

UNIVERSITY WOLKITE



COLLEGE OF BUSINESS AND ECONOMICS

**ASSESSMENT OF CREDIT MANAGEMENT PRACTICE
OF MICRO FINANCE INSTITUTIONS IN WOLKITE
TOWN**

**A Research Paper Submitted to Accounting Department in the
Partial Fulfillment for the requirement Bachelor of Arts in
Accounting**

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Abstract

This study was conducted on the title of assessment of credit management in micro finance institutions in wolkite Town credit and saving Share Company at with primary objective of examine the credit management on micro finance institution at wolkite Town In this study both primary and secondary source of data used and the researcher would be use open end and close questionnaires and structured interview to collect data from the employee, customers and management body of the institutions and was use convenience non probability technique to select customers and non- probability sampling technique to select target population among employee and management body of wolkite Town credit and saving Share Company. And also the researcher used descriptive method of data analyzing. The analysis of the data revealed that, there is problem in group borrowing methodology, the institution doesn't collect its credit on specified period, rather they mostly after the due date and also the repayment period is not suitable. Therefore, the institution is advised to create awareness to the customer, about the time value of money and to improve the repayment period.

Abbreviation

AEMFI = Association and Ethiopian Micro finance Institution

Mgt = Management

MFI= Micro finance Institution

CM= Credit Management

CR= Credit Risk

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CHAPTER ONE

1. Introduction

1.1. Background of the study

According to Hulme, (2018) microfinance institution was first started in 1980, by professor Mohammed Yehus in Bangladesh. He led the way with pilot group lending scheme for the land less people, finally this become Grameen Bank which is used as model for many countries in the world. When we come to Ethiopia the government appreciate and support micro finance institution, according to proclamation number 40/1996 of the federal government of Ethiopia, microfinance business means an activates, that extending credit, in cash or in kind to peasant (Abinet, 2007).

As Adamou, Asongo and Nyor (2018) 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 need

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, 2017and 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.

As AsieduMante (2018). 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 To undertake proper mobilization of funds, financial institution practices credit management activities.

Credit management involves many activities ranging from credit investigation to contract with borrowers, appraisal review and follow- up, documentation nursing, recovery and write offs, having two main functions: Those are credit sanction (Provisions) and credit follow up functions which are valuable in managing credit it risks, improves return from credit and making proper credit decision of the institution (Yaregal, 2017). Presently there are around 30 licensed micro finance institution in Ethiopia working both rural and urban areas so this study will be conduct on wolkite town credit and saving micro finance institution which was established in 1995 (CIMMISA, 2018). Therefore, this study would be tries to examine the issue of credit management in microfinance institutions in the case of wolkite town credit and saving Share Company.

1.2. Statement of the problem

According to the report of National bank of Ethiopia (2020), the three years consolidated financial report on MFIs indicate that the sectors 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. 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

A credit management practice 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, its 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)

Microfinance in Ethiopia has been established in Accordance with the proclamation issued by the national bank of Ethiopia in 1996. Microfinance is one of the financial institutions that provides loans to clients to help them engage in productive activities and to raise their small business. Most of microfinance institutions approve loans for productive purpose, because income increment is positively indicator to which all development activities are addressed (Daniel, 2010). Credit management is the most important activities in micro finance institutions. An attending credit management policies and procedures makes it sound at the time of managing credit risk and credit decisions.

Mulat (2003) argues that if you not follow the credit management policies and procedures one cannot think of managing credit risk and at the same time credit decision will become arbitrary subject to individual discrimination and judgment. The group base lending method is not effective in achieving the microfinance objective, because due to default payment was made by the group members. In addition, the beneficiaries who use this method also face a problem in the repayment of loan, the rest who pay regularly were enforced to pay the default amount (Meaza, 2010).

The researcher observes most customers did not show progress and some of them become rent suckers. This makes me to propose for study. Even though some of them show progress and change to high level. So, what would be the source for this? Is that due to ineffectiveness of credit management of micro finance institution or not? Therefore, the researcher motivated to study related to credit management practice in wolkite town credit and saving micro finance institution by answering the following basic questions.

1.3. Research questions

1. What are the activities practiced in credit management of institution wolkite town micro finance institution?
2. What method the institutions use to follow up the loan?
3. What policies and procedures the institution follows?
4. What are the monitoring mechanisms to collect credit in the institution?

1.4. Objective of the study

1.4.1. General objective

The main objective of the study would be to examine the credit management of credit management in microfinance institutions on wolkite town credit and saving Share Company.

1.4.2. Specific objectives

1. To assess the activities, practice credit management of the institution.
2. To assess the effectiveness of polices and procedure the institution follows in providing loans.
3. To assess the methods of the institution uses to follow up loan.
4. To identify the monitoring mechanism used by the institutions to collect credit.

1.5. Significance of the study

The significance of this study was to enhance the competitive position of wolkite town credit and saving micro finance institution by finding ways that improve the credit management system of the institutions. The researcher also believes that the result of this study was pave the way for the clients of the institutions, also for the institutions and additionally serves as reference for another researcher.

Also, the study would be providing additional knowledge to credit managers in designing new credit management and for planning and controlling procedures in credit activities and it helps the clients of the institution by informing necessity of paying credit according to agreements, in preventing unnecessary payments.

Finally, the study helps for further researchers as reference who wants to conduct study on institutions. The area of credit management of financial institutions particularly microfinance institution.

1.6. Scope of the study

Because of no sufficient time and no enough budget to conduct study on wide area the study was limited to wolkite town credit and saving micro finance institution.

1.7 Limitation of study

To carry out this study, there was certain obstacle, such as the data collected was no sufficient because there were lack of secondary data and the same time some of the respondents are not willing to fill the questioner.

1.8. Organization study

This research contains five chapters. The first chapter contains an introduction to the study which as different parts. Background of the study and the statement of the problem , objectives of the study; significance of the study; scope of the study, Limitation of study and organization of the paper. The second chapter contains literature review on credit management. The third chapter contains methodology of the study. The fourth chapter contains data presentation, analysis and interpretation and chapter five contains summary, conclusion and recommendation.

CHAPTER TWO

2.LITRATURE REVIEW

2.1.Theoretical Review

2.1.2 Poverty in Ethiopia

Ethiopia is one of the poorest countries in the world with annual per/capital income of \$ 170. The United Nations development programs human development report for 2007-2008 ranked Ethiopia as 169th out of 177 countries on the Human development Index the average life expectancy after birth is 48yers. Infant, mortality and malnutrition rate are among the highest in the world while access to education has increased in recent years, the overall adult literacy rates is low compared to the sub- Saharan African standards roughly 44% of the population lives below marked differences between rural and urban areas.

Most rural households live on a daily per capital income of less than\$ 0.50 Generally, rural households have less access to most essential assessment, overall progress in reducing poverty since 1992 falls short of what is required of meet 190G 1 by 2015 as result high variability in agricultural GDP and rapid population growth. Most rural households are finding if increasingly difficult to service without resource to seasonal or permanent urban migrations search of wage employment (<http://www.rvral-poverty-portal.org>).

2.2. *Microfinance in Ethiopia*

Formally in Ethiopia stated in 1994 -95, in particular, the licensing and supervision of institution proclamation of the government encouraged the spread of institution proclamation of the government encouraged the spread of insinuation currently, there are 29 licensed micro finance institutions reaching about 2.2 million actives borrowers with are outstanding loan of a portfolio of a approximately 4.6 billion concerned the potential demand, particularly in rural areas, this satisfies only on insignificant porportion (WWW. aemfi- Ethiopia. org)

As Mengistu, 2007 were cited by Abafita, 2003, the credit program by microfinance have been evolved to empower poor households at urban areas of the country in the form of urban credit financing schemes which had actually commenced its operation since 1994.

During its commencement this credit scheme was undertaken by some NGOs, Government departments and some donors in inconsistent manner. To resolve this problem the government of Ethiopia took initiatives to develop regulatory frameworks that govern the operational activities of similar industries (Abafita, 2003). As a result, Proclamation No.40/1996 has been enacted to govern the operational activities of microfinance industries

2.2.1. Micro finance as Anti- Poverty strategy

The recent definition of poverty by the World Bank extended the conceptual dimension beyond the conventionally held idea of permanent income/ consumption of lack of income) assets, sense of hopelessness and strategies not only need to create income earning opportunities, but also must empowerment of the poor in the sphere of state social in situations, and security against variety of shockers. Micro finance is believed to be one important entry point to addressing many of them. But services are limited in some urban areas, neglecting the majority of the poor. In Ethiopia, for example, the development bank the commercial bank of Ethiopians, having their branches in urban and semi urban, provide virtually no access to the rural population AISD, private banks, through growing in number don't engage themselves in these raids.

According to an earlier study. In rural Ethiopia as a whole, less than 1% of the population has access to this source consequently, accessing credit for small scale and informal operators continue to pose a major constraint to growth of the sector. The alternative is the informal financial sector, mainly the individual money lenders. In this case, borrowers are required to provide guarantors and the interest rate is extremely high, varying from 50% to 120% that the effective interest can be as high as 400% in some instances. And this exploitative interest rate of the informal sector diminishes potential reform to factors of production, and is a constraint to diversity economic activities of the rural sector.

The federal government of Ethiopia has taken several economic reform measures to address poverty in its every aspect. Thus, while trying to fulfill the basic needs of the population, it also embarks up on economic reform measures conducive for free market competition and employment creation which includes the promotion of policies that will encourage saving, private investment, increasing income earning opportunities and

promotion of small –scale in dustiest in the informal sectors among others. The five-year development program document emphasizes, among others, credit as a means to increase small holder production (EPR DR, 1992E.C).

fanatical markets are considered by the regional governmental as a good entry point in achieving food security objectives as the will allow rural households in both food secure and in secure area to explore their “comparative advantage” in the market place and to create (AEMFI, 2000). Thus, in addition to promoting provision of credit through government channels, the program encourages micro finance institution to prone their services of credit provision and saving mobilization. However, even of policies aimed at changing the regulatory environment were expected to pave the way for increased fellows of resources to rural and informal sectors, micro financial services are very in adequate still. ([http:// www.Ruralpovertyportal.org.web.gues](http://www.Ruralpovertyportal.org.web.gues))

2.2.2. The concept of micro financing and its objectives

Microfinance referred to as small scale financial services render to the rural and urban poor, providing credit for self-employment, and small business, and includes saving and technical assistance microfinance schemes have recently aroused interest among policy makes sand researches as vehicles of poverty mitigation. pioneered by the German bank in Bangladesh, most micro finance program required the poor to from groups and repay the loan in small and periodic installments under micro finance service, concept of money Lending has been institutionalized, rationalized and reformed for the sustainability of both borrowers and lender 5.2t may encompass the provision of financial and other support services like savings, collateral free credit, insurance to the poor and it addresses the issues relating to poverty; and unemployment; micro finance institution have been established in accordance with the proclamation issued by the national bank of Ethiopia in 1996. there are about 30 micro-finance institution.

All of them are share companies administered by their respective board of directors. The central objective of these financial institution is to provide credit and saving services to the poor. Micro financial with gentilities whose cash requirements are small. The micro finance lending program has many objectives. Among these, some of the objectives are: to provide credit facilities for those urban and rural poor people from paying high interest rates to the informal money lender, improve the economic capacity of women and the

saving habit of the people, vitality and use the local material effectively and enhance investment and income of the society (Daniel, 2010)

2.2.3. Mechanism for screening defaulting

Market interest rate is commonly used for screening borrowers. This technique has the objective of encouraging loan taking on the basis of prospective returns, and not to capture subsidies. Self-selection is another mechanism used to avoid defaulter borrowers. In using this mechanism, prospective members are asked to form groups by themselves, and screen in favor of those they believe will repay the loan. The group lending methodology removes the main entry barriers for those with no collateral, limited literacy, weak technical knowledge and narrow prior money management experience. The other mechanism is character reference this is the use of officials or power structure to approve loan applications.

This may have negative effect on screening out of the poor but may be used effectively in areas where the power structure in the community is defined and strong. The poor are usually excluded because of the fear that they can't their loan repayment obligations. However, there are mechanisms for ensuring the repayment of loan on time by poor borrowers without. These mechanisms include intensive supervision, peer group monitoring, and provision of incentives to borrowers and staff of the institution. Intensive supervision is concerned with the regular meetings of credit officers in or near the homes of borrowers, though it may be costly to the institution.

Frequent follow up on the borrower and their activities has significant impact on the repayment of the loans. One effective strategy is to place the credit officer within the borrowing community or opening a one-man satellite office from where the credit officer can easily follow-up why a particular member failed to meet his/her obligation. Failure to repay in front of the public also creates psychological pressure on the borrower thereby forcing him to meet obligations. Moreover, borrower incentives can be provided in the form of rebate of interest on loans repaid early, in addition staff. Incentives can be related to the amount of loans repayment under this arrangement; the MFIS staff may receive financial bonuses. Directly related to the repayment performance of their clients over a given period of time progressive lending is also a mechanism under which borrowers are able to gain repeated access to loans if they repay on time.

Finally, borrowers can be leaguered to make compulsory saving in which a small amount is contributed regularly in to a group saving fund that provides insurance or collateral for the loans of all group members. In case of repayment failure, the saving can be used for covering, At least some portion of the loans they may be defaulted. This is also practiced by most MFIS. Some MFIS require clients to save ascertain proportion before they are granted the loan. This shows the commitment of the borrowers provided that they continue with regular saving after the loan. The above mechanisms are more or less conventional and are practiced by many MFIS in Ethiopia. However, MFIS, need to be innovative and creative experimenting with new approach cinder their own contexts (Daniel, 2010).

2.3. Credit management an over view

CM is one of the major functions, which financial institutions undertake for proper mobilization of funds the credit management function includes loans and advances it also involves a large number of activities ranging from credit investigation to contract with borrowers, appraisal, review, and follow- up, documentation nursing, recovery and write offs. Safety of a financial institution loan or advance is advance is directly to the basis on which decision to and is taken, the type and quantum of or credit to be provided and the terms and condition 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.

- Presentation appraisal to det
- ermine the acceptability of each loan proposal and
- Post sanctions control to ensure proper documentation, follow-up and supervision (Daniel, 2010).

2.3.1. Presentation appraisal

Is concerned with the measurement of the riskiness of a loan proposal not only financial data relating to the past and projected working results are required but, a detailed credit report is compiled on the borrower, If any, based in information collected from the borrower, market reports, final audited accounts, income tax and wealth tax returns. Assessments for orders and confidential information called for from other lenders and

financial insinuations with whom the parties have clearing the credit report has to be up dated periodically.

It is important sources of reliable information of preparing the risk profile of the borrower and for preparing the risk profile of the borrower and for finalizing the credit rating of the borrower. The credit report reveals the personal details of the prospector, partner or calibrators of the firm as well as his/their assets and liabilities including indebtedness to other parties such as lenders and financial institutions. The CR as a personal profile of the borrower if kept up to date is particularly use full when the borrower /safety is financially embarrassed and the bank makes efforts to have his personal assets attached. (IBID).

2.3.2. Post sanction control

To a large extent, it depends up on the findings of the pre- sanction appraisal. The post – control involve proper documentation of the facility, and the after care or follow up and supervision through monitoring of transaction in the lean amount, security of procedural statements submitted by the borrower, physical inspection of the securities and books of account of the borrower, periodical reviews and renewals etc. successful lending thus depends up on careful selection of the customer, proper appraisal of his credit needs and adequate control to insure that his dealing with the lender are above board and that he/she is complying with the terms and conditions on which credit has been sanctioned to him. In this post sanction approach the credit manager has the following functions

- Assessing of credit standing both new and existing customers.
- Establishment of terms having regard to the risk involved and the potential profit.
- Maintaining of the sales ledger
- Monitoring and controlling customer balance
- Collection of payment as close to terms as possible without jeopardizing future business.

2.4. Credit policy system and procedures

Policy is a general rule to guide each Decision. A well-developed credit risk management policy ensures the success of financial institution in addition a well-conceived credit management policies are essential for financial institution to perform their functions

effectively and minimize the risk inherent in any extension of credit. Financial institutions need policies specifying how much of what kind of loans will be made, of whom and under what circumstances (determining the size of loan portfolio, specifying the types of loans and policies affecting loan firms) (Daniel, 2010).

Many people believe that well developed credit policy has the following advantages

- They set objectives standards and parameters to officers who grant loans and manager loan portfolio.
- They are a basis for evaluating lenders credit performance guide lender management.
- If they properly formulated, they enable lender mgt to maintain proper credit standards, avoid excessive risks and evaluate business opportunities properly.
- They also have great contribution to good CR management; advance policy reduces alternative coarsest of /actions and simplest the decision-making process.
- A sound policy contributes to a lenders success by supporting prompt credit decision.
- It provides the frame work for the entire credit management process.
- Well-designed credit policy has also its own objectives to meet necessary directions in credit dispensation. The policy is subject to review periodically depending up on the changes that may take place in the financial market in particular the banking sector and the need within the bank to build up quality assets. The procedure and system laid down in the loan policy has to be followed consistently at all hierarchical levels in the institution to ensure that canons of sound lending are uniformly adopted with a view to consistently improve and maintain the quality of the credit portfolio of the bank, it is there for imperative that all the institution staff is fully conversed with the loan policy and its implications.

Some financial analysis advice that lender should establish an appropriate credit environment on the basis of the 3 principles below.

- 1) The board of directors should have responsibility for approving and periodically reviewing the CR strategy and significant CR policies of the institution. The strategy should reflect the lenders to learned for risk and the level of profitability the institution expects to achieve for incurring various CR.
- 2) Senior management should have responsibility for implementing the CR strategy approved by the board of directors and for developing policies and procedures for

identifying measuring monitoring and controlling CR such policies and procedures should address credit risk in all of the lenders activities.

- 3) Lender should identify and manage CR inherent in all products and activities new to them are subjects to adequate procedures and controls before being introduced or under taken and approved by other board of direction.

2.5. Repayment Ethics

In a country where a large proportion of people are very conservative and orthodox in their thinking, taking loan form money lenders. Banks is considered to be grave risk. If person dies without repaying his debts, his sons and heirs feel their duty do so or the fathers soul will not rest in peace. Also, the father of non-repayment of debts due to exorbitant interstates, could lead to alienation of property rights (Danielk, 2010)

2.5.1. Over does management

Overdoes arise due to nonpayment of loan installments on due dates willful default is mainly due to the inadequate and ineffective organization efforts of banks to receive dues. Clearly over does, can result from external or internal factors. (IBID)

2.5.2. External factors

There are factors over which the banks have no operational or demonstrative control, such as: (Daniel K, 2010)

- Natural calamities like foods, drought and earth quakes.
- Political and government in interference cropping pattern changes not adopted by farmers.
- Cropping pattern changes not adopted by farmers.
- Costs of inputs and prices of farm produce without price support.

2.5.3. Internal factors

There are factors related to organizational deficiencies and administrative ineffectiveness, such as (Daniek, 2010)

- Reflective Loaning policies procedures
- In effective supervision machinery over loan utilization.
- Lack of efforts for recovery and inadequate system for recovery.

There are other causes lending to loan over does, such as:

- Under financing /over financing.
- In fructuous investments

2.6. Empirical Literature Review

There are many researches regarding credit management and financing policy locally as well as internationally. This section presents evidence which identify the major factors affecting credit management. Many researchers have conducted a lot of study on determinants of credit management due to its significance for the micro finance institution failure. Credit approving that has not properly considered the credit terms would potentially lead to occurrence of loan default. As per the study by Jimenez &Saurian (2018) on the Spanish micro finance institution sector from 1984 to 2003 nonperforming loans (NPLs) are determined by lenient credit terms.

Kaitibi (2018) evaluated effects of management of credit on banks profitability in Sierra Leone. Studies main objective was critically assessing the effects of effective management of credit on banks profit making. The study was a case study of Yokel Commercial Bank Hezron and Hilario, 2019), on their study conducted in Maputo central business district, Mozambique, there is a relationship between the structure of the financial sector and access to final by MFI; there's a relationship between awareness of funding and access to finance by MFI; there's a relationship between collateral requirements and access to finance by MFI; and there is a relationship between small business support and access to finance by MFI..

Ahmed, Takeda and Shawn (2021), in their study found that loan loss provision has a significant positive influence on non-performing loans. Therefore, an increase in loan loss provision indicates an increase in credit risk and deterioration in the quality of loans consequently affecting micro finance institution performance adversely.

Simiyu, (2018) 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 firms efficiency is enhanced

Berger and De Young (2019), poor management in the banking institutions results in bad quality loans, and therefore, escalates the level of non-performing loans. They argue that bad management of the micro finance institution firms will result in MFN inefficiency and affects the process of granting loans. The micro finance institution management might not thoroughly evaluate their customers credit application due to their poor evaluation skills. Therefore, MFN inefficiencies might lead to higher non-performing loans.

According Okorie (2018) 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 (2020) 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.

As observed by (Schoof, 2019) an inadequate number of monetary institutions offering credit services to MFI may be a constraint to the event of this sector. (Mwongera, 2018) observed that there have been many small scale while the financial institutions with the services customized for them are few.

According to the study conducted by (Brehanu and Mesfin, 2020), Micro and small enterprise in wolkite Town, has inadequacy of finance when starting and operating the projects. The formal financial institutions haven't been ready to meet the credit needs of the MSEs because MSEs aren't ready to fulfill the wants like business plan, governance systems, collateral and other accountability issues which are related to business risk management.

2.7. Research Gaps

A research gap is defined as a topic or area for which missing or insufficient information limits the ability to reach a conclusion for a question. The preceding studies are few in number, which implies, there is still knowledge gap; previous researcher studies at branch level. this study at three selected MFN in wolkite and also the researcher observes most customers did not show progress and some of them become rent suckers. Even though some of them show progress and change to high level. Therefore, the researcher motivated to study related to credit management practice in wolkite town credit and saving micro finance institution .this study will aim to assess the credit management practices in the selected MFIs in wolkite, and thus, to fill the aforementioned research gaps through employing recent data and sound research.

CHAPTER THREE

3. Methodology

3.1. The research Design

The study was focuses on the assessment of credit management on microfinance institutions in case of wolkite town credit and saving Share Company. The study was use both qualitative and quantitative research approaches in order to achieve the research objective.

3.2. Research Approach

This research carried out by investigating the assessment of credit management practice of micro finance institution in wolkite town hence descriptive and inferential statistics research design is using. The objective of the study and answer the research questions, the researcher adopted both quantitative and qualitative (Mixed) research approach. The rationale of using a mixed approach is to gather data that could not be obtained by adopting a single method (Creswell, 2003). Hence, the basis of such approach helps to neutralize the limitations of applying a single approach in connection with the qualitative and quantitative nature of the research.

3.3. Data type and data source

In order to get sufficient and relevant information for the study the researcher would use both primary and secondary data. The primary data were collected from customers, employees of the institution and management on the current situation of the institutions and performance of employee and secondary data were collected from books, manuals and reports.

3.3.1 Population and sample size

3.3.2 Target population and Sample Size

The target population of this study is all MFI found in wolkite town of which three MFNs were selected based on none probability sampling and employees of credit management, credit analysts and credit portfolio were the target group and number of employees in organization is 22 from this 12 employees selected by using non probability sampling.

3.3.3. Sampling Frame

Sampling frame where the list of all elements in the population from which the sample was drawn. The sampling frame for this study were the list of all MFI found in wolkite and the total professional employees found working in the MFIs.

3.3.4. Sampling technique

The judgmental sampling method would be used to collect data because this method avoids bias and allow the researcher to get real information for each and every employee. But for the customers the researcher uses convenient non probability sampling technique because there was no complete list of customers.

3.4. Method of data collection

Primary data would be collected using structural interview from credit mangers because, to get relevant data and by using questioners from customers and employees. In the questioners, the researcher would use both close- end and open- end questions in such a way that they should generate important information on credit management system of wolkite town credit and saving institution.

3.5. Method of data processing

The process would be carries out in clear way to reach the objective of the study after the necessary primary and secondary data were collected and would start by editing and classifying the collected data to more meaning full and relevant data editing means the process of examining the collected data would be Identifying error and omission and to

correct them regarding data classification the collected data would be arranged and grouped in to similar categorist.

3.6. Method of data analysis

The collected data would be analyzed by using descriptive analysis method according, percentage and frequency count would be analyzing and interpret the data collected form the sample respondent.

3.7. 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 Significance and Value of project mgmt. Office](https://www.academia.edu/38953264/Examining_Significance_and_Value_of_project_mgmt_Office) this is especially important when considering issues related to data sharing, co-authorship, copyright guidelines, confidentiality, and many other issue.

CHAPTER FOUR

4. Data presentation, analysis and interpretation

The sample survey covered respondents which were selected conveniently from the customer of the institution and were use judgmental sampling for employee of the organization. Out of 30 samples size, what i could get was only 18. Thus, the study tried to analyze and interpreted the data based on the 18 customers and the 12 employees.

Description on respondents back ground the age, sex, education level, type of occupation and marital status are some of the characteristics of sample respondents.

Table 4.1. Demographic characteristics of respondents (customers)

No	Item	Frequency of responses	
		No	%
1.	Age		
	< 20	2	11
	21-30	5	28
	31-40	8	44
	Over 40	3	17
	Total	18	100
2.	Sex		
	Female	13	72
	Male	5	28
	Total	18	100
3.	Marital status		
	Married	12	67
	Unmarried	6	33

	Total	18	100
4.	Level of education		
	Illiterate	8	44
	Primary education (1-8)	4	22
	Secondary education (9-10)	2	11
	Preparatory (11-12)	2	11
	12 complete	1	6
	Technical & vocational	1	6
	Higher education	0	0
	Total	18	100
5.	Occupation		
	Tailor	2	11
	Construction work	0	0
	retailer	10	56
	Other	6	33
	Total	18	100

Sources: survey questionnaire 2015.

Table 1 item 1 shows 8(44%) customers are between the age of 31 and 40, 5(28%) of customers are in the age of 21-30, 3(17%) customers are above the age of 40 and there are only 2(11%) customers whose age are less than 20. item 2 depict that 13(72%) of the customers are female and 5(28%) customer are male. Item 3 shows us that 12(67%) of the customers are married while 6(33%) are unmarried. Item 4 tells us that most of the customers. i.e. 8(44%) are illiterate, 4(22%) are primary education level, 2(11%) of them reached secondary education, 2(11%) customer reached for preparatory education 1(6%) customers have completed grade 12, 1(6%) of them are technique and vocational students.

Generally the above table indicates us that micro finance institution are not able to lend money for those who want to engage in business activities that require huge amount of money such as for construction because that MFIS can have a relatively higher capital such as construction the finding in this study suggested they are not offering sud a loan,

the reason for this is mainly the single borrower loan limit as national bank of Ethiopia directives is on emly birr 5000.

Analysis of data and interpretation

Loan disbursement and collection:- most of the customers in the microfinance institution are above 30 years old and illiterate who don't have enough knowledge regarding the value of timely disbursement of loan and time value of money. So, in the following sections it is possible to know the problems regarding the efforts of timely collection of loan and related aspects.

Table 4. 2 Sufficiency, training and collection of credits

No	Item	Frequency of response	
		No	%
1.	Do you think the loan given to you is enough to handle a business you are running?		
	A yes	14	78
	B No	4	22
	Total	18	100
2.	Do you get any training how to use the loan?		
	A .Yes	13	72
	B. No	5	28
	Total	18	100
3.	Does the institution collect its credit given to customers within the specified period?		
	A.Yes	8	44
	B.No	10	56

Sources: survey questionnaire 2015.

Table 2 item 1 shows that 14(78%) respondents stated that the loan is enough to handle a business and 4(22%) disagree this. Table 2 item 2 depicts that 13(72%) respondents agreed the presence of training but the minority i.e. 5(28%) said that there is no training. Table 2 item 3 shows that 8(44%) of the respondents witnessed that the institution collects its credits on the specified time, were as 36(56%) said the reverse. From item 1 we can infer that the majority of the customer engaged in small business activities from item 2 we can infer that the institution doesn't worry about how the customers use the loan. From item 3 we can understand that the institution give priority for leading than collecting.

Table 3. The repayment period mostly used by customers

No	Item	Frequency of response	
		No	%
1.	Which period is being used by you?		
	The repayment period	6	33
	After the due date	9	50
	Both	3	17
	Total	18	100

Sources: survey questionnaire 2015.

From table 3 item 1 we can observe that only 6(33%) of the respondents repay their share of loans within the repayment period and the majority 9(50%) repay after the due date and 13(17%) of the respondents use alternatively the result indicates that the repayment period could be short.

Table 4.4 Presence of follow up & supervision

No	Item	Frequency of response	
		No	%

1.	Is there any follow up and supervision?		
	Yes	15	83
	No	3	17
	Total	18	100

Sources: survey questionnaire 2015.

In table 4 it is indicated that 15(83%) of the respondents said that there be presence of follow up and supervision whereas 3(17%) of respondents said that there is no follow up and supervision. From this we can infer that the institution not relying on the group pressure does focus on the follow up and supervision activities.

Table 4. 5 Amount and time to get loan

<u>No</u>	<u>Item</u>	<u>Frequency of response</u>	
		<u>No</u>	<u>%</u>
1.	Amount borrowed from the institution.		
	≤ 3000 birr	8	44
	3001 - 7500	6	33
	7501-120,000	4	23
	> 120,000	0	0
	Total	18	100
2.	How long did it take you, to get loan?		
	≤ 5 days	6	33
	5 - 10 days	9	50
	11-15 days	3	17
	Above 15 days	0	0
	Total	58	100
3.	For how many months did you borrow?		
	≤ 12 months	18	100

	13-24 months	0	0
	25-26 months	0	0
	O ≥ 36 months	0	0
	Total	18	100

Sources: survey questionnaire 2015.

As depicted in table 5 all employee said that there is a possibility for group member to be responsible and going to court.

Table 5 item 1 shows 8(44%) borrowed less than birr 3000. Then next large number of borrowers took amount between 3000 birr & 7500 birr and this constitutes 6(33%) and who borrows between 7500 and 120,000 are 4(23%). There was no customer who borrows 120,000 birr. Table 5 item 2 indicated that 6(33%) customers took less than 5 days to get loan, most of the customers 9(50%) and between 11 and 15 ,3%(17%) and days no one took above 15 days. Table 5 item 3 depicts us that there is no any customer who borrowed for more than 12 months repayment. This implies that the institution doesn't give loans for more than one year.

Table 4. 6 Purpose and agreement of loan and group lending.

No	Item	Frequency of response	
		No	%
1.	Purpose the loan?		
	business	17	94
	consumption	1	6
	Total	18	100
2.	What was the agreement regarding the repayment		
	monthly	18	100
	quarterly	-	-
	Yearly	-	-
	Total	18	100
3.	Do you think that there is problem in group lending?		
	Yes	11	61

	No	7	39
	Total	18	100

Sources: survey questionnaire 2015.

Table 6 item 1 shows 17(94%) of sample respondents used the loan for business and 1(6%) used for consumption purpose. This implies that the microfinance institution is convenient for traders. Table 6 item 2 shows 18(100%) of respondents agreed to pay back monthly. From this it can be implied that could enable them more or less to pay a proportion of their loans monthly. Item 3 shows 11(61%) of customer are unhappy about the group lending method, on the other hand 7(39%) of the respondent feel the reverse.

Here since the majority of the customers are unhappy, it can be implied that group lending method creates conflicts among customers as human behavior is different and different people for the repayments of the loan as a result for the settlement of repetitive wastage of time happens in addition the group members was face to cover the share of the defaulted individual.

Therefore, because of the above points and other reasons group members are not happy about it. Demographic characteristics of respondents (employee). The employee of the institution are 22 and since of them have given their responses, the analysis and interpretation are based on the 12 respondents.

Table 4.7 Characteristics of respondents (employees).

No	Item	Frequency of response	
		No	%
1.	Sex		
	Female	5	42
	Male	7	58
	Total	12	100
2.	Marital status		
	Married	6	50
	Un married	6	50
	Total	12	100

Sources: survey questionnaire 2015.

Table 7 item 1 shows that 5(42%) of respondents is female and 7(58%) of respondents are male. Table 7 item 2 depicts about marital status and 6(50%)the respondents are married whereas 6(50%)of them are unmarried.

Table 4. 8 Level of Education.

N_o	Item	Frequency of response	
		N_o	%
1.	Level of education		
	12 completed	0	-
	Diplomas	4	33
	Degree	8	67
	Total	12	100

Sources: survey questionnaire 2015.

Table 8 item 1 indicates that 4 (33%) of employee are holder of diploma and 8(67%) hold degree. This indicates that to undertake the risk and they conduct with work at the same time to satisfy the customer.

Table 4. 9. Criterion

N_o	Item	Frequency of response	
		N_o	%
1.	Do all the customers full fill the criteria?		
	yes	10	83
	No	2	17
	Total	18	100

Sources: survey questionnaire 2015.

In table 9 item 1 it is depicted that 10(83%) of the employees witnessed that the customers knows all the criterion were as only two said that all the customers don't fulfill all the criterion. This indicates that the most of the customers 80% have fulfilled the criterion but some of them don't, because of different reasons. For example, since the institution uses social collateral or group lending method, the institution expected positive pressures of customers over the other customer.

Table 4. 10 Disbursement and group lending method

No	Item	Frequency of response	
		No	%
1.	Are the loans that are disbursed enough to the customers to run their business? yes No	9 3	75 25
	Total	12	100
2.	Do you think that there is problem in group lending method? Yes No	8 4	67 33
	Total	12	100

Sources: survey questionnaire 2015.

Table 10 item 1 shows 9(75%) of the employee said that the loan disbursed is enough, because almost all of the customers are engaged in micro business activities, whereas 3(25%) employee said that the loan disbursed is not enough. This is because there are some customers who are engaged in business activities that require finance of above the maximum amount of the loan by the institution. Moreover, some customers use some amount of the loan for consumption.

Table 10 item 2 depicts that 8(67%) of employee said that group leading method does have problem because there are some customers who are not loyal. This means when they are delegated to deliver back to the institution by the group, they use it for themselves and 4(33%) of employee said that group lending was no problem.

4.5. Loan site of the institution

The feasibility of the project is given the prime importance by the institution.

Table 4. 11. Loan site of the institution

Item	Description	For existing customer	
		For new customer	
1	Individuals	2000	Up to 25000
2.	Cooperatives	Number of customers	Depends on the number of the members
3.	Edirs	By agreement	On agreement

Source: secondary data

Table 11 items 1 depicts that the institution gives 2000 birr for one new customer but it also gives 25,000 birr time customers would be well acquainted with the employees and this creates confidence for the employees to give more loans for customers. For cooperatives if depends on the number of the member and Edirs are loan on agreement with the institution. This implies that Edirs are credible by the institution.

Table 4.12 Policy, procedure and repayment

No	Item	Frequency of response	
		No	%
1.	Are the employee well informed about the policy and procedure of the institution? yes No	12 0	100 -
	Total	12	100
2.	What do you thing about the repayment of the loan?		

	Loan is timely repaid	-	-
	Loan is not timely repaid	12	100
	Total	12	100

Sources: survey questionnaire 2015.

Table 12 item 1 depicts us that all employees are well informed about the policy and procedure of the institution. Therefore, it can be implied the employee of the institution are educated and have good working experience table 12 item 2 indicates that all witnessed the timely repayment of the loan. This implies that, the employees have no question or dread about repayment by their customers.

Table 4. 13. Loan repayment period

No	Item	Frequency of response	
		No	%
1.	What is there payment period?		
	Monthly	12	100
	Quarterly	-	-
	Yearly	-	-
	Total	12	100
2.	Is the repayment period suitable?		
	Yes	-	-
	No	12	100
	Total	12	100

Sources: survey questionnaire 2015.

Item 1 shows as that the repayment period is monthly. This implies that the policy of the institution requiring repayment is one month. Item 2 depicts us that the repayment period is witnessed by the employees to be suitable. This implies that the repayment period is exactly in line with their desires.

Table 4.14 Supervision on the loan

		Frequency of response

No	Item	No	%
1.	Is there any supervision on the debilitation?		
	Yes	12	100
	No	0	-
	Total	12	100
2.	Is the supervision on both the loan utilization and repayment adequate?		
	Yes	5	42
	No	7	58
	Total	12	100

Sources: survey questionnaire 2015.

Table 14 item 1 shows that there is supervision on the loan utilization. Item 2 indicates that the adequateness of the supervision is witnessed only by 5(42%) of the employee, whereas 7(58%) of the respondents disagree by the adequateness of the supervision.

If implies that even though there supervision it is rarely done. So this indicates that the employee of the institution focus on the lending activity than what aids happening after loan.

Table 4. 15 Not paying debt

No	Item	Frequency of response	
		No	%
1.	What if a member of a group disappears without paying back his debt?		
	Group members' 11 b responsible	-	-
	Going to court	-	-
	Waiting him/her fill comes	-	-
	A & B	12	100

	Total	12	100
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Sources: survey questionnaire 2015.

As depicted in table 15 all employees said that there is a possibility for good member to be responsible and going to court.

Table 4. 16 Final measures

N_o	Item	Frequency of response	
		N_o	%
1.	What is the final measure for the defaulter?		
	Going to court	-	-
	Snatching his property	12	100
	Fathers	-	-
	Total	12	100

Sources: survey questionnaire 2015.

As show in table 16 the final measure over the defaulter is accusing the defaulter. This implies that the micro finance institution (OCSSC) doesn't use any collateral for lending.

CHAPTER FIVE

5. Summary, Conclusions and Recommendation

5.1. Summary

The purpose of this paper is to identify the credit and saving micro finance institution. The findings of this study indicates that Since the loan amount is small, wolkite credit and saving micro finance instituting lending amount doesn't invite business persons who want to engage themselves in butter business activities than retailing, tailoring and soon. The institution has problem of giving training how to use the loan. The institution doesn't mostly collect its credits on the specified time period; rather it mostly collects after the due date. The institution doesn't lend for more than one year.

All the employee are well informed about the policy and procedure of the organization. According to employee loans is not timely repaid. According to employee most of the customers fulfill the criterion required to taken loan. The majority of customers are between the age of 31-40, female, married, illiterate and are engaged in retailing activities.

Most of the customers borrow less than 3000 birr. Almost all of the customers use the loan for business. The specified time period for repayment is one month. Most often the customers said that there is problem in group borrowing. The loan amount for one new customer is only 2000 birr. The maximum loan amount of existing customer is only 25,000birr. The group lending method is effective from the point of view of the institution. According to employees the repayment period is not suitable. If a borrower disappears without paying back his debt members of group would be responsible. The final measure of the institution over defaulters is accusation.

5.2. Conclusions

As it has been pointed out in the findings, the institution has different problems. These problems undoubtedly will have negative impact on its performance. The institution has problem of giving training for its customers how to use the loan, but since the majority of its customers are illiterate, they need repeated training so, the institution is advised to do this. It has problem of follow and supervision in little beet since the reason for this problem me is due to shortage of employee it is advised to employee additional employees.

The institution doesn't mostly collect on the specified time period, rather it mostly collects mechanisms that encourages that encourages it customer to pay on the specified time period. Example by giving prizes at the end of the loan payments. It takes 5 – 10 days to allow loan. This is long when compared with other institution. Therefore, it should try to shorten this.

The specified time period for repayment is one month and many customers are not happy by this, therefore, the institution is advised to consider this because the customer complain may have negative impact especially for potential customers. Since the loan amount is small, the lending amount of the institution doesn't invite business persons who want to engage themselves in better business activities than retailing, tailoring and soon.

Generally microfinance activities have significant importance in the economy of developing countries. The sector contributes a lot by minimizing unemployment by providing jobs opportunities for those who are actively seeking jobs. Therefore, even though the operation is danger unless otherwise it strengthens its follow up and supervision on the activities of the customers rather than relying on group members or court procedures.

5.3. Recommendations

Since wolkite credit and saving micro finance institution is one of the micro finance institutions. it must create its own core competency and must improve its credit management system to attract more customers than competitors. According to the findings the following possible recommendations are presented. Even if the credit is not collected with the specified period, the institution must be ready to make change like;

Increasing the grace period of those activities which require longer period and sale the product eg. Metal works, wood works.

Appreciating customer, which pay on time, by giving them a discount and having strict follow up for those customers, which do not pay on time at the same time the institution should train and create awareness on its customers about the time value of money.

Since the group lending method has problems ask for social guarantee for those who are suspected based on experience. For example for those young customer and illiterate customers.

It should lend for more than one year and try to lend for individual who are not grouped

If the institution starts lending above 25,000 birr for those whose business activities are attractive and profitable, it can increase its customer as well as its objectives.

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Appendix I
Wolkite University
College of Business and Economics
Department of Accounting and finance

Dear Respondents:

First of all I'd like to extend my sincere gratitude for helping me by filling this questionnaire. The purpose of this questionnaire is to collect data to be used in first degree research project attitude credit management of Wolkite credit and saving micro finance institution. All information you provide here after will be used at most confidentiality as part of overall response, therefore please feel free to provide your valuable response that will make this research project successful.

Note: - No need to write your name

Please put " ✓" in space provided

Questionnaire for employee

Part – one General questions

1. Sex male ___ Female ___
2. Marital status Married ___ Un married ___
3. Level of education
 - A) 12 completed ___ B) Diploma ___
 - C) Degree ___ D) Above ___

Part two data on micro finance activity

Do all the customers fulfill the criterion?

- A) Yes ___ B) No ___

2) Are the loans that are disbursed enough to the customers to run their business?

3) Is there any problem in group lending method?

- A) Yes ___ B) No ___

4) If yes, Q/3 specify them

- a) _____
b) _____

c) _____

d) _____

5) Are all employee well informed about the policy and procedure of the institution?

A) Yes ___ B) No ___

6) What do you think about the Re- payment of the loan issued?

A) Loan issued was timely re- paid ___

B) Loan issued was not timely re- paid ___

7) If not timely re- paid what are the reasons of delay

a) _____

b) _____

c) _____

8) Is the repayment period suitable?

A) Yes ___ B) No ___

9) If no, (Q18) specify and recommend on the repayment period?

a) _____

b) _____

c) _____

10) Is there any follow- up and supervision

A) Yes___ B) No ___

11) If yes (Q/10) Specify?

a) _____

b) _____

c) _____

12) If No (Q/10) why?

a) _____

b) _____

c) _____

Appendix II

Questioner for customer

Part –two General questions

1. Age
2. Sex male ____ Female ____
3. Marital status Married ____ Unmarried ____
4. Level of education

Literate

Primary education (1-8) ____

Secondary educations (9-10) ____

12 compete ____

Technique and vocational ____

Degree and above ____

5) Occupation

- A) Tailor ____ B) Construction work ____ C) Retailer ____ D) other specify ____

6) Do you think that the loan give to you is enough to handle of business you are running? A) Yes ____ B) No ____

7) If no, (Q/16) How you are running the business?

- a) _____
b) _____
c) _____

8) Do you get any training to use the loan?

- A) Yes ____ B) ____

9) If yes, (Q/18) when?

- A) Before you get the loan ____
B) After you get the loan ____

10) If yes, (Q/18) by what interval?

- A) Once in a month ____
B) Twice in a month ____
C) Once in a year ____

D) Once in 6 month ____

11) Does the institution collect its credit given to customers within the specified period?

A) Yes ____ B) No ____

12) If no (Q/11) why?

a) _____

b) _____

c) _____

13) Is there any follow-up and supervision by institution?

A) Yes ____ B) No ____

14) For what purpose did you take the loan?

A) Business ____ B) Consumption ____

15) What are the agreement regarding the repayment

A) Monthly ____ B) quarterly ____ C) Yearly ____

16) What is the problem in group borrowing?

A) Yes ____ B) No ____

17) If yes (Q/16), specify?

a) _____

b) _____

c) _____

18) How long did it take you to get loan?

A) <5 days ____ B) 5 -10 days ____

C) 11 -15 days ____ D) above 15 days ____

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