

**ASSESSMENT OF CREDIT MANAGEMENT IN
MICRO FINANCE INSTITUTIONS (A Case Study on
Aggar Microfinance Share Company in Wolkite**



Branch)

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COLLEGE OF BUSINESS AND ECONOMICS
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Abstract

This study was conducted on the title of assessment of credit management in micro finance institutions in Aggar Microfinance Share Company at Wolkite branch with primary objective of examine the credit management on micro finance institution at branch level. In this study both primary and secondary source of data used and the researcher would be used open end and close questionnaires and structure interview to collected data from the employee, customers and management body of the institutions and it used convenience non probability technique to select customers and judgmental technique to select target population among employee and management body of Aggar Microfinance Share Company. And also the researcher used descriptive method of data analyzing. The analyzed 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.

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Abbreviation

AEMFI = Association and Ethiopian Micro finance Institution

MGT = Management

MFI= Micro finance Institution

CM= Credit Management

MIS=Management Information System

CHAPTER ONE

1. Introduction

1.1 Background of the study

According to Hulme, (1991) microfinance institution was first started in 1980, by professor Mohammed Yenus 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 activity that extending credit, in cash or in kind to peasant (Abinet, 2007).

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, 2007).

Currently there are around 30 licensed micro finance institution in Ethiopia working both rural and urban areas so this study would be conducted on Aggar micro finance institution which was established in 1995 (CIMMISA, 2010). Some companies do their utmost to bring in new business, but may falter at the last hurdle of ensuring that deals turn in to 'paid deals'. Over half of all bankruptcies are attributed to pure credit management –signifying its importance. Credit management involves much more than reminding customers to pay. Rather, it involves gaining a thorough examination and process of detecting possible reasons of non- payment, perhaps even whether a solution or product was not delivered and even as far as the invoicing containing discrepancies.

1.2. Back ground of the organization

Microfinance is recognized as an effective tool to fight poverty by providing financial services to those who do not have access to or are neglected by commercial banks and financial institutions. Financial services provided by microfinance institutions generally include saving and credit. According to an estimate, currently, 67.6 million people around the world have access to microfinance (www.Aemfi-Ethiopia.org).

Aggar Microfinance Share Company operates within Ethiopia and has branches in various regions, including Wolkite. Today, Aggar Microfinance Share Company was established in 2004 with the aim of addressing the financial needs of underserved communities. The Wolkite branch of Aggar Microfinance Share Company plays a significant role in extending services to the Central Ethiopia region. To expand its reach, Aggar plans to establish its branches all over Ethiopia.

1.3. Statement of the problem

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 make 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 is 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?

Research gap:-As per researcher's knowledge, there was no comprehensive study conducted specially in Wolkite town on assessment of credit management in micro finance institutions. For these reason, the researcher intends to fill the gap by conducting the study in the assessment of credit management in micro finance institutions.

Therefore, the researcher motivated to study related to credit management practice in Aggar micro finance institution by answering the following basic questions.

1. What are the activities practiced in credit management of institution finance Aggar micro institution, in Wolkite branch?
2. What method the institutions use to follow up the loan?
3. What police and procedures the institution follows?
4. What are the monitoring mechanisms to collect credit in the institution?
5. How they are effective in collecting the loan?

1.4. Objective of the study

1.4.1. General objective

The main objective of the study is to examine the Credit Management in Microfinance Institutions on Aggar microfinance Share Company in Wolkite branch.

1.4.2. Specific objectives

1. To assess the credit management activities of Aggar Microfinance Institution including the evaluation of client creditworthiness, monitoring of loan utilization, management of disbursement and repayment schedules, implementation of follow-up mechanisms for repayment collection, and the review and updating of credit policies in accordance with institutional goals and market dynamics.
2. To identify and analyze the policies and procedures the institution follows in its operations and credit management.
3. To evaluate the mechanisms used by the institution to monitor and collect outstanding credit effectively.

1.5. Significance of the study

The importance of this study is to enhance the competitive position of Aggar 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 will pave the way for the clients of the institutions, also for the institutions and additionally serves as reference for other researcher.

Also the study will provides 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.

1.6. Scope of the study

Geographically, the study is confined to the Wolkite Branch of Aggar Microfinance Share Company due to time and budget constraints. Conceptually, the study is limited to the assessment of credit management practices within microfinance operations.

1.7. Limitation of the study

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

1.8. Organization of study

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

CHAPTER TWO

2. Literature review

2.1. Poverty in Ethiopia

Ethiopia is one of the poorest countries in the world with annual per/capital income of \$ 170. The United Nations development program's 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 to meet MDG 1 by 2015 as result high variability in agricultural GDP and rapid population growth. Most rural households are finding increasingly difficult to service without resource to seasonal or permanent urban migrations search of wage employment (<http://www.rvralpovertyportal.org>).

2.2. Micro finance 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 proportion (WWW. aemfi- Ethiopia. org)

2.2.1. Micro finance as Anti- Poverty strategy

The recent definition of poverty by the roared bank extended the conceptual dimension beyond the conventionally held idea of permanent income/ consumption of lack of income) assets, sense of noiselessness 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 this raid. 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 errata interest can go as high as 400% in some instances. And this exploitive 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 dustriest 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 they will allow rural households in both food secure and in insecure 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 provide their services of credit provision and saving mobilization. However, even if policies aimed at changing the regulatory environment were expected to pave the way for increased flows of resources to rural and informal sectors, micro financial services are very inadequate 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 makers and researchers as vehicles of poverty mitigation. Pioneered by the German bank in Bangladesh, most micro finance

program required the poor to form 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. It 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 institutions have been established in accordance with the proclamation issued by the national bank of Ethiopia in 1996, there are about 30 micro-finance institutions. All of them are share companies administered by their respective board of directors. The central objective of financial institution is to provide credit and saving services to the poor. Microfinance with entities 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 meet 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 there by 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 of the amount of loans repayment under this arrangement the MFIS staff may receive financial bonuses. Directly recanted 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 beleaguered 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 under 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 determine 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 courses of actions and simplifies the decision making process.

- A sound policy contributes to a lender's 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 with in 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 learn 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 country where a significant proportion of people hold traditional and deeply rooted beliefs, taking loans from moneylenders or banks is often considered a serious risk. If a person dies without repaying their debts, it is commonly believed

that their sons and heirs have a duty to do so to ensure the deceased's soul finds peace. Additionally, the failure to repay debts often due to exorbitant interest rates—can result in the loss of property rights, leading to economic hardship and social consequences (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 overdoes, 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. The effectiveness of MIS in collecting and managing their credit

2.6.1. The effectiveness of MIS in collecting credit

An effective MIS system with accurate necessary information is the best resource for executives to make informed decision. In portfolio /program/project management life cycle, managers use MIS to build a frame work, to plan, to create a schedule and to define the scope base line. During the execution MIS will be used to compare the baseline with actual accomplishment of each activity, manage materials, collect financial data, and keep a record for reporting purposes. During the close of the project, the MIS is used to review the goals to check if the tasks were accomplished. Finally, it is also used to create a report of the project close.

Implementing an effective management information system (MIS) will solve most of the day to day problems associated with a portfolio and also will be used as an archive for letter use as lessons learned in future. Despite the fact that we all know this, we often fail to deliver the information needed to ensure credit collection success.

An effective MIS is user-machine interface system for providing information to support the organizational operations, management, analysis, and decision making functions. The system utilizes computer hardware and software, manual procedures, process models for analysis, planning, change control and decision making and of course with a database for all it is back-end functions

An effective MIS can deliver accurate information to a manager's desktop in Head Office or in team member's branches throughout the country and overseas. It enables managers to interrogate data at the top to bottom level, to analyze data themselves, and to create ad-hoc reports-without time-consuming and expensive programming to develop inflexible hardcopy reports, (it should be flexible enough to be sliced and diced without compromising the data quality)

2.6.2. The effectiveness of credit managing

The credit management function incorporates all of a company's activities aimed at ensuring that customers pay their invoices with in the defined payment terms

and conditions. Effective credit management serves to prevent late payment or non-payment. Getting it right reinforces the company's financial or liquidity position, making it a critical component in any business. This wiki tells you all about the importance of good credit management, the benefits and how to create robust platform. Effective credit management is a comprehensive process consisting of:

- Determining the customer's credit rating in advance
- Frequently scanning and monitoring customers for cred risks
- Maintaining customer relations
- Detecting late payments in advance
- Detecting complaints in due time
- Preventing any bad debt from arising

CHAPTER THREE

3. Methodology

3.1. Description of the study area

Wolkite is a town in the Southern Nations, Nationalities, and Peoples' Region (SNNPR) of Ethiopia, located at coordinates 7°46'N, 37°45'E. It serves as the administrative center for the Gurage Zone and plays a significant role in trade and services within the region. According to data from the town's statistics office, Wolkite has a population of 75,841, with 53% male and 47% female residents.

Wolkite's geographical location, population, and role as a regional hub make it an important area for economic development and research, particularly in relation to microfinance and poverty alleviation strategies. The town's development, alongside its growing importance in trade and education, presents opportunities for financial inclusion and the expansion of support services for local businesses and communities.

3.2. The research Design

The study would be focused on the assessment of credit management of microfinance institutions in case of Aggar Microfinance Share Company in Wolkite Branch. This study adopts a descriptive research design employing both qualitative and quantitative approaches to assess credit management practices in Aggar Microfinance Share Company, specifically at its Wolkite Branch. The qualitative aspect focuses on gathering in-depth insights through structured interviews with management and employees, while the quantitative approach uses questionnaires to collect measurable data from customers and staff.

3.3. Source of data

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

3.4. Sample techniques and sample size

Since the organization has 10 employees and due to the absence of a complete and accessible list of all customers at Aggar Microfinance Share Company, Wolkite Branch, the study employed non-probability sampling techniques to ensure relevant data collection from different respondent.

For the employees, judgmental sampling was used, as this method allows the researcher to select participants based on their relevance and expertise. This helps in obtaining meaningful insights from all employees while minimizing bias.

For the customers, convenience sampling, a non-probability technique, was used to select 30 participants. Since there was no complete customer list, the researcher relied on readily available customers who were willing to participate. This approach ensured that data could still be collected efficiently despite the lack of a comprehensive customer database.

3.5. Method of data collection

Primary data was 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 used both close- end and open- end questions in such a way that they should generate important information on credit management system of Aggar Microfinance Institution.

3.6. Method of data processing

The process was carried out in a clear way to reach the objective of the study after the necessary primary and secondary data have was collected. It was started by editing and classifying the collected data to transform it into more meaningful and relevant information. Editing involved examining the collected data to identify errors and omissions and correct them. Regarding data classification, the collected data was arranged and grouped into similar categories.

3.7. Method of data analysis

The collected data was analyzed using descriptive analysis methods, where percentage and frequency counts is calculated to interpret the data collected from the sample respondents.

CHAPTER FOUR

4. Data presentation, analysis and interpretation

The sample survey covered respondents which were selected conveniently from the customers of the institution and were judgmental sampling for employee of the organization. Out of 30 samples size, what I could get was only 28. Thus, the study tried to analyze and interpreted the data based on the 28 customers and the Ten (10) employees.

4.1 Demographic Characteristics of Respondents (Customers)

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	4	14.29
	21-30	10	35.71
	31-40	8	28.57
	Over 40	6	21.43
	Total	28	100
2.	Sex		
	Female	12	42.86
	Male	16	57.14
	Total	28	100
3.	Marital status		
	Married	16	57.14
	Unmarried	12	42.86
	Total	28	100
4.	Level of education		
	Illiterate	4	14.28
	Primary education (1-8)	8	28.57
	Secondary education (9-10)	6	21.42
	Preparatory (11-12)	4	14.28

	12 complete	4	14.28
	Technical & vocational	1	3.57
	Higher education	1	3.57
	Total	28	100
5.	Occupation		
	Tailor	8	28.57
	Construction work	1	3.57
	retailer	8	28.57
	Other	11	39.29
	Total	28	100

Sources: questionnaire 2025.

Interpretation:- Table 1 item 1 shows 8(28.57%) customers are between the age of 31 and 40, 10(35.71%) of customers are in the age of 21-30, 6(21.43%) customers are above the age of 40 and there are only 4(14.29%) customers item 2 depict that whose age are less than 20. 12(42.86%) of the customers are female and 16(57.14%) of the customers are male. Item 3 shows us that 16(57.14%) of the customers are married while the 12(42.86%) of the customer are unmarried. Item 4 tells us the customers. i.e. 4(14.28%) are illiterate, items 4 tells us the most customers 8(28.52%) are primary education level, 6(21.42%) of them reached secondary education, 4(14.28%) are customer reached for preparatory education, 4(14.28%) customers have completed grade 12, 1(3.57%) of them are technique and vocational students and 1(3.57%) customer have Higher education. From the above tables Items 4 tell us the customers. i.e. 8(28.57%) of the customers are Tailor, 1(3.57%) of the customers are Construction work, 8(28.57%) of the customers are Retailers, and 11(39.29%) of the customers are other.

Generally the above table indicates us the majority customers of micro finance institutions are age 21-30 and the majority customers of the micro finance institutions are male. In addition to this the users of micro finance institution are married peoples and the customers of the institutions are all most have primary level education, In addition to this the customers of the institution are not only Tailor,

construction work, and Retailer but also the majority users of the micro finance institution are other people that used for other purpose.

Loan disbursement and collection:-most of the customers in the microfinance institution are above 21-30 years old and they have primary education 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? Yes No	18 10	64.29 35.71
	Total	28	100
2.	Do you get any training how to use the loan? A. Yes B. No	22 6	78.57 21.43
	Total	28	100
3.	Does the institution collect its credit given to customers with in the specified period? A. Yes B. No	13 15	46.43 57.57

Sources: questionnaire 2025.

Interpretation:- Table 2 item 1 shows that 18(64.29%) respondents stated that the loan is enough to handle a business and 10(35.71%) disagree this. Table 2 item 2 depicts that 22(78.57%) respondents agreed the presence of training but the minority i.e. 6(21.43%) said that there is no training. Table 2 item 3 shows that 13(46.43%) of the respondents witnessed that the institution collects its credits on the specified

time, were as 15(57.57%) 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. The researcher conclude that the micro finance institution should have to collect its credit to the customers with in specified period because to operate the micro finance institution credit collection is very important in order to increase its efficiency.

Table 4.3 Presence of follow up & supervision

No	Item	Frequency of response	
		No	%
1.	Is there any follow up and supervision? A. Yes B. No	19 9	67.86 32.14
	Total	28	100

Sources: questionnaire 2025.

Interpretation:- In table 4 it is indicated that 19(67.86%) of the respondents said that there be presence of follow up and supervision where us 9(32.14%) 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. 4 Purpose and agreement of loan and group lending.

No	Item	Frequency of response	
		No	%
1.	For what Purpose did you take the loan? A. business B. consumption	23 5	82.14 17.86
	Total	28	100
2.	What was the agreement regarding the repayment		

	A. monthly	7	25
	B. quarterly	7	25
	C. Yearly	14	50
	Total	28	100
3.	Do you think that there is problem in group lending?		
	A. Yes	15	53.57
	B. No	13	46.43
	Total	28	100

Sources: questionnaire 2025.

Interpretation:-Table 4 item 1 shows 23(82.14%) of sample respondents used the loan for business and 5(17.86%) used for consumption purpose. This implies that the microfinance institution is convenient for traders. Table 6 item 2 shows 7(25%) of respondents agreed to pay back monthly, 7(25%) of respondents are agreed to pay back quarterly, and 14(50%) of respondents are agreed to pay back yearly. From this it can be implied that could enable them more or less to pay a proportion of their loans yearly. Item 3 shows 15(53.57%) of customer are unhappy about the group lending method, on the other hand 13(46.43%) 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

4.2 Demographic Characteristics of Respondents (Employees)

The employee of the institution are 10 and since of them have given their responses, the analysis and interpretation are based on the ten respondents.

Table 4.5 Characteristics of respondents (employees).

		Frequency of response
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No	Item	No	%
1.	Sex		
	Female	5	50
	Male	5	50
	Total	10	100
2.	Marital status		
	Married	5	50
	Un married	5	50
	Total	10	100

Sources: questionnaire 2025.

Interpretation:- As expressed above in table 4.5 item 1 shows that 5 (50%) of respondents is female and 5(50%) of respondents are male. According to this data the numbers of employees in micro finance institution the Females and male employees are equal. This implies micro finance institution gives equal opportunity work for both female and male.

As expressed in above table 4.5 item 2 shows about marital status 5(50%) the respondents are married and 5(50%) of them are unmarried. According to this data the numbers of married and unmarried of employees in micro finance institution are equal. This means the institution give equal work chance for both married and unmarried society.

Table 4. 6 Level of Education.

No	Item	Frequency of response	
		No	%
1.	Level of education		
	A. 12 completed	0	-
	B. Diplomas	9	90
	C. Degree	1	10
	Total	10	100

Sources: questionnaire 2025.

Interpretation:- As expressed above able 4.6 item 1 indicates that 9 (90%) of employee are holder of diploma and 1 (10%) of employee is hold degree. As a researcher the employees of micro finance institution should have to increase their level of education

from diploma to degree and above to increase their efficiency to collect their credit from their customers and to manage their credit in the institution. This indicates that to undertake the risk and they conduct with work at the same time to satisfy their customer needs and to attract new customers.

Table 4. 7. Criterion

N_o	Item	Frequency of response	
		N_o	%
1.	Do all the customers full fill the criterions? A. yes B. No	6 4	60 40
	Total	10	100

Sources: Questionnaire 2025.

Interpretation:- As expressed in above table 4.7 item 1 it is depicted that 6(60%) of the employees witnessed that the customers fulfills all the criterion were as 4(40%) said that all the customers don't fulfills all criterion. This indicates that the most of the customers 60% have fulfilled the criterion but some of them don't. Since the institution uses social collateral or group lending method, the institution expected positive pressures of customers over the other customer.

Table 4. 8 Disbursement and group lending method

N_o	Item	Frequency of response	
		N_o	%
1.	Are the loans that are disbursed enough to the customers to run their business? A. yes B. No	6 4	60 40
	Total	10	100
2.	Do you think that there is problem in group lending method? A. Yes B. No	6 4	60 40

	Total	10	100
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Sources: questionnaire 2025.

Interpretation:- Table 8 item 1 shows 6(60%) of the employee said that the loan disbursed is enough, because almost all of the customers are engaged in micro business activities, where us 4(40%) 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 8 item 2 depicts that 6(60%) 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(40%) of employees of the organization of said the group lending don't have problem. The institution to solve this problem should have to ask the fulfilled criterions, collateral, and give enough training to the group lending before give the loan.

4.9. loan site of the institution

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

Table 4. 9. Loan site of the institution

Item	Description	For new customer	For existing customer
1	Individuals	2000	Up to 10,000
2.	Cooperatives	Number of customers	Depends on the number of the members
3.	Edirs	By agreement	On agreement

Source: secondary data 2025

Interpretation:- Table 9 items 1 depicts that the institution gives 2000 birr for one new customer but it also gives 10,000 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 loans on agreement with the institution. This implies that Edirs are credible from institution.

Table 4.10 Policy, procedure and repayment

No	Item	Frequency of response	
		No	%
1.	Are the employee well informed about the policy and procedure of the institution? A. yes B. No	10 0	100 -
	Total	10	100
2.	What do you thing about the repayment of the loan? A. Loan is timely repaid B. Loan is not timely repaid	6 4	60 40
	Total	10	100

Sources: questionnaire 2025.

Interpretation:- Table 10 items 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 6(60%) of employees said loan is timely repaid to the organization and 4(40%) of employees said loan is not timely repaid to the organization. All most according to this analysis loan is timely repaid. This indicates the employees of the institution well informed about the policy and procedure of the institution to their customers how the customers repaid loan on timely.

Table 4. 11. Loan repayment period

No	Item	Frequency of response	
		No	%
1.	What type of loan your institution is offering? A. Long term B. Short term C. Medium term	3 3 4	30 30 40
	Total	10	100

2.	Is the repayment period suitable?		
	A. Yes	6	60
	B. No	4	40
	Total	10	100

Sources: questionnaire 2025.

Interpretation:- From the above Item 1 shows as the loan institution is offering 3(30%) of employees are said long term, 3(30%) of employees are said short term and 4(40%) of the employees of the institution are said medium term loans is offering to the customers of the institution. All most according to this evidences loan offering by the institution is medium term. Item 2 depicts that 6(60%) of the employees are said the repayment period is suitable for the customers and 4(40%) of the employees are said the repayment period is witnessed by the employees to be suitable. This implies that the repayment period is all most in line with their desires.

Table 4.12 Supervision on the loan

No	Item	Frequency of response	
		No	%
1.	Is there any follow up supervision on loan utilization?		
	A. Yes	9	90
	B. No	1	10
	Total	10	100

Source questionnaire 2025.

Interpretation:- Table 14 item 1 shows that 9(90%) of employees are said there is a follow up and supervision on the loan utilization and 1(10%) of the employees are said there is no enough follow up and supervision on the loan utilization. But according to this evidences good follow up and supervision is given by the institutions.

It 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. 13 .Collateral

N_o	Item	Frequency of response	
		N_o	%
1.	Do you ask your customer to provide collateral? 6. Yes 7. No	10 -	100 -
	Total	10	100

Sources: questionnaire 2025.

Interpretation:- As expressed in table 13 all employees said asked their customers any types of collateral. The types of collateral asked by the employees of the institutions are family collateral, salary collateral and etc. This collateral should be provided by the customers of institution to get loan from the institution. Without this types of collateral the institution don't give any types of loans for the society.

Table 4. 14 policy and criterion to offer a loan

N_o	Item	Frequency of response	
		N_o	%
1.	Do you have a policy and criterion to offer a loan? A. Yes No	10 0	100 -
	Total	10	100
2.	Do your criterion participator? 1) Yes 2) No	8 2	80 20
	Total	10	100

Source: questionnaire 2025.

Interpretation:- In table 14 items 1 us it is expressed that 10(100%) of employees or all of employees said the institutions is provide policy and full criterion to offer the loan to customers or society. This method is very important for the institution to collect their loans properly and to collect their loans on timely. If the institution is not provided enough policy and criterion don't collect their loan on timely.

In table 14 items 2 it is depicted 8(80%) of the employees is said the criterion provided by the institution is participators, where us 2(20%) of the employees is said there is not enough criterion participators provided by the institution.

CHAPTER FIVE

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, Aggar micro finance instituting lending amount doesn't invite business persons who want to engage themselves in batter business activities than retailing, tailoring and etc.

- 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 employees 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 majorities of customers are between the ages of 21-30, those are males and married, the level of their education are primary and also they engaged in other activities.

- Almost all of the customers of micro finance institution are used the loan for business activities. The specified time period for repayment is one month, most of the customers said that there is problem in group borrowing. The loan amount for

one new customer is only 2000 birr. 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

- This study was conducted to assess the credit management practices of Aggar Microfinance Share Company at its Wolkite Branch, with a focus on understanding how credit policies, loan disbursement, repayment, and monitoring mechanisms are implemented. Grounded in the background that microfinance institutions play a crucial role in poverty reduction by providing access to financial services for underserved communities, the research sought to identify both strengths and weaknesses in the institution's credit management system.

- The findings indicate that while the institution has policies and procedures in place and provides loans to support small business activities, several challenges persist. These include limited training for customers on loan utilization, delays in credit collection, unsuitability of repayment periods for many clients, and dissatisfaction with the group lending methodology. Furthermore, although follow-up and supervision activities are reported, their frequency and consistency appear limited due to staffing constraints.

- Overall, the research concludes that effective credit management remains vital for the sustainability and impact of microfinance services. Improving loan repayment timing, strengthening customer education, adjusting repayment schedules, and enhancing supervision mechanisms are essential steps for enhancing the institution's performance and fulfilling its role in supporting economic development at the community level.

5.3. Recommendations

○ In light of the findings and in alignment with the research objectives—which aimed to assess credit management practices, policies, monitoring mechanisms, and their effectiveness—this study proposes the following recommendations to improve the credit management system of Aggar Microfinance Share Company in the Wolkite Branch:

⇒ Even if the credit is not collected with the specified period, the institution must be ready to make change like;

1. Enhance Customer Training and Financial Literacy

The institution should provide regular and structured training to customers on loan utilization, business planning, and financial discipline. This is especially important as many clients have limited formal education, which affects their ability to manage credit effectively.

2. Revise and Diversify Repayment Schedules The current one-month repayment period is not suitable for all clients. The institution should implement flexible repayment options—such as quarterly or semi-annual schedules—based on the nature of the business and income flow of the borrower.

3. Strengthen Loan Monitoring and Follow-Up Mechanisms

The institution should increase the frequency and quality of loan follow-up and supervision. This can be achieved by hiring additional field officers or using digital tracking tools to ensure loans are used properly and repayments are made on time.

4. Improve the Group Lending System

Many respondents expressed dissatisfaction with the group lending method. The institution should refine this approach by providing proper training to

group members and introducing individual lending options for reliable clients with good repayment history.

5. Increase Loan Limits for Qualified Borrowers

The current loan amount (e.g., 2000 birr for new clients) is too small for those seeking to grow their businesses.

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Appendix
WOLKITE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF Management

Dear Respondents:

First of all I would 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 Assessment of credit management of Aggar micro finance institution Wolkite Branch. 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 "X" in space provided

Questionnaire for employee

Part – one General Questions

1. Sex male Female
2. Marital status Married Unmarried
3. Level of education
 - a) 12 completed B) Diploma
 - C) Degree D) Above

Part two data on micro finance activity

- 1) 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?
 - A) Yes B) No
- 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, (Q/8) Specify and recommend on the repayment period?

a) _____

b) _____

c) _____

10) Is there any follow- up and supervision

A) Yes b) No

11) What type of loan your institution is offering?

A) Long term B) Short term C) Medium term

12) Do you ask your customer to provide collateral?

Yes No

13) If yes, what type of collateral?.....

14) Do you have a policy and criterion to offer a loan?

Yes No

15) Do your criterion participator?

Yes No

Questioner for customer

Part- Two General Question

1. Age

2. Sex male Female

3. Marital status Married Unmarried

4. Level of education

- Illiterate
- Primary education (1-8)

- Secondary educations (9-10)
- 12 compete
- Technique and vocational
- Degree and above

5) Occupation

A) labor 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/6) How you are running the business?

a) _____

b) _____

c) _____

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

A) Yes B) No

9) If yes, (Q/8) when?

A) Before you get the loan

B) After you get the loan

C) Both

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

Interview for management body

Part three general question

1. Age
2. Sex Male Female
3. Marital Status Married Un married
4. Level of education
 - a) Diploma
 - b) Degree
 - c) Above

Data related to micro finance institution

1. What are the services that customer get from the institution?
2. Is there any training the institution gives to the customer? Also by what interval and when?
3. Is there any follow- up and supervision the customer by institution?
4. What are the problems in group lending?
5. Are all employee and customer are well informed the policy and procedure of the institution?

