower they should keep safe and cautious in the processes to whom the they are providing loan and advance .Microfinance institutions must balance the issue of risk and the scaling up their profits scaling up profitability by lending and at the same time handling the risk of loan failure to pay as it would damage profit as well as the main capital.

<http://macrotheme.com/>. As the Ethiopian banking business directive (NBE, 2008), defined that non-performing loans are side to be when the borrowers are found unable to repay his obligation by any means or by reeducating the quality of credit management and the loans remains uncollectable or question

2.1.18. Credit default

Credit default means inability to meet the loan advance as per the commitments Baku and Smith (1998) mention that not fulfilling of customers satisfactions as per the agreed contract can bring additional expenses for both the agreed parties. The financial institutions which give loans are getting additional costs as per the un performed loans the relinquishments in lost reputation from default as against the opportunity cost of foregoing investments because of the repayment of the current credit facility. The borrower consequently needs to weigh the alternatives precisely and settle on the right choice that will support the circumstances in which he discovers himself. Defaults therefore ought to be managed in a manner that makes it difficult for such situations to arise through the establishment of prudent credit management processes that seek to safeguard loan assets against inherent default risks plus additional disbursement related to risky assets.

2.1.19. Recovery Rate

According (N Mora · 2012) One critical element of a strong risk management system is a financial institutions ability to evaluate the potential losses on its investments. One factor that determines the extent of losses is the recovery rate on advances and securities that are in default. The recovery rate measures the extent to which the creditor recovers the principal and accumulated interest due on a defaulted obligation. Whereas financial institution, their regulators, and researchers normally presume that the recuperation rate is constant, in practice, actual recovery rates vary significantly. The recovery rates are inversely related to the default rates and this is due to the fact that both indicators are usually strongly influenced by the economic environment of a country. <https://go.gale.com/p>

2.2 Empirical Evidence

According to Davis (2012) there is conflicting data about the true value of finance institution as developmental tools, while many finance institutions advertise high repayment rate and better quality of for their clients. The facts that a finance organization creates considerable downscale in poverty is inconclusive. To makes important influence finance institutions should be made

available to a very broad segment of public and be joined with entrepreneurial capacity on much of the joy of the activities early days has dissolute and few now see finance institutions on its own reduction for global poverty. Regardless of this emerging sense of practicality, there is still a comparatively broad agreement that providing financial service to the poor has touchable economic benefit, even if not the instant mitigation of customer poverty.

Mwinijilo (1987) has studied the causes of medium-term loan defaults in between smallholder farmers in Salima Agricultural Development separation of Malawi and found that about 50 % of the borrowers who had high defaulted given higher first round to non-farm uses of the income accruing from the use of loan assets. As cited in Solomon etay(2013)The income generated during the repayment period was used for personal consumption purposes such as health problems, domestic needs, payment of school fees and payment of private loans. Such hot issues took superiority over loan repayment.

According Okorie (1986) written that factors which had a incredible effect on the loan repayment capacity of State smallholders in Nigeria. These factors contain timely of loan disbursement, the nature of loan disbursement (in cash or in kind), number of supervisory visits made by loan officers after released, and the productivity of enterprises on which loan funds were invested.

According, Ike (1986) the problems of institutional agricultural loan recovery in Nigeria classified into three: farmer related problems, structural problems and unrelated problems. The author indicated that in Nigeria, a high percentage of farmers did not have now how about education or they are ignorant moreover the objective of the government he in granting agricultural loan been misinterpret Therefore, the loans were shifted to personal purposes, sometimes they are used for traditional ceremonies. Besides he was identified that some farmers could not manage their projects due to over sizing and mismanagement of loan.

Rosemarynduta Gatuhu(2013)on his study effect of credit management on financial performance in kenya, was employed descriptive statistics were used to analyze data analysis method. The study found that, credit risk control client appraisal, and collection policy has effect on financial performance

Matin (1997) in his study on the loan repayment performance of borrowers in Bangladesh obtained a significant positive relationship between household's asset/income position/ and its loan default status. He analyzed that related to this condition to a very strong exhibition effect where borrowers having comparatively small loan sizes perform in the similar way as those who have larger loans.

Batar et al (2008), explore factors influence loan repayment default in microfinance in north kenya who employed descriptive statistics data analysis methods and stated that credit policy provides the basis of all the credit management, it establishes objective standards and parameters to be followed by financial institutions employees responsible for the provision and processing of loans and management

According to hablasrat(2018), finding indicated in his analysis part of the study most of the bank employees have discontent on the credit policy and guidelines regarding loan discretion, time taken for loan processing, the schedule repayment , and unnecessary requirements for analysis. Retarding to attract potential loan and impeding client reputation clients were found as the major factors.

According study (Kulundu D.M. 1992) and cited on Solomon etay (2013) Kenyan small holder farmers using cross-sectional data and he found that loan diversion, use of purchased farm inputs, farm income and attitudes towards repayment had statistically significant impact on loan recovery; whereas crop performance, off-farm income and farmers education proved to have statistically insignificant influence on loan repayment. The results of the author regarding loan diversion activities showed that inadequate supervision and technical support as well as delay in loan delivery had significant influence on loan repayment.

Padilla and Pagano (2000),conducted study on sharing defaults information as a borrower discipline who stated that collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses increase profitability of the banking institutions the determinants of loan repayment,

According to Mengistu (1997) finding reflected on his study which was conducted on the Market Town Development Program (MTDP) the credit system for Bahir Dar and Awassa towns

employed a binomial probit model. For Bahir dar, the anticipation of repeat loan and number of workers employed by the credit beneficiary was positively related to full loan repayment; whereas access to additional credit sources loan diversion and are negatively related to repayments. On the other side, his research findings for Awassa depict those variables like total number of workers employed by the loanee; degree of education and weekly repayment period have a positive influence on loan repayment but have a negative effect on loan diversion.

Faizan& Malik (2015), has taken the credit terms and policy (CTP), client appraisal, collection policy (CP) and credit risk control (CRC) as the dimensions of the credit risk management practices.

Sheila (2011) has studied the cause of loan default in financial institutions found in Uganda. This is when in the loans department officers did not take a careful study about the applicants to ensure that he/she has a sound financial base such that the risk of loss is mitigated in case of default. On his finding, he points out that in Uganda; the issue of inadequate loan size has got another cause of loan default. Conducted a study by Alex Addae, (2014) has found that the reasons of loan default is insufficient loan sizes, high interest rate, poor evaluation, lack of monitoring, and improper client selection

Djankov, McLiesh and Shleifer (2007) studied the effects of credit management on loan repayment in private credit in 129 countries in Eastern Europe, financial managers of the finance institutions were interviewed and data analysis was conducted using descriptive methods. The findings of the study were concluded that credit management practices facilitated payment of loans. Japanese) and American banks owned by other ethnic groups of Americans (e.g., “white” American). The relative financial examination showed that Korean financial institutions were relatively conservative in managing operations and lending and were more actively involved in their services for international business and sales activities. The study also implied that the Korean banks’ loan quality was comparatively low and their loan market appears to have been soaked.

Simiyu, (2008) studied the techniques used by micro finance institutions in the management of credit risk in Kenya. The findings of this study concluded that microfinance institutions that implemented credit management practices reported the highest amount of revenue in form of

interest from extended credit to customers and firms. (Kasali et al, 2020) noted that when a company implements effective credit management systems, the firm's efficiency is enhanced

(Kasali et al, 2020) studied that the relationship between the credit management and financial performance in financial institutions in Nigeria. They have adopted descriptive survey research and data were collected from the staff and clients of two selected important financial institutions in Nigeria Regression and Correlation analyses were used to identify the causal associations between credit management and financial performance and some related explanatory variables. The results of the analyses showed that when a company implements effective credit management systems, the firm's efficiency is enhanced. According to Owizy (2013) he noted that the impact of credit management on financial performance of Nigerian banks, the data were collected from secondary sources mainly the annual reports and accounts of sampled banks from 2004 - 2008. Descriptive, correlation and regression techniques were used in the analysis with specially he referred to UBA Plc. he was employed financial ratios to evaluate of bank Performance and credit indicators. The findings discovered that credit management has a considerable impact on the profitability of Nigeria financial institutions.

Riach, M (2010), credit risk Management and policy implementations for microfinance institutions research page50 who observed that credit terms are normally looked at as the credit period terms of discount and the amount of credit and choice of instrument used to evidence credit.

Summary of Knowledge Gap .

Therefore, as maintained above, the review of the preceding studies shows that there is still need for analysis of the credit management practices in the MFIs in Addis Ababa. There are research gap which qualifies this study to be conducted. These include, the preceding studies are few in number, which implies, there is still knowledge gap; there is mythological gap in a sense that majority of the prior studies have employed descriptive research approach and are not comprehensive and failed to include all the necessary variables to measure the subject under study; there is context gap-that majority of the previous studies are conducted somewhere else, thus, the findings of these studies cannot be adopted and transferred to the study area-MFIs in Addis Ababa, as lesson.

Hence, this study will aim to assess the credit management practices and its effect on loan performance in the selected MFIs in Addis Ababa, and thus, to fill the aforementioned research gaps through employing recent data and sound research methods

2.2.1. Conceptual Framework

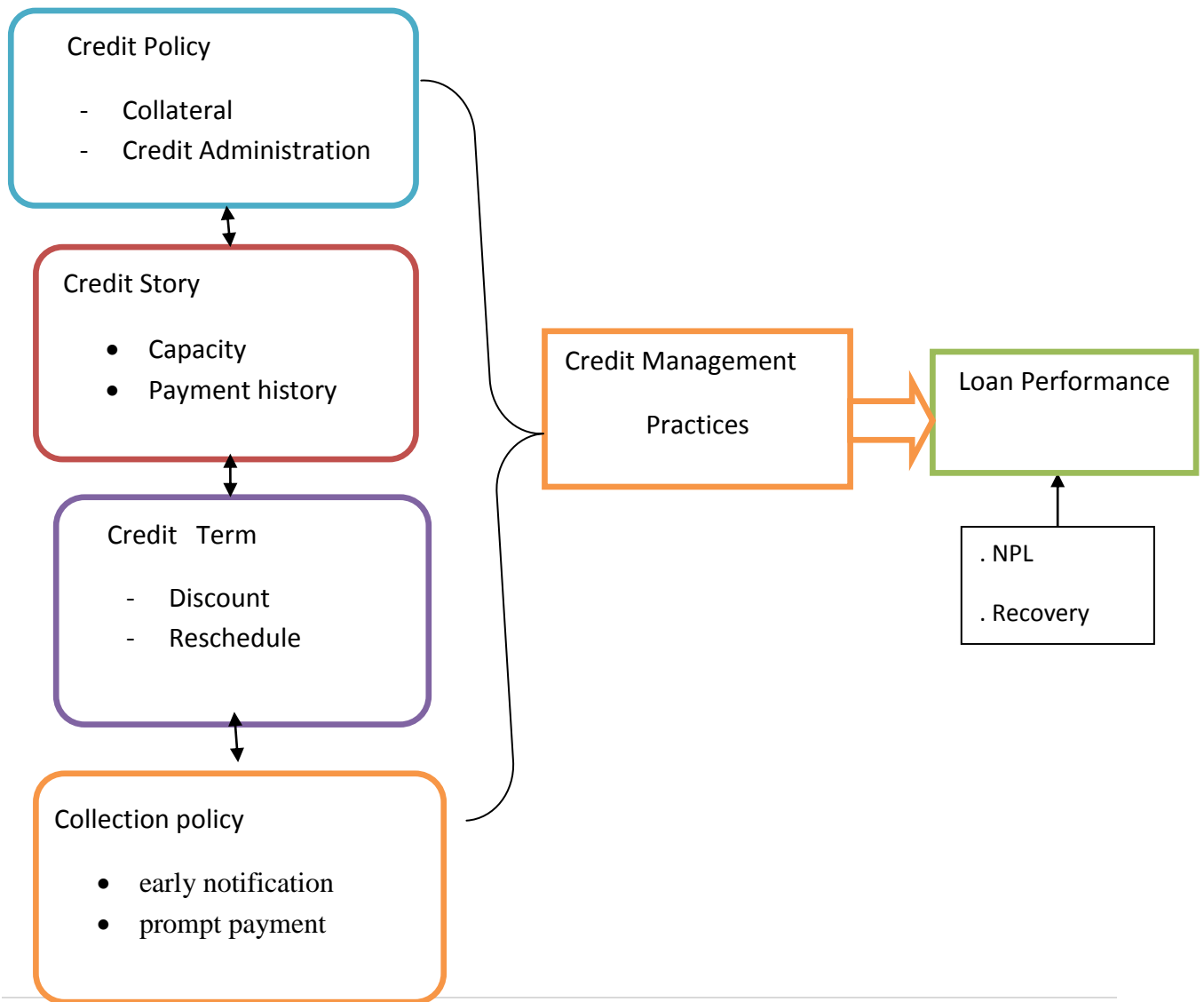
The purpose of theoretical review is providing the meaning of a word in terms of theories of a specific discipline. It will contribute to a better understanding of the concept and help in assuming both knowledge and acceptance of theories that relate to credit management practice.

Miles and Huberman (1994) states that conceptual framework as a systematic means with numerous disparities and situation.

It is also important to make intangible discrepancies and unify concepts. And mostly imperative in unifying strategies in empirical research according to (Gabriel Lopez, 2020). The conceptual base for this study is drawn from the theory of self-efficacy postulated by Bandura. Self-efficacy is concerned with people's beliefs in their capabilities to exercise control over proceedings that influence their lives. The four main sources of influence to developed people's beliefs in their efficacy are listed below.

High self-efficacy has been linked with numerous benefits to daily life, such as lifestyle, habit, improve employee performance and educational achievement. Conceptual framework explains, either graphically or in narrative form (both much preferred), the main functions of writing or constructing of conceptual framework is helps to have clear research findings.

The center of the study is Credit management practice of microfinance which is the dependent variable in this study and the independent variables are. To indicate the link between the dependent and the independent variables has been drawn from the conceptual framework.



Source: own developed, 2020

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This research study is conducted to assess credit management practice of MFIs in case of Addis Ababa. In this particular chapter, research design, population of the study, sampling design, data collection instruments and methods of data analysis are discussed in detail here under.

3.2. Research Design

Research design refers to the plan or road map identified to conduct research and best meet certain intended objectives, which also involves the intersection of philosophical or worldview position, research strategies and methods employed (Creswell, 2013).

In this study, the researcher opted to employ pragmatist philosophical stand, in view of the fact that the assumptions of pragmatic philosophical worldviews comply with the nature and methods to be applied in this study and are pertinent to address the research problem under study. Pragmatism philosophical position or worldview is real world practice centered, problem centered, pluralist and centers at consequences of actions. Besides, many scholars believe that it is best and compatible in mixed research designed as it gives room to researchers to incorporate multiple philosophical paradigms, methods, and data collection and analysis techniques.

This research adopted a descriptive and explanatory research design. The major function of descriptive research design is to explain the state of associations as it is happened. Descriptive research type is appropriate to describe the state of affairs of present situation of an event or problem in detail based on opinions, attitudes or practices that are observed or measured at a given time and environment (Kothari, 2004). Hence, the study has employed descriptive type of research to illustrate the existing credit management practices and loan performance based on survey of opinions of employees, interview and discussion with employees and management officials in the study area. On the other hand, explanatory research aims to bring ideas together in

order to understand cause and effect, and it helps to explain what is going on. It focus at how things come together and interact each other. Besides, it is better alternative in a sense that it aims to identify and test any causal links between the factors, indicators or variables related and relevant to the research problem under study (Neuman, 2007).Hence, in this study, the explanatory method is used to examine the relationship between credit management and loan performance and their link with the respective indicators.

This study has employed Concurrent mixed research approach in a sense that, both quantitative and qualitative methods are used; mainly because of the nature of the problem under study and the type of data required to answer the set research questions. According to Creswell (2013), qualitative research tries to assess experiences and events contextually and within their natural setting and attempts to analyze them holistically. Qualitative research a way or means to understand problem of human being and it could be in group or individuals in the study area. Whereas, quantitative research design uses statistical methods in describing patterns of behavior and generalizing findings from samples to populations of interest. to examine the correlations between or among the variables and to test theories objectively by using Quantitative research. As the name indicated variables has been measured by the help of quantities research are measurable in numerically by specifically on instruments, Hence by the help of arithmetic steps the row existing data can be able to analyzed. On the other hand, when we need to employed both research types which means qualitative and quantitative to bring together in a specific research is stated as mixed research design approach.<https://quizlet.com/67914921/research-chapter-one-flash-cards/>. to use both qualitative and quantitative or what it called mixed approach in a research has to involve assumption of philosophy . Thus, it includes collecting and analyzing both quantitative and qualitative data and incorporate elements of both qualitative and quantitative approaches (Creswell & Plano Clark, 2007)

3.3 Types, Sources, and Methods of Data Collection

3.3.1 Types of Data

This study has used both primary and secondary data, which also entail both quantitative and qualitative types.

3.3.2 Sources of Data

The sources of the primary data were sample employees, managers. The secondary data were collected from microfinance institutions, government proclamations, performance reports(july1,2016,2020), books, journals, Articles, and published and unpublished research reports relevant to the study.

3.3.3 Data Collection Methods

The Primary data were collected using three methods: survey questionnaire and in-depth interview with key informants. The survey questionnaire was developed by the researcher (own developed) to gather information from sample respondents of employees. The questionnaire includes both closed and open-ended questions, which enabled to gather both quantitative and qualitative data.

Semi-structured interview questions were organized to conduct interview with the key informant officials used to seek in-depth information about the practices of credit management and loan performance. The researcher used, in face-to-face approach with the sample senior managers, operated the interview. This allows being flexibility and generation of rich information about the issue under taken study.

Therefore, the foundation for using many sources of data has benefited to the triangulation of evidence. Triangulation increases the trustworthiness of the data and the process of gathering. Triangulation is the mixture of methodologies in the study of the same phenomena. Triangulation compares the results from either two or more different methods of data collection or, simply, two or more data sources.

3.4 Target Population and Sampling Design

3.4.1 Population of the Study

The target population of this study is 16 MFI found in Addis Ababa, of which 6 MFNs were selected based on lottery method-simple random sampling and employees of credit management, credit analysts and credit portfolio were the target group.

3.4.2 Sampling Frame

Sampling frame is the list of all elements in the population from which the sample is drawn. The sampling frame for this study were the list of all MFI found in Addis Ababa and the total professional employees found working in the six selected MFIs.

3.4.3 Sampling Unit

The set of sampling units considered for this study are officer employees in the microfinance institutions, and managers.

3.4.4 Unit of Analysis

The key informant managers in the microfinance institutions, officer employees who work in the MFIs, have been included as a sample was the unit of analysis for this study.

3.4.5 Sampling Techniques/Procedure

In this study, the researcher has employed both probability and non-probability sampling techniques to select representative samples for primary data collection. Multi stage sampling techniques/procedure is used to select the study microfinance institutions and target respondents (employees).

3.4.6 Sample Size and Sampling Techniques/procedure

Utilizing representative sample size in a scientific study enhances the degree of accuracy of a research finding, thus it in turn allows generalizing to the entire population, and consequently it ensures efficiency. Likewise, this study has employed the following formula to specify representative sample size to be included in the survey questionnaire (Kothari, 2004). In this study, the researcher has employed both probability and non-probability sampling techniques to select representative samples for primary data collection. Multi stage sampling techniques/procedure is used to select the study institutions and target respondents (employees).

There were 16 Microfinance institutions in Addis Ababa. Hence, since the population are heterogeneous, 40% six) of the Microfinance institutions are included in the sample and were selected based on lottery method-simple random sampling. Besides, there were 450 employees working in these six sample Microfinance institutions. Hence, of the total employees, sample employees and/or sample size was determined using the following Yamane (1967), i.e. calculated representative as follows:

Table 3.1 Number of Employees in the sample MFIs

Sampled MFIs	Total Number of Employees	Sample employee
PEACE	13	6
ADCSI	165	77
NISIR	33	16

MEKLIT	20	9
WASASA	32	15
OCR & SAVINGS INS.	187	88
Total	450	211

$$n = \frac{N}{1 + N(e^2)}$$

Where; n= sample size, N=population size=450, e= error term of 95 confidence level (5% is used).

$$\text{Hence, } n = \frac{450}{1+450(0.05^2)} = 211$$

Therefore, based on the above sample size determined, representative sample employees were drawn from each microfinance organizations, proportionally on random basis for questionnaire distribution. On the other hand, for the purpose of in-depth key informant interview, six higher managers from each sample institution were selected purposively and are interviewed.

3.5 Methods of Data Analysis

The primary and secondary (quantitative and qualitative) data collected from all sources using the aforementioned techniques were analyzed using appropriate models and analysis methods based on the nature of the data.

3.5.1 Quantitative Data Analysis

Quantitative research techniques are used to quantify the size, distribution, and association of certain variables in the study population. The quantitative data collected through questionnaire were first edited, coded and filtered and entered in to SPSS program version 25 and AMOS 21, processed and thus descriptive and inferential statistical analysis were carried out. To address each questions with quantitative in nature, descriptive statistics, Structural Equation modeling (Path Analysis, and Confirmatory Factor Analysis (CFA)), were employed and/or conducted. More specifically, to analyze the third question, CFA and Path analysis of Structural Equation Modeling (SEM), collaborate by SPSS AMOS 21 was employed to analyze the relationship

between constructs of latent variables of credit management and loan performance of the micro finance institutions.

3.5.2 Qualitative Data Analysis

The qualitative data obtained through interview was analyzed using qualitative method of Content, Thematic and narrative methods of analysis. Hence, the findings of the qualitative and quantitative data were triangulated and collaborated to address the research questions.

3.5.3. Model specification

Structural Equation Modeling (SEM) with path analysis was employed to estimate the effect of Credit Management Practice on Loan performance of Microfinance institutions. The model is specified as follow:

$$LP = \beta_0 + \beta_1 CP + \beta_2 CS + \beta_3 CT + \beta_4 CCS + u$$

Definitions and list of variables are given her below.

Where,

Lp = Loan Performance

CP = Credit Policy

CS = Credit Story

CT = Credit Terms

CCS = Credit Collection Strategies

u = Error Term

3.5.4 Definition of Variables

Description of the variables together with their expected signs is given below:

Dependent variable: Loan performance and it was captured using likers scale and expected to vary the loan performance with vary properly practice the independent variables were applied

Other observed characteristics:

1. Age: According to Vigano (1993) when one worker increase in age, he got and or expected to have more stable and it is usually expected that experience. Regarding the researcher has got as expected this variable had a positive impact on credit management performance.

2. Educational Level of Employees: This variable is expected to have a positive impact on credit management performance in general. Considering normal circumstances, relatively the

more educated Expertise has expected to manage effectively than the one with less educated expertise

Therefore the researchers expect a positive sign for the variable.

3. Work experience: is a time spent in work place learning about the activity role. And this variable had found as expected to have positive relationship with credit management in practicing the policy of the institutions. More experience employees expected to manage efficiently than with less experienced.

Key independent variables: Credit policy, Credit Story, Credit Term and Credit Collection

1. Credit policy: this variable would have positive relationship with loan performance, if the credit policies of the microfinance are found easily communicated throughout the organization and customers, implemented through appropriate procedure and has reasonable flexibility. if the variables is on the other side the loan performance of the organization becomes poor.

(<http://www.bwaresolutions.com/>).

2. Credit Story: as noted by Abedi,(2000).if the capacity, character and collateral of the borrower was evaluated regularly during the loan process time the Credit story would have positive impact on the dependent variable and the loan performance can has continuous increment. If the variable is not evaluated the loan performance would be decreased.

3. Credit term: Stiglitz and Weiss, (1981) noted that Credit Term is a contractual agreement between lenders and borrowers in order to limit the credit amount and credit period. If financial firms made the term attractive more to act as an incentive to clients and practice properly the variable is expected to have not only positive effect but also increased the loan performance of microfinance. If practiced on the other hand the loan performance would deteriorated.

4. Credit Collection efforts: If the collection techniques were properly applied, this variable is expected to have positive and directed at accelerating recovery from slow payers and decreases Bad debts losses and increase loan performance of microfinance institution. Methods used by Microfinance institutions could include establishing early notification systems smoothly, visits by the firm's officials for face to face reminders to pay and legal enforcements (Anderson, Williams &Sweeney, 2009). Rajedom (2010) asserts that collection policy is a guide that ensures prompt payment and regular collections.

3.6. Ethical Considerations:

Ethical considerations in research are critical. Ethics are the norms or standards required to distinguish between good or bad and/or right and wrong act. Moreover, when it comes to the research work, they play multiple roles. First, ethical principles prevent alongside the fabrication or falsifying of data and therefore, encourage the pursuit of knowledge and truth which is the primary goal of research. Ethical behavior is also critical for collaborative work because it encourages an environment of trust, accountability, and mutual respect among researchers.https://www.academia.edu/38953264/Examining_the_Significance_and_Value_of_Project_Management_Office This is especially important when considering issues related to data sharing, co-authorship, copyright guidelines, confidentiality, and many other issues.

3.7. Preliminary Tests

Reliability Test the coefficients of reliability test (Cronbach alpha) for the questionnaire items were calculated using SPSS-25. Accordingly, the value of alpha for the questionnaires that were administered to the Employees and managers the instruments are reliable this lie down within the cut off which is between the minimum 0.7up to the maximum of .95Jun 27,2011www.ncbi.nih.gov> articles >p

Table3.2 Summary of the Chronbach Alpha (coefficient of reliability test)

Variables	Chronbach Alpha	No of items
Credit policy	.90	5
Credit story	.86	4
Credit Term	.88	3
Credit Collections Strategy	.901	4
Loan performance	.810	3
All in one	.907	19

Source: SPSS V25 computed results

Hence, as it is observed in the above table 4.1, the instruments are reliable, as the alpha values are above the minimum required threshold 0.75 (75%). and below .95%

3.7.1 Normality test

Normality test using SPSS: which tests whether dependent variables are approximately normally distributed for each category of independent variables or not, investigate by numerical and visual output using skewness and kurtosis z- values and (should be in the spam of -1.96 to 1.96)Cramer,D.(1998) Fundamental statistics for social research. London the skewed and the

skewness measures should be close to 0 as possible. Therefore the result of skewness and kurtosis found in between the range, which means 0.21 up -0.32 respectively, which is close to zero and the distributed dependant variables are normally distributed to the independent variables symmetrical. Hence we can assume that the data are approximately normal distributed and the instrument are reliable.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This study was intended to analyze Credit Management practice and loan performance of six MFIs in Addis Ababa. This particular chapter was designed to present the results of the study on the based on the analysis of both quantitative and qualitative data collected through employees and managers survey, in-depth interview. The presentation of results was performed in accordance with three research questions of the study:

1. How is the credit management practice of the MFIs?
2. How is the loan performance in the study area?
3. What is the effect of credit management practice on the loan performance in MFIs?

This chapter dealt with the presentation of results section by section. Accordingly, the first section described the reliability test, response rate and demographic characteristics of the respondents participated in the study. Then after, the results generated from quantitative and qualitative data were presented keeping the sequence of the research questions. The quantitative data were analyzed and presented by using descriptive and inferential statistics, based on the nature of the research questions. Then after, qualitative data is analyzed and triangulate and answer each research questioners

4.1 Response Rate

Table 4.1 Performance of Questionnaires Administered

Questionnaires	Frequency	%
Distributed	211	100
Collected	201	95

Field Survey 2021

As it can be seen from the Table1 the researcher were distributed 211 questionnaires to employees of and executive officer of the six microfinance institutions who were engaged in credit and some other related areas. Meanwhile only 201 (95%) percent of the distributed questionnaires were backed and get valid. As the distribution and collection of questionnaires is managed by self and assistant of others whom the researcher believed to have experience in the area together with high cooperation rendered from the employee the achievement was to the required level and this has enabled to take out sufficient and relevant information to the objective of the research.

4.3. Demographic Characteristics of the Respondents

The other variables which has its own a great influence in the credit management practice of during how loans and advance are treated in the financial institutions is demographic nature of the employee were employed her below in the form of table Thus, in this research process are demographic of respondents like gender, age, educational level, and credit related experience are assessed

Table 4.2Age category of respondents

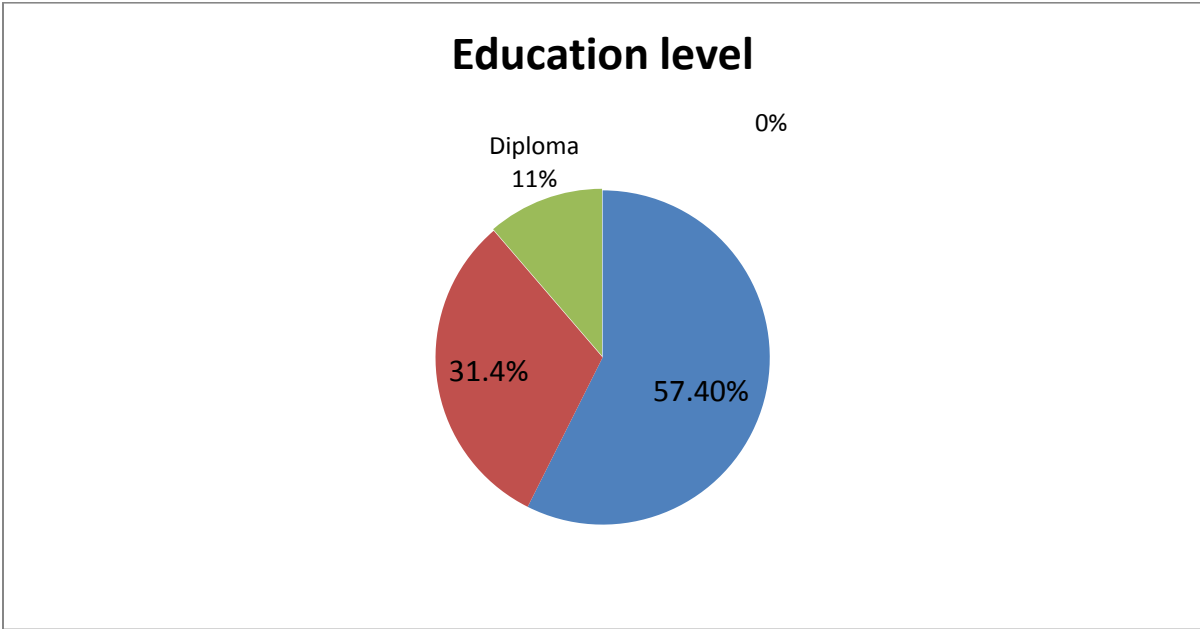
Age Group	Frequency	Percent	Validity percent
18- 25	31	15.3	15.4
26- 35	111	55	55.2
36- 40	35	17.3	17.4
➤ 45	24	11.9	11.9
Total	201	100.0	100.0

Source filed survey 2021

As shown in the above table 4.2, 24 (12%) of the total 201 respondents belong to age group of 45 and above, 35 (17.3) fall under 36-40, 111 (55%) are in the age of 26-35, 31 (15.3%) are in the 18-25. Hence, from this implies that about 70% of the employees are youths noted that with

less in age, and it is usually expected that employees did not get more stability and experience. So this variable has a negative impact on credit management performance.

Figure 4.1 Level of Education

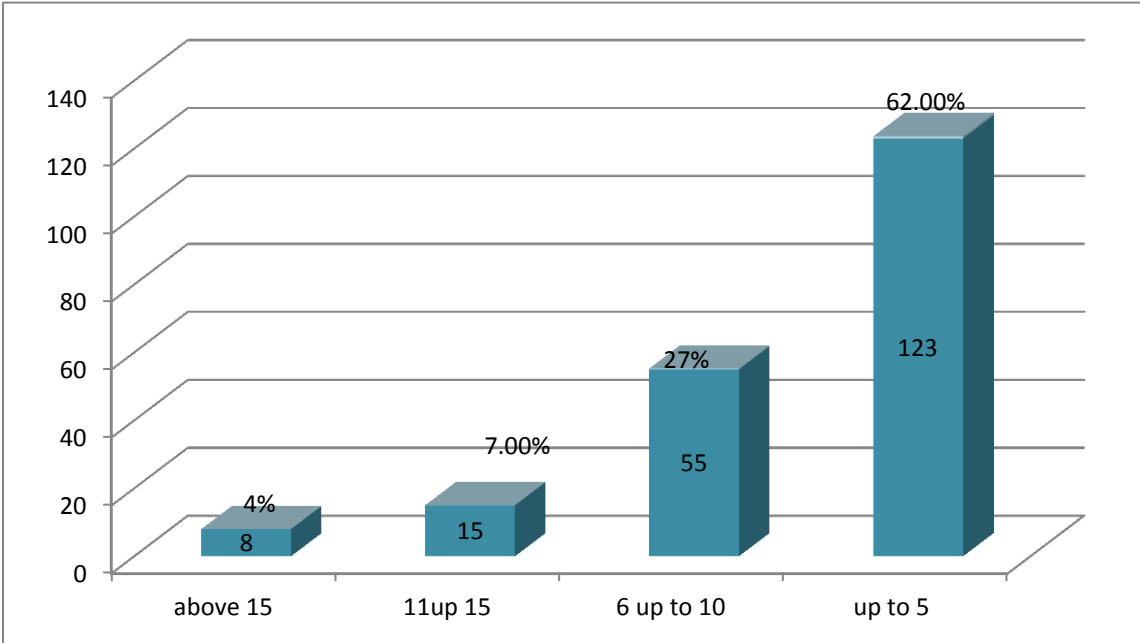


Source filed survey 2020

As shown in Figure 4.1, above the majority 116 (57.4%) of the total 201 sample respondent where first degree holders, 63 (31.3%) Masters and above holders and the remaining 22(1.9%), where attained Diploma. Hence, it can be generalized that, 80% of the respondents are attained

first and second degree education. So that this variable has positive sign on the credit management practice and loan performance of the microfinance institution

Figure 4.2 Work experience in years



Source filed survey 2020

The above figure 4.2 shows the percentage of the years of experience the respondents had working in credit management. This question was asked because the researcher wanted to know how experienced the respondents were in the area of credit management.

The results showed that 123(62%) have 0-5 years' experience working in credit management area and the remaining employees with experience of 6-10, 11-15 and above 15 years represented 55(27%) 15(7%) and 8(4%) respectively. This indicates more than half which is 62% of the credit department staffs have less than 5 years work experience and this may affect negatively the credit area or the credit management in total.

4.4. Credit Management Practice

To answer how credit management is practiced in the microfinance institutions, all the MFIs are expected to have their own well formulated credit policy and credit standard which helps to go with their own customers during granting loan. On the other hand these policies and procedures must be compliance to the policy of the regulating body, which is the National bank of Ethiopia in our country.

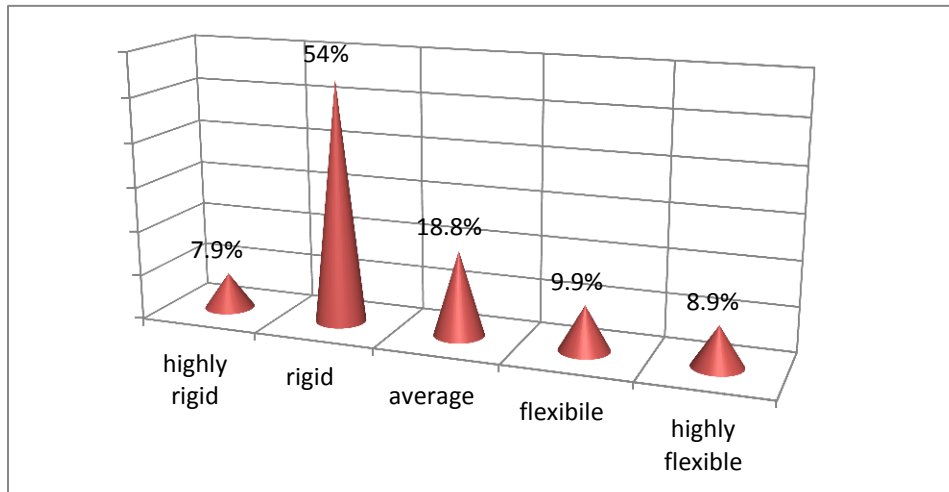
The amount of capital released to the borrower's should be collected or repaid back in order to protect the business from bad debts. To do so the financial firms must come up with policies and procedures. The policy and procedures are implemented and maintained by Credit management. There for all loans and credits the most important rationale for regulation in financial institution is to address concerns over the safety and stability of the financial sectors as a whole or the payment system.

In any financial institution have tolls like credit policy and credit procedures used as a technique during the credit management process in order to protect from exposure risks, misadministration of credit lines and non performing loans.

Credits are expected to go through the policy and standards of each microfinance institutions. So the researcher tries to assess how credit managements are practiced. The main role of credit policy is to provide a framework for consistent credit decisions, compatible with the goals of the credit function. Most of the time credit policies require regular evaluation and clear documentation.

Every microfinance institutions shall be expected to established their own loan policy and procedures under the directives of the Nations Bank in order to outreach social responsibility. Having this in mind, the respondents were asked for their opinion-agreement or disagreement

Figure 4.3 the extent of flexibility



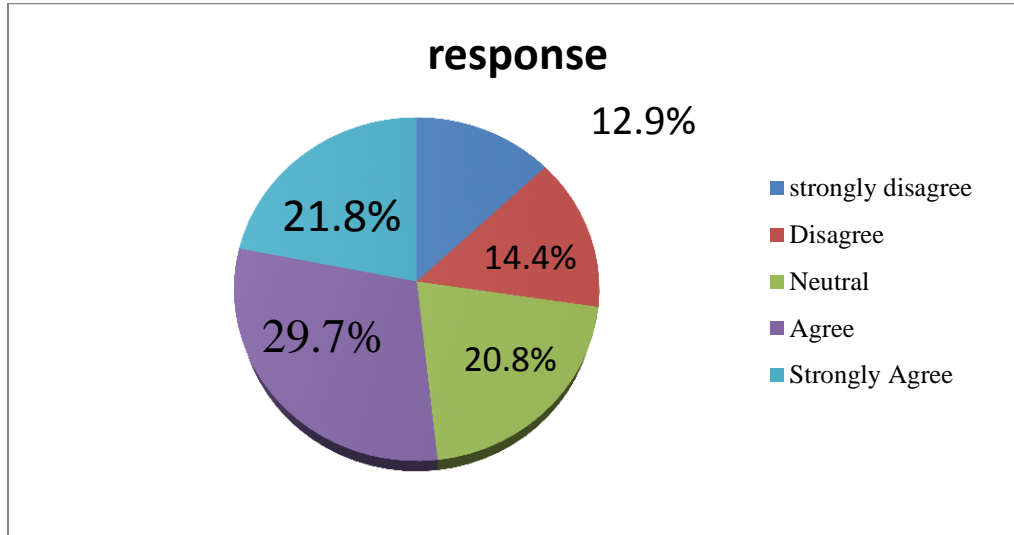
Sours computed SPSS V25 2021

Respondents were asked state of flexibility of the credit policy on their microfinance institutions as seen in figure 4.3, 109(54%) of the total sample201 respondent are stated the policy and procedure is rigid with 16(7.9%) highly rigid, 38(18.8%) average rigidity, 20(9.9%) and 18(8.9%) Hence, 125(62%) of the respondent (that says rigid and highly rigid) agreed that the policy and procedure of the MFIs are not flexible with regards to the customers profile and the reaming76 (38%) had agreed that it is average and highly flexible. Hence with such kind of policy and procedure can affect the quality practice of credit administrations as well as the loan performance would decrease.

A Credit is the main ways of income generating for all financial institutions in the globe. Therefore the credit Policy of each financial institution must be clear, understandable, easily communicable to the entire employee within the company: it is not only operated by the specific credit or risk department. Moreover financial firms must be conscious of the credit policy as that is operated consistently in order to have effective outcomes in credit management. If financial

firms have no well-developed credit line the consequence would lead to bad debt and total bankrupts of the organizations surprisingly.

Figure 4.4 Understandability of policy and procedure of MFIs



Source computed SPSS V25 2021

As shown in the figure 4.4 above, respondents were asked whether employees worked in the credit department have full understanding about the credit policy and procedures of the institution majority of the respondents (52%) replied that as agree or strongly agree that all employees are well represented in the policy and procedure of the MFIs.

On the other hand, 21% replied as neutral and the remaining 27% strongly disagree and disagree with the statement. Hence most of employees have the awareness of policies and procedure of MFIs would have significant impacts in the practice of credit management as.

Table 4.3 Credit policy

Credit policy questions	Strongly disagree		Disagree		Neutral		Agree		Strongly agree	
	freq	%	freq	%	freq	%	Freq	%	freq	%
Q4. CP1. Loans and credit are processed based on the policies and standards of the MFIs.	33	16.3	27.	13.4	50	24.8	61	30.2	30	14.9

Q5.CP2. Customers are often given sufficient training on loan usage	66	32.7%	74	37.1%	22	10.9%	38	18.8%	0	0%
Q6.CP3. The MFIs has well-structured documentation tracking systems for credit and collateral files	65	32.2%	72	35.6%	40	19.8%	24	11.9%	0	
Q7. CP4. Collateral coverage is regularly assessed and related to the borrower's financial positions	33	16.3%	57	28.2%	56	27.7%	23	11.4%	32	15.8%
Q8. CP5. the loan policy and procedures of the MFIs are in line with NationsBank Directives'	48	23%	42	20.8%	25	12.4%	54	28.7%	28	13.9%

Source computed spss25 2020

The sampled respondent witnessed in the above table 4.3. As indicated in table 4.3 item Q4 respondents were asked whether, loans and credit are processed based on the policies and standards of the MFIs. With this regard, 33 (32.7%) of the respondents strongly disagree while 27 (13.4%) of respondents disagree. On the other hand, 50 (24.8%) respondents neutral on the issue, 61 (30.2%) of respondents disagrees and 30 (14.9%) strongly disagree. This denotes that around (strongly disagree, disagree) 46% of the total 201 sampled witnessed the loans and credits are realized with out of the policy standards of the Microfinance institutions. Hence this increase the tendency of non-performing. In same table item Q5 respondents were asked whether the Customers are often given sufficient training on loan usage. The majority of respondents 66 (32.7%) strongly disagree. On the other hand, 74 (37.1%) of respondents disagree, 22(10.9 %) of respondents neutral, 38 (18.8%) of respondents agree. This infers that majority or 69.8% of the respondent side training how to use the loans is not given to customers and this strongly affects the credit management practice and to computes in the markets as institutions.

As can be seen from item Q6 of table 4.3, 66(32.2%) of respondents strongly disagree that the MFIs has well-structured documentation collection systems for credit and related files, 72(35.6%) of respondents disagree, while 40(19%) of the respondent replied neutral and the remaining 24 (11.9%) of respondents agree on the same issue. This implies that the MFIS's are poor in fully practiced to have well-structured documentation separately tracking systems for credit and collateral files. Hence the poor recording manages can lead to these systems issue:

Excessive amount of time is wasted sorting through messy filing and this forcing the company to pay premium price for document storage.

Collateral is something which is proportional property to that of borrower 'stake as a loan amount in order to make secured lender's collection loan. The collateral service as a lenders protection against borrowers default and so can be used to offset the loan if the borrowers fails to pay the principal and interest satisfactorily under the terms of the lending agreement. It is expect that continuous value estimation of the pledge property and is view. To evaluate the collateral or the property the lender can assess the balance sheet and any legal claims filed of the new applicant's rather the pledge property can loss it quality and usability do time and depreciation. Hence regularly assessment and estimation is fundamental with respect to the client's financial positions.

Having this in mid the researcher tried to analyze how to practice on the ground especially with microfinance institutions. In item Q7 of table 4.3, respondents were asked whether there Collateral coverage is regularly assessed and related to the borrower's financial positions. As we seen from the findings on table 4.3 above 33(16%) 57(28.2% of the total sample201 respondent are strongly disagree and disagree respectively, 56 (27.7%) are stated neutral. Furthermore, the rest 23(11.3%), 32(15.8%) of the sampled respondent are witnessed as they are agreed and strongly agree.44% of the total 201 sampled respondents are witnessed that microfinance's institutions are not regularly assessed Collateral estimation as per the client's business performance. This implies that microfinance institutions can loss pledge property to recovers the loans as expected.

As shown on the table 4.3(Q8) 48(23%), 42(20.8%) of the total sample201 respondent are strongly disagree and disagree respectively.25 (12.4%) are stated neutral, 54(28.7), 28(13.9%) of the sampled respondent are witnessed as they are agreed and strongly agree respectively that the credit policy and credit procedures of the microfinance institutions are compliance with that of National banks of Ethiopia's regulation and directions, which is the regulatory body of the whole nation. Hence this shows that micro finance institutions are working out of the directives of the National banks of Ethiopia and has negative impacts on the credit management practice. And lead to bad loan performance of each microfinance of institutions.

Ranking internal factors which affects credit decisions.

Her respondents were asked to rank from 1 up to 4 on internal factors as to which factor affects the credit decision making in the microfinance institutions. Therefore there are different factors, which affect in credit decision making internally. Of which, the major four factors are ranked as follows.

1st Submission of incomplete data by the prospective borrower

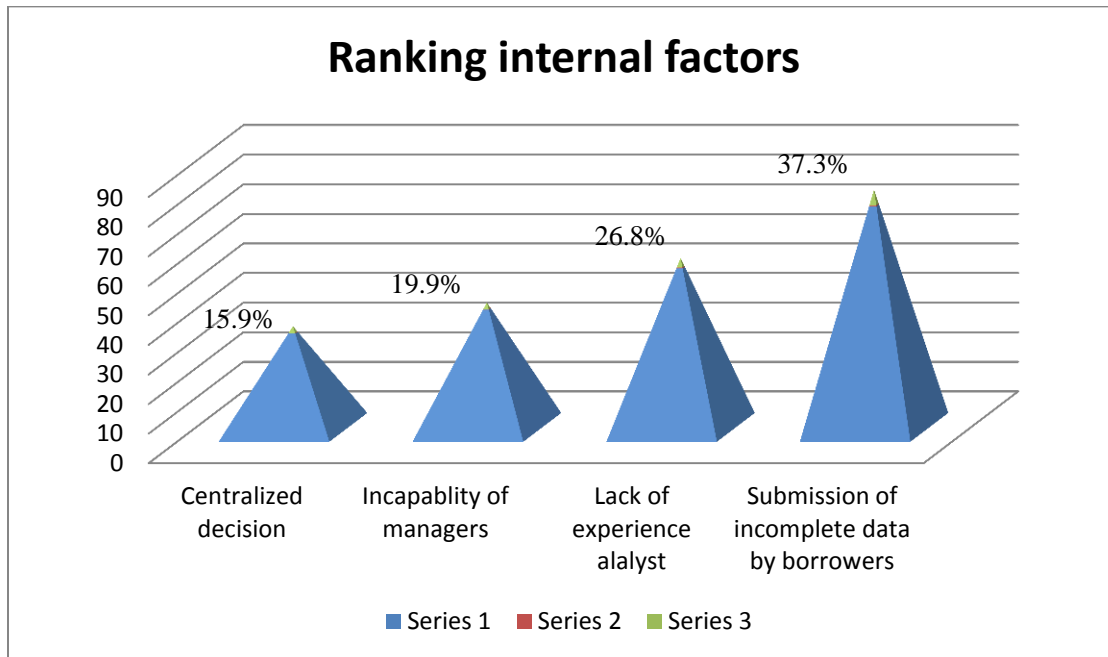
2nd Lack of experience analyst

3rd Incapability of managers

4th Centralized decision making process

From the figure below, the researcher asked to assessed the response on the factors that affect credit decision making internally, and the result showed 75(37.3%) of the total201 sampled respondents ranked first factor which affects credit decision making is the Submission of incomplete data by the prospective borrower. 54(26.8%) of the respondent lack of experience analyst is ranked as the secondary internal factors for credit decision making, the respondent replied as third factors for credit decision is incapability of managers. Centralized decision making process was rank as fourth factor for credit making decision. From this we can conclude that MFIs should focused on this listed factors

Figure 4.5 Ranking internal factors of credit decision making



Source computed SPSS V25 2021

Table 4.4 Descriptive Statistics

	Mean	Std. Deviation	N
Mean of Credit Policy/standard	2.7505	1.06857	201

Source computed SPSS V25 2021

as shown from the finding the credit standards of the credit management was in practiced with mean of 2.75 and standard devotion 1.06 this is practiced below the average. A credit story is a fundamental determinant of credit managements, in this step the firm trays to asses and get same important records of information such that contractual agreements financial issues, about the new applicant using debt ratios and liquidity ratios and return on asset or any legal pending case could be help us to examine the character of borrowers.<https://www.coursehero.com/file/pajgf4/The-five-Cs-of-Credit>

The current financial positions of the borrower’s business climate or any other special or unique conditions may offside one or both of the party to make decisions whether elongate for more favorable term or to reduce the credit terms. or the firm make an assessment a special condition which can be influence the firm of the borrowers. <https://www.coursehero.com/file/pajgf4/The-five-Cs-of-Credit>

Based on this concept the researcher motive to raise question how it could perform

Table 4.5 **Credit story**

Credit story	Strongly disagree		Disagree		Neutral		Agree		Strongly agree	
	freq	%	freq	%	freq	%	freq	%	freq	%
4. the loan eligibility standards and formats used by the institution are well developed and important to collect complete information about applicants	21	10.4 %	45	17.3 %	50	24.8	62.	35.6%	23	11.4
5. The MFIs properly assessed the customer financial ability /capacity to meet loan obligation	31	15.3	55	19.3	50	24.8	48	31.2	18	8.9 %
6. Assessing client payment story	20	10%	58	28.7 %	45	22.2 %	62	30.7%	16	8%
7. Assessing clients characters	23	48	55	17	26	13	57	28	40	24

Source computed SPSS V25 2021

As indicated in table 4.4 item (Q4) respondents were asked whether the loan eligibility standards and formats used by the institution are well developed and important to collect complete information about applicants. With this regard, 21 (10.4. %) of the respondents strongly disagree while 37 (17.3%) of respondents disagree. On the other hand, 50 (24.8%) respondents neutral on this issue, 63 (31.2.6%) of respondents agrees and 18 (9%) strongly agree. 61% of the total 201 sampled respondents are witnessed that the standards and formats used by the institution are eligibility and important to collect complete information about applicants. This can help in identifying the loan applicants.

In same table item Q5 respondents were asked whether the MFIs properly assessed the customer financial ability /capacity to meet loan obligation. The respondents 31 (15.3%) strongly disagree, 39 (19.3%) of respondents disagree, 50(24.8 %) of respondents neutral, on the other hand, (18.8%) of respondents agree. while 37 (17.3%) of respondents strongly disagree. This infers that 40% of the respondent underlined that proper capacity assessment was mad about the applicants. Hence it involves the credit investigation of a potential customer to determine the degree of risk in the loan. The creditworthiness of the applicant calls for a detailed investigation.

As can be seen from item Q6 of table 4.4, 20(10%) of respondents strongly disagree that The MFIs Assessing client payment story and 58(28.7%) of respondents agree on the issue. Whereas 45 (22%) of respondents are neutral, on the other hand 62 (30.7%) of respondents disagree, while 16(8%) strongly disagree. Majority of the sampled respondent perceive that payment story of applicants is investigated.

Capacity: It represents the debt payment capacity a good borrowers .earning can be taken as indicator of credit payment capacity .for instance, for a poor farmer, the capacity can be determined by looking the possible discretionary income he/she can have .That income left after meeting requirements like food, & clothing. The average family size should be taken in to consideration since it affects the discretionary income to a large extent. A family with three members can have better discretionary income than a family with six members because the total income that seem to be fixed is going to be shared by large numbers as the family size increase

In same table item Q7 respondents were asked whether the MFIs properly assessed the customer assessing client's characters. The respondents 23 (11%) strongly disagree, 35 (17%) of respondents disagree, 26(13 %) of respondents neutral, on the other hand, 70 (38%) of respondents agree. while 47 (24%) of respondents strongly disagree. 62% of the total 201 sampled respondents perceive both agree and strongly agree on the assessment of clients character, and the 28% of the respondents were not agreed with assessment of clients character on the MFIs. This implies that most of the microfinance institutions greatly assessed.

Character: It tells to the extent of which the borrower is willing to pay or not willing to pay his credit weather he/she has the capacity to pay or not. it recommend us a hint about personal behaviors of the borrowers it includes the responsiveness and attitude towards loan repayment. Such issue are be screened through the credit department with using serious interview. Example previous credit experience which including manner of Meeting finical obligation with individual companies, groups. E.g. that has good performance & character to pay their debt. (James Ballard, 2002)

Table 4.6 Descriptive Statistics

	Mean	Std. Deviation	N
Mean of Credit Story	2.9739	1.13946	201

Source computed SPSS V25 2020

The finding of the above table is analysis of clients credit story is mean 2.97 and 1.1 standard deviation was practiced or it is practiced below average.

According to (BEATTLE 2014) A Credit term is under which a firm grants credit to customers a contractual stipulation. Moreover such a terms give the credit phase and the credit limit and The firm should make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing organizations risk. Credit terms usually specify the credit period, interest rate, method of calculating interest and payment period of loan installments. Discounts are obtainable to encourage clients to pay up within the predetermined period or before the end of the credit period .This discount is normally expressed as a percentage of the loan. Discounts are meant to accelerate timely collection to cut back on the amount of doubtful debts and associated costs .<https://studylib.net/doc/8171764/credit-policy>

Table4.7 Credit Term

Credit Term	Strongly disagree		Disagree		Neutral		Agree		Strongly agree	
	freq	%	freq	%	Freq	%	freq	%	freq	%
8. The MFIs has more attractive credit terms to act as an incentive to clients CT1	10	9	100	49.5	75	37	8	4		
9. Assessment of borrower's Market conditions is carried out to limit loan term CT2	19	9	79	39	36	17.8	53	26	15	7.4
10.loan reschedule is made to the payment period CT3	16	8%	57	28%	44	22%	66	32.7	18	9%

Source computed SPSS V25 2021

In Table 4.7 Customer credit term is also cited as a factor that determine access to credit in item (Q12) respondents were asked whether the MFIs has more attractive credit terms to act as an incentive to clients, 10(9%) strongly disagree, 100(49.5%) disagree, 75(37%) neutral,8(4%) agree. The survey found that virtually majority (60%) witnessed have no attractive a credit term, although only 4% regard it as an incentive for credit terms fully: Therefore it is not unexpected included an ethics code on credit administration practice within their policy declaration. therefore The firm must construct terms more smart to act as an motivation to clients without incurring unnecessary high levels of bad debts and increasing organizations risk <https://www.termwarehouse.com/essayk>

Item (Q9) on the same table respondents were asked whether Assessment of borrower's Market conditions is carried out to limit loan term 19(9%) of respondents strongly disagree, 79(39%) disagree, 36(17.8%) has Neutral and on the other hand 53(26%) Agree and 15(7.4%) Strongly agree. 58% of the respondents indicated that there is no set of standards that a MFIs uses to identify and to give decision whether to extend a loan or not about the loan applicant and that analysis of past borrowers and market conditions limit the risk of a borrower not making credit payments or defaulting on loaned money to a very great extent as indicated. This implies that MFIs must focused on the credit standard which helps to identify the capacity and market conditions of loan borrowers in order to limit credit term and properly managed the credit management of the financial institutions involving care credit standards. This is in line with cited on MOMAJOHN,(2019)and noted by Kakuru,(1998) that it's important that credit standards are with regards on the individual credit request by taking into account character assessment, capability, circumstance, and collateral and security capital

On the same Table item Q10 respondents were asked whether loan reschedule is made to the payment period of the total sample 201 16(8%) respondent are strongly disagree 57(28) and disagree respectively, 44 (22%) are stated neutral, 66(32.7), 18(9%) of the sampled respondent are witnessed as they are agreed and strongly agree respectively. Majority of the survey perceive that loan reschedule is made to the payment period because. Lack of credit terms may cause to increase the risk of financial institutions and to incurred high levels of bad debts. which can effects loan repayment directly. Moreover, the interviewee participants explained that that clear method of calculating interest and loan repayment installments and determining the credit period effects loan repayment

Table 4.8 Descriptive Statistics

	Mean	Std. Deviation	N
Mean of Credit Term	2.7562	.94560	201

Source computed SPSS V25 2021

as seen from the table above mean of credit term is 2.75 and standard deviation .94 this implies that the credit term policy is practiced in below average the credit management practice

Credit Collection Strategy is one of the determinant factors of credit management process. The collection process can be rather expensive in terms of both product expenditure and lost good will (Tandelilin, Kaaro, & Supriyatna, 2007). Collection efforts may include attaching mandatory savings forcing guarantors to pay, attaching collateral assets, courts litigation. Methods used by MFI could include letters, demand letters, telephone calls, visits by the firm's officials for face to face reminders to pay and legal enforcements.

Zimmer (2003) asserts that collection policy is a guide that ensures prompt payment and regular collections. The requirement of Collection procedure in financial firms are to approach smoothly step by steps for those some clients not in positions to pay back their loan in time.

Hence a collection effort helps increasing repayment rate and on the other side avoided the possibility of occurrence bad debts. According to Dawkin (2010) stated that prompt payments aimed at increasing turn over keeping low bad debts. Collection efforts helps increasing repayment rate and on the other side avoided the possibility of occurrence bad debts this has direct effect on the incremental of profitability of the financial firms. The steps used by Microfinance institutions could include letters, demand letters, personal visiting to deal with the delays, calling through phone or may take to legal enforcements (Anderson, Williams & Sweeney, 2009). Rajedom(2010)

Table 4.9 credit collection

Credit Collection strategy	Strongly disagree		Disagree		Neutral		Agree		Strongly agree	
	Freq	%	freq	%	Freq	%	Freq	%	freq	%
11. sales of property to recover loan	14	7%	42	20.8%	5	2.5%	115	57%	25	12.4%
12. Provide incentive for prompt payment	25	12.4%	27	13.4%			87	43%	62	30.7%
13. establishing early notification systems smoothly	13	6.4%	51	25.0%	31	13%	83	40.6%	24	12%
14. Leave the defaulters to pay at their own free will	50	29%	65	32%	40	20%	36	18%	10	5%

Source computed SPSS V25 2021

As shown on the table 4.9 above respondents were asked whether sales of property is used as alternative to recover loan 14(7%), 42(20.8%) of the total sample 201 respondent are strongly

disagree and disagree respectively and on the other hand 5 (2.5%) are stated neutral, while 115(57%), 25(15%) of the of the sampled respondent are witnessed as they are agreed and strongly agree respectively.

The survey found that virtually majority (73%) witnessed that. Besides, majority (73%%) of the respondents strongly agree and agree that the microfinance sectors used to sale the pledge of specific property to secure repayment of loans. On top of that, Collection efforts (like; telephone calls, visits by the firm’s officials for a face to face reminder is not practiced effectively and properly. Therefore, implies that, there is no adequate Collection efforts service or incentive strategies for all types of collection in the required time as per the required standard.

In the same table item (Q12) respondents were asked whether Provide incentive for prompt payment

25 (12%), 27(14%), of the total sample201 respondent are strongly disagree and disagree respectively and on the other hand are stated 87(43%) agreed,62 (30.7%) strongly agree of the of the sampled respondent are witnessed as they are.

Item (Q13) of the same table has risen establishing early notification systems smoothly as a strategy in retrieving credit and 13(6.4%) of respondents strongly disagree 51(25%) of respondents disagree and 31(13%) neutral and on the other hand 83(40%) agree, 24(12%) strongly agree on the same strategy.

Same table item (Q14) 50(29%) of respondents strongly disagreed that Leave the defaulters to pay at their own free will as a strategy in retrieving credit, 65(32%) disagree, and 40(20%) neutral, while36(18%) agree and 10(5%) had strongly agree on the same strategy

This implies sales of property to recover loan, Provide incentive for prompt payment, establishing early notification systems smoothly are the best strategies to retrieve the loan. Leave the defaulters to pay at their own free will is not. This is in line with Padilla and Pagano (2000), who stated that collection efforts are like: Provide incentive for prompt payment and establishing early notification systems smoothly.

Table 4.10 Descriptive Statistics

	Mean	Std. Deviation	N
Mean of Credit Collection	3.2152	1.15598	201

Source computed SPSS V25 2021

As we see from the findings in Table 4.10 the credit collection strategy is practiced by mean of 3.2 and standard deviation of 1.1 which means it is not bad and not good it is on average.

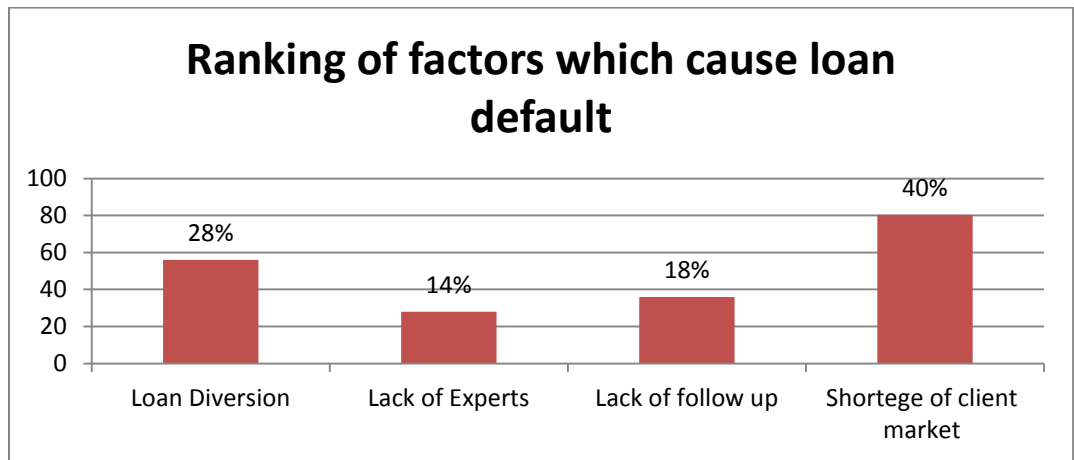
4.5.1 Descriptive Analysis Research Question 2:

How is the loan performance in the study area

Loan performance is among the essential factors, which determine individual microfinance institutions financial capacity. Loan performance according the international monetary fund (IMF) a performing loan is any loan in which: interest and principals payments are less than 90 days overdue. Whenever borrowers were not imposition to pay their obligations/ principals and interest on time which was issued by any financial institutions is side to be non-performing loan. A loan stay bout 90days or three months overdue is side to be or categorized under non-performing (NPL). This may influence additional granting loan to new customers or expansion of the existed clients and declined profitability in general researchers tried to assess how the loan performance is in the study area by selecting different factors, which affect loan performance. Of which, the major four factors are

- Lack of market for clients’ product
- Loan diversion made by borrowers
- Lack of experts
- Lack of follow-up

Figure 4.6 Factor which cause for default



Source computed SPSS V25 2020

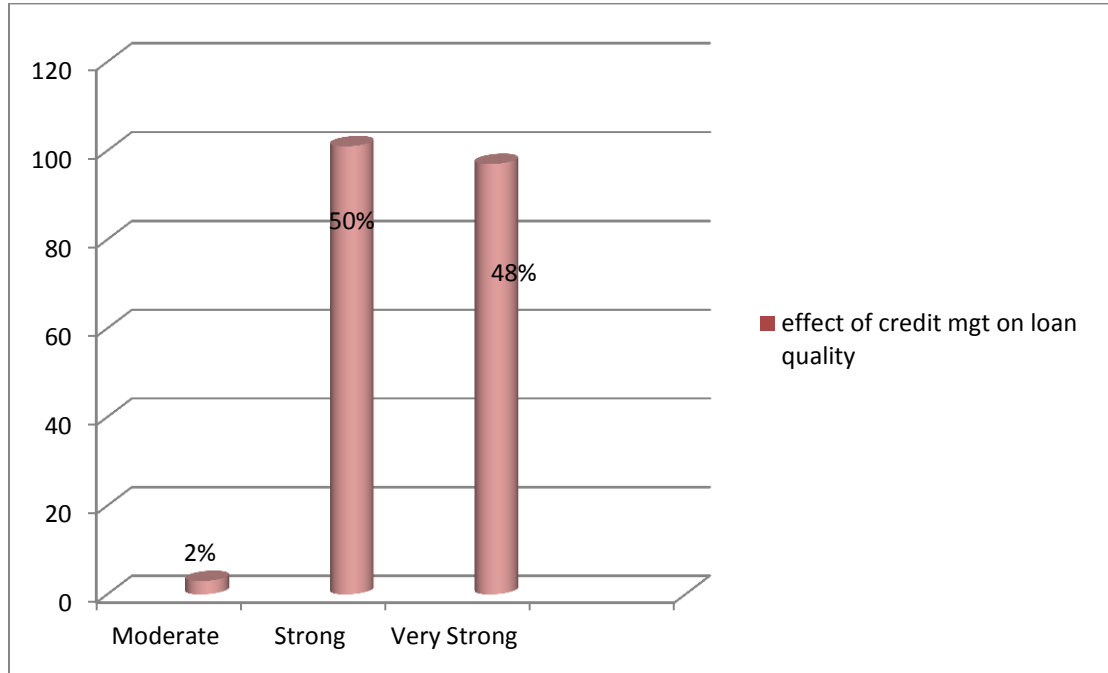
As displayed in the Figure 4.5 above, majority of the employees 80(40%) replied that the Lack of market for clients' product is the basic reason behind Loan default, 56(28%)of the respondents replied loan diversion made by borrowers which was ranked as a second reason and 36 staff respondent (18%).witnessed that Lack of follow-up is the reason for defaults lastly and ranked as third, 28 staff respondent(14%) agreed that the forth reason for loan default is instability of experts in the microfinance initiations. Shortage of market for client's production is ranked as the first reason for loan defaults in the microfinance institutions. Loan diversion was identified as the seconded major factor that causes loan defaults. This implies that the microfinance institutions had problems during the time of securing the customers. Moreover they did not have identified the intended purpose of the loan before they awarded to the clients. This helps to divert loans to some other personal consumption and cause to happened loan defaults as well as bad debt.

Therefore, it can be concluded that the MFIs are not commuted & inline to work with their client's production and market availability. The low potential borrowers can fail to compete with market competition. Problems in disposing off the customer's products and depressed this negatively affects the microfinance institutions.

Commercialization of the low potential clients requires development as market-oriented production to meet market demand and on the removal, or reduction of broad range of production. Moreover, with loan usability, loans have diverted from the proposed income generation projection to other activities not productive sectors especially to personal consumptions; hence this hinders the objective and at the same time causes a threat to the MFIs as some of them became defaulter. The problem of loan default, which is resulted from lack of market for clients' product, loan diversion made by borrowers, lack of experts and lack of follow-up or in general

poor credit management, reduces the lending capacity of an MFI. It also denies new applicants' access to credit as the MFI's cash flow management problems augment in direct proportion to the increasing default problem. this is similar with idea of (Koch&MacDonald, 2003)

Figure 4.7 Extent of credit management effect on quality loan portfolio



Source Computed SPSS V25, 2021

According to the respondents as figured out in the above respondents were asked to what extent has the effect of credit management processes had on the quality of loan portfolio of the institution. 101(50%), 97(48%) of the respondent were replied that strong and very strong respectively as the quality of loan portfolio of the institution had strongly affected by the process of credit management. whenever the financial institution had followed the right credit management processes the loan performance of the microfinance would increase on the other hand bad debts would decrease substantially.

Hence the successes of Micro Finance Institutions largely depend on the effectiveness of their credit management practices which implicates high levels of loan recovery rate and improvement in profitability.

Table 4.11 Loan performance

Loan processing	Strongly disagree		Disagree		Neutral		Agree		Strongly agree	
	freq	%	Freq	%	Freq	%	freq	%	Freq	%
21. Comprehensive credit policy communicates a consistent standard to MFIs customers PL1	52	25	54	27	42	21	35	17	18	10
22. Lack of Credit risk diversification PL2	23	11	36	19	23	11	99	49	20	10
23. Release Informal credit PL3	27	13%	58	29%	48	22%	44	221 %	24	12%

Source Computed SPSS V25, 2021

As shown on the table 4.11 above respondents were asked Comprehensive credit policy communicates a consistent standard to the microfinance customers. 52(25%), 54(27%) of the total sample 201 respondent are strongly disagree and disagree respectively and on the other hand 42 (21%) are stated neutral, while 35(17%), 18(10%) of the sampled respondent are witnessed as they are agreed and strongly agree respectively. Majority of the employee of the microfinance institutions witnessed that MFIs did not give any guidelines or supports to their customers how to utilize the loan they took. This implies that MFIs are not in position to mitigate the risks of financial losses, comprehensive credit policy communicates and assessing the risk of losses associated with credit extended to customers, this is in line with Batar et al (2008), who stated that credit policy provides the basis of all the credit management. this implies that MFIs has a gap in doing credit management effectively and has direct impact on loan collection. and microfinance institutions were not in position to have well developed credit policies to ensure their credit lines.

In the same Table (Q22) respondents were asked there is Lack of Credit risk diversification in the MFIs is. 23(11%).36(19%) of the total 201 sampled respondent replied that strongly disagree and disagree respectively. While 23(11%) are neutral on the same idea, on the other hand 99(49%), 20(10%) of the respondents which is the majority of was witnessed that microfinance institutions have lack of credit risk diversifications. This implies MFIs has scored Missed the Quality credit portfolio administrations and increase high none performing loan and low recovery rate which may eventually lead to financial distress. Hence the researcher recommends that MFIs has to improve on credit risk management and to use well diversified portfolio of

loans. Credit risk diversification is one of the economic functions of financial institutions in general. In the same Table (Q23) respondents were asked whether credit is Release informally. 27(13%), 58(29%) of the total 201 sampled respondent replied that strongly disagree and disagree respectively. While 48(22%) are neutral on the same idea, on the other hand 44(21%), 24(12%) of the respondents of was witnessed that microfinance institutions have released informal credit. This implies the MFIs are moderate in scoring informal loan for friends, relatives, intermediates. Hence from this we can recommend that most of informal loans lenders charge a much higher interest on loans hinders cost of borrowers because large portion of earning of the borrowers is used to repay the loan and they have less income to themselves, this has the probability of default loan.

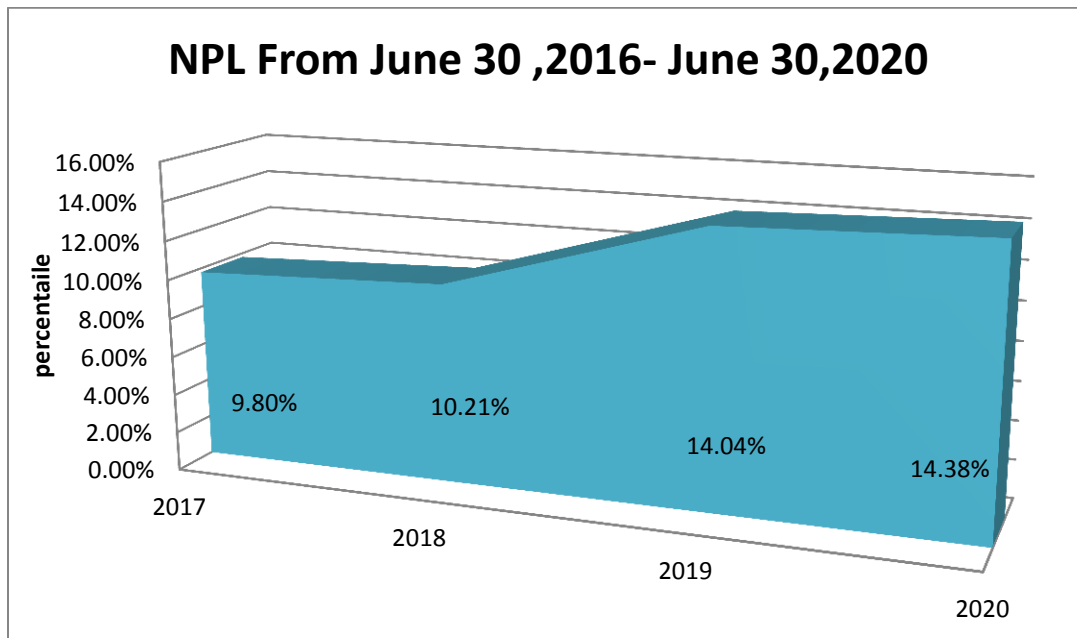
Table 4.12 Descriptive Statistics

	Mean	Std. Deviation	N
Mean of Loan performance	2.804	1.00099	201

Source Computed SPSS V25, 2021

as its described on the above table, the loan performance of the Microfinance institutions is laid with mean of 2.804 and standard deviations of 1.000. This implies it is below average.

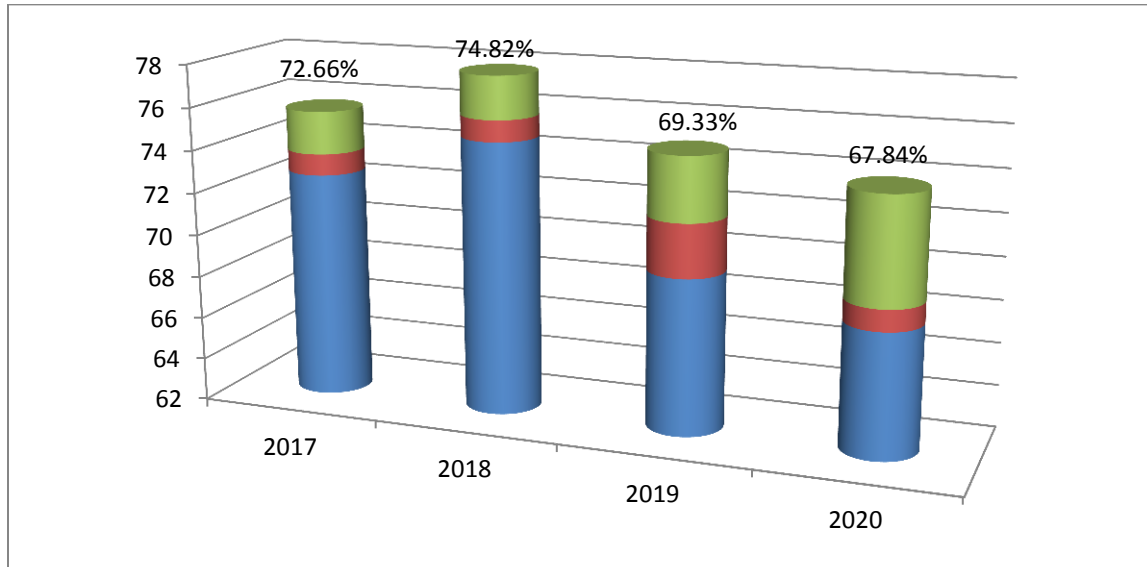
Figure 4.8 None performing loan



One of the determinant factors used to measure quality of the total loan portfolio of financial institutions is non-performing loans (NPL). Whenever borrowers were not imposition to pay their obligations/ principals and interest on time which was issued by any financial institutions is side to be non-performing loan. From the figure 4.7 above, from the year of 2017 to 2020, the none performing loan rate is increasing from year to the other years.

The highest none performing loan from the four consecutive years is 2020 and followed by 2019. As it seen from the figure above the least non-performing loans from the sampled four years was found 2017. This implies that the financial institution was best in the year 2017 in their performance in terms of non-performing loans and relatively the financial institution was reduced highly in the year 2020 and 2019 respectively. Moreover, in the years among 2018 to 2020 the non-performing loan was increased highly but in between the year 2019 and 2020 was indicated as there is insignificant difference and outstanding influence of missed credit management exercise that affected the capacity of businesses to meet loan repayments on time as cash flows were not forthcoming. This had a huge impact on the loan portfolio of the institution which therefore necessitates the adoption of well-diversified and more strategic credit management processes that are able to accommodate such conditions and be able deliver the right results.

Figure 4.9 Recovery Rate



Source computed SPSS V25, 2021

Recovery Rate is one of the determined factors of the loan performance of on financial institutions which measures the extent to which the creditor recovers the principal and accumulated interest due on a defaulted obligation. Recovery Rate can be calculated the annual plane to be collected minas the unplanned collected divided to amount due collection plus outstanding of the year.

Recovery Rate = $\frac{\text{Annual plane to be collected} - \text{unplanned collected}}{\text{Amount due collection} + \text{outstanding of the year}}$

As we can see from the figure the recovery rate from 2017 to 2018 witnessed an increasing trend.

The year 2018 recorded the highest recovery rate of 74.82% followed by a sharp reduction in the two consecutive years which is 2019 to 2020. This implies that credit management processes had an impact on recovery rates. The high recovery rate in 2018 was due to the strong implementation of credit policies by officers however when these practices were relaxed, the institution witnessed a huge decline in recovery. The most important issue for the financial sector is their recovery rate, because this has a direct impact on the bottom line of each institution. This implies sectors average recovery rate is about 71.16% this means that 28.83% is defaulted every year. This implies that MFIs has to have employed credit risk analysis which communicate

customer's financial strengths and should give much attention ideas from financial analysts and supervisors of the sectors.

Table 4.13

	Mean	Std. Deviation	N
Mean of Credit management Practice	2.904	1.00099	201

Source Computed SPSS V25, 2021

as we can see from the table above the credit management practice was poorly practiced by mean of 2.9 and standard deviation of 1.00. This implies the microfinance institutions had low loan performance than expected.

Research Question number3

4.6 Effect of Credit Management on Loan performance

Credit management is essential element in the Loan performance and overall organizational success. Hence, determining the effect of credit management on loan performance is worthy.

To do so, data was collected based on five level lickers scale, and then quantitative analysis was carried out using the Structural Equation Modeling (SEM). Since the SEM has dynamic techniques and frameworks involves complex multi faced constricts that are measured with errors and used measure theoretical causal model and opinions.

Then the unidirectionality and multidimensionality of constructs was checked using Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) respectively. Finally, the Model measurement and Structural Measurements were conducted, using AMOS 21 software as presented.

4.6 .1 Model Fit Test

In this subsection, three different results of SEM tests of the study are presented. First, the test results for exploratory factor analysis are presented. Then, the test results of confirmatory factor analysis are presented separately. Finally, the results good of model fit are presented.

4.6.2 Exploratory Factor Analysis (EFA)

EFA is a statistical technique that used to reduce data to a smaller set of summary variable and explore the underlying theoretical structure of the phenomena or scale Validation -SPSS Based. The Exploratory Factor Analysis is conducted to check for unidirectionality of each construct using the principal component extraction and Promax rotation methods <https://www.statisticssolutions.com/factor>

Table:4.14 EFA Generated

Construct	Correlation Matrix	KMO and Bartlett's Test		Component matrix and Factor loading	Total Variance Explained	Remarks
Credit Collection	Values <1, >0.2	.821	Sig. .000	4 factors: >.7 load	77.2%	Credit Collection
Credit story	Values <1, >0.2	.803	Sig. .000	4 factors: >.7 load	70.9%	Credit story
Credit Term	Values <1, >0.2	.735	Sig. .000	3 factors: >.7 load	81.2%	Credit Term
Credit Policy	Values <1, >0.2	.886	Sig. .000	5 factors: >.7 load	72.6	Credit Policy
Loan Performance	Values <1, >0.2	.703	Sig. .000	3 factors: >.7 load	72.503	Loan Performance

Source : computed SPSS V 25 and AMOS21,2021

as we seen from the table 4. 14 above the variables are screened and have standardize relationship among each of them and statistically fit.

4.6.3 Confirmatory Factor (CFA)

is a multivariate statistical procedure that is used to test how well the number of constructs by Convergent and Discriminant Validity

Table 4.15 CFA Generated

Construct	Convergent Validity		Discriminant Validity					
	CR>0.7	AVE>0.5	MSV <AVE	Diagonal Values>Matrix				
				Credit Collection	Credit story	Credit Term	Credit Policy	Loan Performance
Credit Collection	0.902	0.696	0.289	0.835				
Credit story	0.863	0.612	0.389	0.537***	0.783			
Credit Term	0.885	0.720	0.138	0.239***	0.296***	0.849		
Credit Policy	0.905	0.657	0.251	0.486***	0.501***	0.371* **	0.811	

Loan Performance	0.813	0.592	0.280	0.417***	0.529***	0.314* **	0.430***	0.770
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Source : computed SPSS V 25 and AMOS21,2021

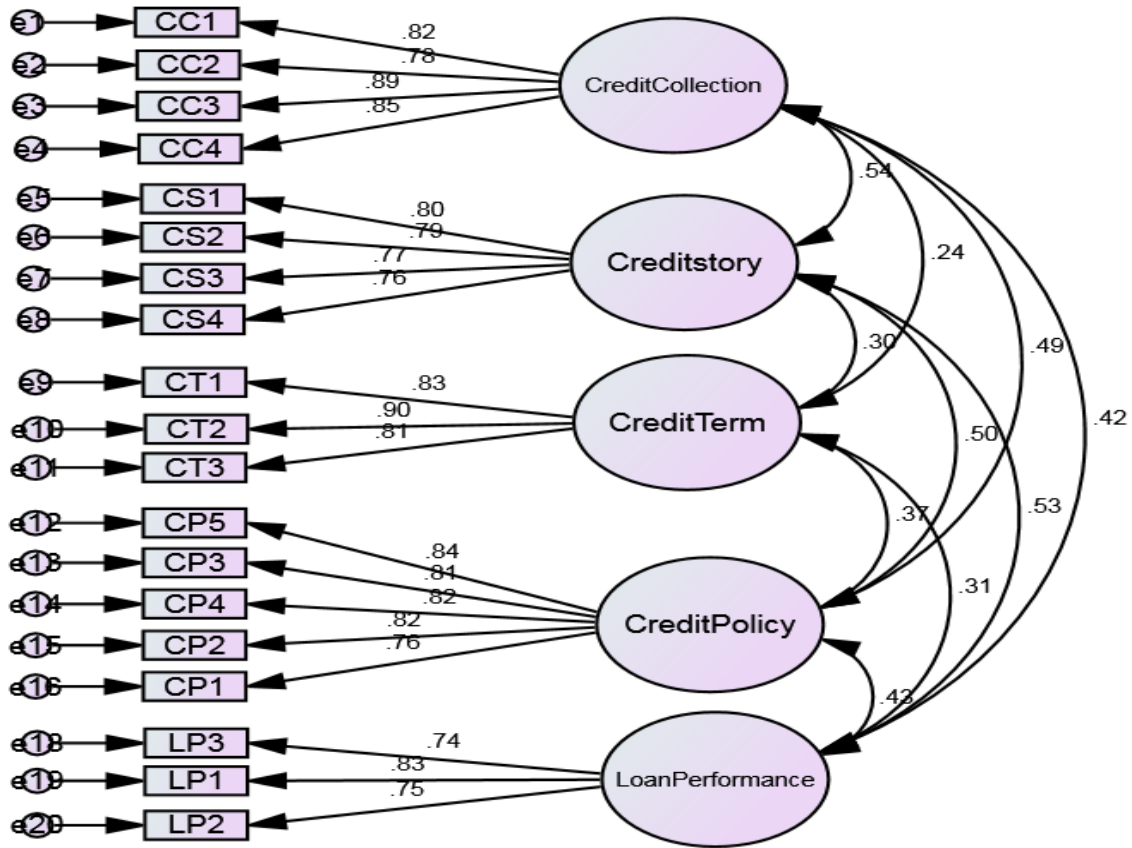
Convergent validity refers to the observations of strong correlation between two tests that are assumed the same constructs. Should be related are in reality related. To say statistically valid when the value of average variance expected (AVE) should be equals or greater than 50 or lower than composite reliability (CR).

Discriminant validity need to show that measurements that should not be related are in reality not related and discriminant validity is achieved when the value of average variance expected (AVE) greater than (MSV) maximum share squared variance. www.tandfonline.com>pdf

Hence the model is fit and the researcher can cross to the next steps.

4.6.4 Structural Equation Model (SEM) Analysis-AMOS A/ Model Measurement

Figure 4.10 Measurement model



Source: computed SPSS V25 and AMOS21,2021

Table4.16 B/ Model Fitness (GOF)

Measure	Estimate	Threshold	Remark

CMIN/DF	2.239	Between 1 and 3	Excellent
CFI	0.961	>0.95	Excellent
SRMR	0.034	<0.08	Excellent
RMSEA	0.056	<0.06	Acceptable
PClose	0.121	>0.05	Acceptable

Source: computed SPSS V 25 and AMOS21,2021

Standardized root mean Square Residual (SMSR) the difference between the observed correlation and the model implied correlation matrix

4.7 C/Structural Measurement

Figure 4.11: Path Analysis-regression Weight

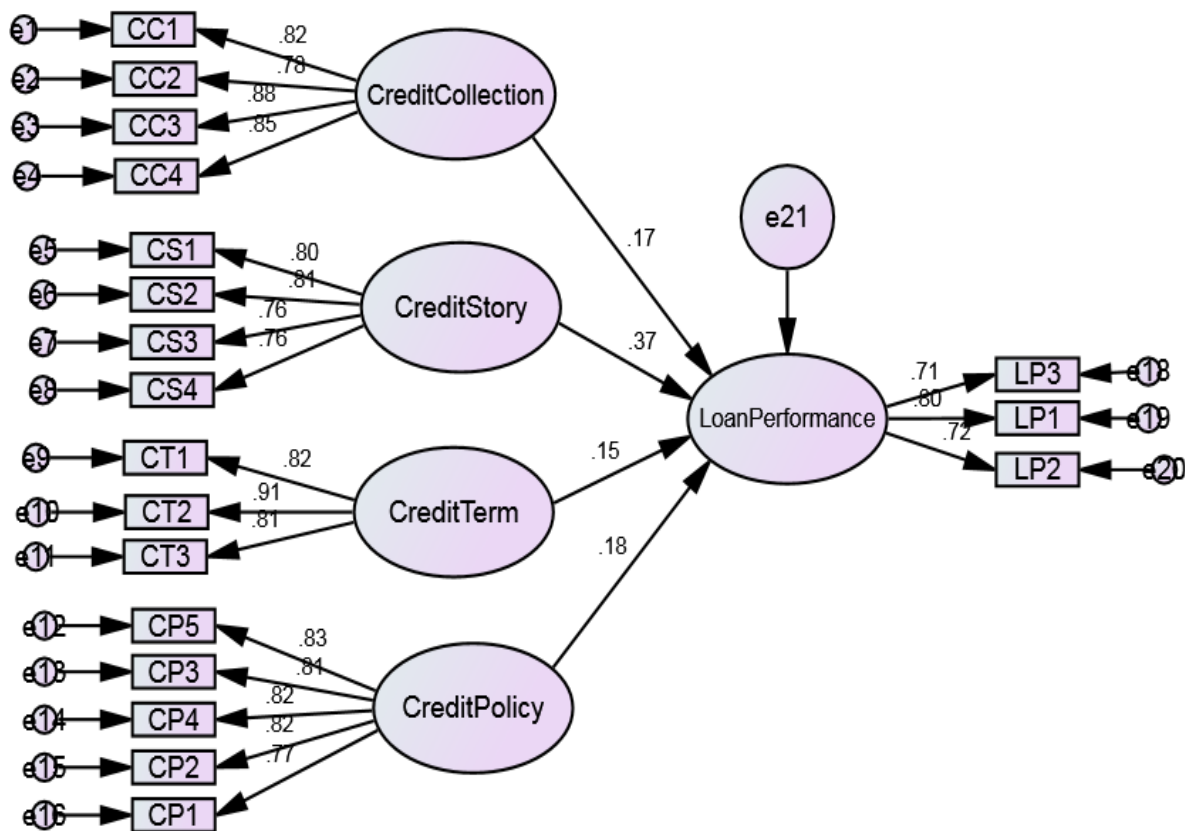


Table4.17 Analysis-regression Weight

Constructs	Estimate	S.E.	C.R.	P
Loan Performance <--- Credit Collection	.17	.039	3.108	.002
Loan Performance <--- Credit Story	.37	.048	6.043	***
Loan Performance <--- Credit Term	.15	.041	2.654	.008
Loan Performance <--- Credit Policy	.18	.040	3.314	***

Source: computed SPSS V25 and AMOS21,2021

Therefore, as shown in the EFA, CFA, and Structural Equation Model (SEM) analysis above, the model is adequate, and fit. Besides, the validity and reliability tests show that the model satisfies the minimum standard. Thus, the estimates and coefficients are valid. This implies that there is

direct positive relationship and correlation between the depended variable and the independent variables. That is, Loan performance is significantly affected by the credit management. Moreover, there is path relationship and linear relationship among the independent (credit management) and the dependent variables (loan performance) Hence, this complements with the theory that assumes the task of credit management should be viewed and managed as a system.

4.7.1 Regression Weight result and discussion

This section answers the research question what is the effect of credit management practice on loan performance of the microfinance institutions and presents the overall empirical results of the regressions

Loan Performance (LP): Performances were tested using four explanatory variables i.e. Credit policy (CP), Credit Story (CS), Credit Collection strategy (CC) and Credit term (CT). The result indicates a positive and significant relationship between all the explanatory variables such as credit policy (CP), Credit Story (CS) and Credit Collection strategy (CC) with loan performance (LP) at 1% significance level.

Credit Collection (CC) the regression weight for credit collection has positive and highly significant at 1% level in the prediction of loan performance(LP) this implies that when credit collection change by one unit, loan performance would goes up on average by 0.17 unit, others variables are remaining constant: descriptive statics also support by mean of 3.2152, this means credit collection strategy such that early notification for customers in defaults and making discount on the default amount are the common among other. This tells the microfinance institutions were not good enough in exercising the credit collection strategy while these credit collection efforts are an important practice in facilitating loan repayment. This is in line with Padilla and Pagano (2000), who stated that collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses increase profitability of the banking institutions

Credit Story (CS) the regression weight for credit story has positive and significant effect in the prediction of loan performance and is significant level at 1%. This finding expressed that as the credit story goes up by one unit, the loan performance of the microfinance institutions increases

on average 0.37 units. While other variables are remain fixed. In addition to this the mean of credit story from the descriptive finding was 2.9739 and this implies that MFIs are not consistently assessed the customer financial ability /capacity to meet his or her loan obligation and not properly assessed the clients characters before loan is granted. Hence microfinance institutions have to give great considerations clients credit story and characters

Credit Term (CT) the regression weight for credit term has positive impact and significant effect on the prediction of loan performance (dependent variable) and is significant level at 5%. As figure out in the table analysis-regression weight as the credit story goes up by one unit, the loan performance of the microfinance institutions increases on average 0.37 unit while other variables are remaining fixed.

Credit policy (CP) The regression weight for credit policy has positive and significant impact in the prediction of loan performance and it is statistically significant at 1% level. This finding reflects that as the of credit policy increase by one unit, the loan performance of the microfinance institutions increases on average 0.18 unit while other variables are remain fixed. The descriptive statics also support by mean of 2.79 this implies that whenever there is rigidity on the credit policies and procedures, the loans and credit where not processed based on the policies and standards of the MFIs, moreover when they remain off set with the policy and directives of Ethiopian national banks.

In general, the result indicted that there is a positive impact and significant correlation between the credit management practice and loan performance of the microfinance institutions this implies that when microfinance institutions had efficiently implemented the credit management system, the loan performance of the company would scale up highly. And this is similar out come with prior study of (Kasali et al, 2020) noted that when a company implements effective credit management systems, the firm's efficiency is enhanced.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 introduction

The basic intent of this chapter is to sum up the overall study and to give future research directions. Accordingly, the chapter starts with a brief conclusion of the study and its main findings. Then, in section two recommendations are given to the target population based on the study finding. Finally, the limitations of the study and the future research directions are presented here.

5.2 Conclusions of the Study

The purpose of this study is to assess practice of credit management and examine the relationship between Credit Management practice and Loan performances of six Ethiopian Microfinance institutions. The study examines the statistical significance between Credit Management practice and Loan performances.

In light of this objective, the study adopted Concurrent mixed research approach to answer the research questions. Specifically, the study used questionnaire and in-depth interview with key informants as well as documentary reviews of annual report in Six Ethiopian Microfinance institutions in Addis Ababa, which have been operating for the last 4 years (i.e., from 2017 up to 2020), are included in the sample frame and all are used for the study as a sample. Consequently, the study used a total of 211 observations. The data was mainly analyzed on quantitative basis using structural model equation path regression analysis available in SPSS V25 & RAMOS21. Further, arguments were made by the support of in-depth interviews.

The four determinant results of descriptive statistics showed that the credit policy was practiced with mean of 2.75 and standard deviation 1.06 at the same time credit story mean 2.97 and 1.1 standard deviation and credit term was practice 2.75 mean and standard deviation 0.94 on the other hand credit collection strategy

Credit policy (CP) The regression weight for credit policy has positive and significant impact in the prediction of loan performance and it is statistically significant at 1% level. This finding reflects that as the of credit policy increase by one unit, the loan performance of the microfinance institutions increases on average 0.18 unit while other variables are remain fixed.

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policies and standards of the MFIs, moreover when they remain off set with the policy and directives of Ethiopian national banks.

In general, when microfinance institution Company implements effective credit management system, the financial institution's efficiency would enhance. This has influence on scaled up on the level of loan performance of the microfinance institutions in terms of repayment and recovery rate. This has similar with (Kasali et al, 2020) who stated that effective implementation of credit management has direct impact on debtor's turnover, financial growth and profitability of financial firms.

The descriptive result showed that in the last four years credit management practice was poorly practiced by mean of 2.9 and standard deviation of 1.00.as a result the Ethiopian microfinance institution had executed low loan performance laid with mean of 2.804 and standard deviations of 1.000.

Before conducting the structural Equation Model, the data was tested for the basic of exploratory factor analysis and confirmatory factor analysis or in general model fitness which is vital for SEM and all the good of fit tests are fulfilled.

The study confirmed that there is a positive relationship between the four explanatory variables and are statistically significant at 1% level. Moreover, the result of the path regression analysis estimation coefficient was showed that credit policy coefficient 0.18, credit collection coefficient 0.17, credit story coefficient 0.37, and 0.15 for Credit term coefficient.

Finally, the study concluded that credit management is one of the most significant actions in any company and cannot be overlooked by any economic activity engaged in credit despite its business nature. Good handling of credit management is a precondition for a economic institution stability and long-term profitability, while deteriorating credit quality is the most common reason of unfortunate financial capacity and condition.

In conclusion, it was observed that there was a positive significant association among the study variables which included credit story, credit policy, credit terms and credit collection policy and positively affect the loan performance (dependent variable)

The study concluded that shortage of clients market conditions and loan diversion was found the main internal reasons for loan defaults moreover Submission of incomplete data by the

prospective borrower and lack of experience analyst in the MFIs are found major factors for late credit decision making.

Evaluating client's credit history before giving out credit, objective standards and parameters to be followed by MFIs employees responsible for the provision and processing of loans and management.

Therefore, it can be concluded that the MFIs are not commuted & inline to work with their client's production and market availability more over the low potential borrowers can fail to compete with market competition. Hence Problems in disposing off the customer's products and depressed this negatively affects the microfinance institutions

5.3. Recommendation

Based on the study findings the researcher recommended the following points MFIs should give an attention for the Submission of incomplete data by the prospective borrower, capability of managers and analyst experience since they are found major factors for credit decision making. Effective management of credit is essential to the long-term success of any microfinance institution. Therefore, microfinance institutions should ensure to a very great extent on the implementations of credit story, credit policy, credit terms and collection polices since they have significant relationship among them.

The firm should make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing organization risk

The study recommended MFIs has to give a great attention for client's market conditions and experience analyst and has to make closely follow up for the loan suitability since loan diversion was found the main internal reasons for loan defaults.

The researcher recommends that MFIs has to be improve on credit risk management and to use well diversified portfolio of loans since Credit risk diversification is one of the most economic functions of financial institutions.

In general, the researcher recommended that financial institutions firms must take proper awareness of effective credit management that could enhance institutional profitability

5.4 Research limitations and future research directions

This research tried to meet the gap that exists in the area, but it also has its own limitations. The research community can address these limitations in the future. The study is limited to six

microfinance found in Addis Ababa only and did not include other credit and saving institutions from the region in the study.

* Studying the relationship of credit management and financial performances of microfinance institutions

* Analysis of microfinance Credit Group formation and its impact on the society in Ethiopia or any region

* Examinations of policy choice and practice of credit management in Ethiopia can be explored more topics and need of investigations in the sectors.

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College of Business and Economics
Master of Finance and Accounting
Graduate Program

5. How do you see your institution's credit policy and procedure?
 highly rigid Rigid Average Flexible highly flexible

Pleas tick or fill accordingly

Credit policy	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
6. Employees worked in the credit department have full understanding or knowledge about the credit policy and procedures of the institution					
7. policies and procedures of the institutions are précised in the loan processing are in line with the National bank Directives					
8. Loans and credit lines are processed based on the policies and standards of the MFIs.					
9. Customers are often given sufficient training on loan usage					
10. The MFIs has well-structured documentation tracking systems for credit and collateral files					
11. Collateral coverage is regularly assessed and related to the borrower's financial positions					

12. Rank the following Internal factors as to which factor affects the credit decision making in an ascending order (one up to four)- from highest to lowest

Factors	Rank
Incapability of the managers	
Centralized decision making process	
Submission of incomplete data by the prospective borrower	
Lack of experience analyst	

Please tick or fill accordingly

Credit Story	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
14. the loan eligibility standards and formats used by the institution are well developed and important to collect complete information about applicants					
15. The MFIs properly assessed the customer financial ability /capacity to meet loan obligation					
16. Assessing client payment story					
17. Assessing clients characters					

Please tick or fill accordingly

Credit Term	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
19. The MFIs has more attractive credit terms to act as an incentive to clients					
20. Assessment of borrower's Market conditions is carried out to limit loan term					
21. loan reschedule is made to the payment period					

a. What type of reschedule is made and what criteria are used to make the reschedule?

b. What are the most attractive credit terms to act as an incentive to clients?

Pleas tick or fill accordingly

4. credit Collection strategy	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
22. Provide incentive for prompt payment					
23. establishing early notification systems smoothly					
24. Leave the defaulters to pay at their own free will					

a. List if any other credit collection technique is used by your company_____

Part III Impacts on Loan performance

1. Loan processing	Very small	Small	Moderate	strong	Very strong
25. To what extent has the effect of credit management processes had on the quality of loan portfolio of the institution			3	100	98

2. Loan processing	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
26. Comprehensive credit policy communicates a consistent standard to MFIs customers					
27. Lack of Credit risk diversification					
28. Release Informal credit					

29. Rank the following major reason for loan defaults in the MFIs making in an ascending order (one up to seven)- from highest to lowest

Major Reasons for default	Rank
Lack of training	
Inadequate information about customer creditworthiness	
Loan diversion	
Lack of market for clients' product	
Absence of appropriate policies	
Lack of experts	
Lack of follow-up	

Semi structured interview guide questions for middle and high managers

1. Are the policies and procedure of your MFIs practiced always in the loan processing time?
2. Who is the developer of the loan eligibility criteria, standards and formats used by your institution?
3. Did you believe that the screening criteria for new applicants are good enough?
4. What criteria are required to take a loan from your institutions?
5. Have you ever awarded a loan with no collateral to new customer?
6. What is the maximum minimum loan amount is released for new applicants?

7. How do you see your cash collection technique?
8. What did you absorb about your customers when they didn't pay their time? n
9. Have you visited to client's work place after loan is awarded?
10. What is your last option, for client who was awarded with no collateral, if they can't meet their payment obligations?
11. What is the most common credit term used by your institutions?
12. How do you see your loan performance?
13. What is your opinion on the NPL?

Thank you-----

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