ASSESSMENT OF CREDIT MANAGEMENT IN MICRO FINANCE INSTITUTIONS (A Case Study on Meklite Branch)

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DECLARATION

I hereby declared that the report of thesis entitled "Assessment of Credit Management Practice and its effect on loan performance ‘'at selected micro finance institutions in maklite is my original work, executed under the advisor of Mahlet D. All sources of materials used for the thesis have been accordingly recognized. Moreover, in confirm that the thesis has not been submitted either in part or in full to any other higher learning organization for the reason of earning any degree

Abstract

This study was conduction the title of assessment of credit management in micro finance institutions in maklite credit and saving Share Company at maklite 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 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 census technique to select target population among employee and management body of maklite 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 institute is advised to create awareness to the customer, about the time value of money and to improve the repayment period.

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Key word

AEMFI = Association and Ethiopian Micro finance Institution

Mgt = Management

MFI= Micro finance Institution

CM= Credit Management

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CHAPTER ONE

1. Introduction

1.1 Background of the Study

Microfinance institutions (MFIs) had the function of provided financial services to the low-income households who have long been deemed ‘unbackable”, including the self-employed and customers without collateral assets. Dedicated to improve the life of the poor in developing countries, MFIs provide to the poor much needed credit loans of small amount to finance their entrepreneurship projects, to finance their consumption, to cope to illness or for the education of their children without any collateral requirement. (Ibtissem and Boeri, 2013)

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 risks, improves return from credit and making proper credit decision of the institution (Yaregal, 2007).Surprisingly, many MFIs appear to neglect even the basic credit risk management which helped MFIs achieve high growth rates historically (Fernando, 2008).

As Nancy et al. (2012) noted an effective credit management process is required to help institution’s top leadership, establishes rules to prevent operating losses due to human error, employee carelessness, technological malfunction or fraud. Unfortunately, most MFIs do not yet have comprehensive credit management systems. Even though, Proactive credit management is essential to the long-term sustainability of microfinance institutions (MFIs), but many microfinance stakeholders are unaware of the various components of a credit management procedure. Thus, why I am found to conduct this study on maklite credit and saving micro finance institution. Therefore, this study tries to examine the issue of credit management in microfinance institutions in the case of Meklite credit and saving Share Company on Meklite branch.

1.2. Statement of the Problem

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

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

According to the report of National bank of Ethiopia (2020), the three years consolidated financial report on MFIs indicate that the sector ‘s gross loans and advances increased from birr34.53 billion in july7, 2017to birr59.6billion in June30,2020 which implies to a growth of 72.5per cent. Even if, MFIs in Ethiopia has been adopting different credit management practice and credit policies. However, the MFI continue to increase in high default rate and high level of nonperforming loans. This trend threatens its sustainability in Ethiopia. Despite the use of credit management practices in MFIs, there have been few empirical studies focusing on effects of credit management practices on loan performance. For example, O’Mara (2007) in Uganda to investigate on the credit assessment process and repayment of bank loans; a case study of Barclays was done. A sample of 73 respondents were interviewed and the results of the study showed that there was delay by Barclays bank in scoring loans, the bank charged commitment fee to both new and existing customers. This negatively impacted on loan repayment.

Therefore, as maintained above, the review of the preceding studies shows that there is still need for analysis of the credit management practices in the MFIs in maklite. There was research gap which qualifies this study to be conducted. These include, the preceding studies are few in number, which implies, there is still knowledge gap; Hence, this study will aim to assess the credit management practices and it effect on loan performance in the selected MFIs in maklite, and thus, to fill the aforementioned research gaps through employing recent data and sound research methods.

1.3. Research question

1. What are the activities practiced in credit management of MFI.
2. What method does the credit management institutions use to follow up the loan?
3. Do the policies and procedures of the credit management institution is effective?
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 will be to assess the credit management of credit management in microfinance institutions on meklite credit and saving Share Company in Meklite branch.

1.4.2. Specific Objectives

1.To identify the activities practiced in credit management of the MFI.

2.To identify the methods used by the credit management institution to follow up loan.

3.To identify the effectiveness of polices and procedure the credit management institution follows in providing loans.

4.To identify the monitoring mechanism used by the credit management institutions to collect credit.

1.5. Significance of the Study

The importance of this study is to enhance the competitive position of Meklite 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 will pave the way for the clients of the institutions, also for the institutions and additionally serves as reference for another researcher. Also, the study will 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 un necessary payments.

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

1.6. Scope and Limitation of the study

Because of no sufficient time and no enough budget to conduct study on wide area the study is limited to maklite credit and saving micro finance institution of maklite branch geographically.

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

1.7 Operational research

Micro finance institutions: Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance products to the Poor and Low-Income Households, for their Micro-Enterprises

Poverty: is a condition in which people lack satisfactory material resources (food, shelter, clothing, housing), are unable to access basic services(health, education, water, sanitation) and are constrained in their ability to exercise rights, share power and lead their voices to the institution and process which affect the social, economic and political environments in which they love and work.

Respondent: are those individuals who are owner managers or operators of an enterprise.

1.8. Organization of Study

This proposal contains three chapters. The first chapter contains an introduction to the study which as different parts. Background of the organization and the study; statement of the problem objectives of the study; significance of the study; scope of the 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 analysis, interpretation, and chapter five contain recommendation and conclusion

CHAPTER TWO: LITERATURE REVIEW

2. Theoretical 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 was 48yers. Infant, mortality and malnutrition rate are among the highest in the world while access to education has increasing 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 it 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 licensing 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 extending 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 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 Ext remedy high, varying from 50% to 120% that the errata interest can 90 high as 400% in some instances. And this exploitive interest rate of the informal sector diminishes potential reform to factors of production, and will be a constraint to diversity economic activities of the rural sector. The feeder 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 conductive 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 are expecting to pave the way for increasing fellows of resources to rural and informal sectors, micro financial services are very in adequate still.

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 arouses interest among policy makes sand researches as vehicles of poverty mitigation. pioneering by the German bank in Bangladesh, most micro finance program requires the poor to from groups and repay the loan in small and periodic installments under micro finance service, concept of money. Lending has been institutionalizing, rationalizing and reforming 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 subsides. Self-selection is another mechanism used to avoid defaulter borrowers. In using this mechanism, prospective members are asked to form groups by them solves, and screen in favor of those they believe will repay the loan. The group lending methodology removers 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 with out. These me charismas in dude 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 if 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 cordite officer can easily follow-up why a particular member failing to meet his/her obligation. Faure 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 providing in the form of rebate of interest on loans repaid early, in addition staff. Incentives can be relating of the amount of loans repayment under this arrangement, the MFIS staff may receive financial bonuses. Directly recanting 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 liens if they repay on time. Finally, borrowers can beleaguer to make compulsory saving in which a small amount is contributes regularity 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 practicing by most MFIS. Some MFIS require clients to save ascertain proportion before they are granting the loan. This shows the commitment of the borrowers providing that they continue with regular saving after the loan. The above mechanisms were more or less conventional and were practicing 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 was 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 sanctioning 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 policy were 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 site 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 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 was subject to review periodically depend 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 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 lender's 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 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 father's 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 (Daniel, 2010)

2.5.1. Over Does Management

Overdoes arise due to non-payment 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 (Daniil, 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

As Alemayehu (2008) quoted from (IFAD 2001), initially, micro credit started as a government and non-government organizations motivated scheme. Following the 1984/85 severe drought and famine, many NGOs started to provide micro credit along with their relief activities although this was on a limited scale and not in a sustained manner in Ethiopia.

Michael (2006) find that the repayment rate of microfinance credit in the city of Addis Ababa has decreased considerably and averaged around 69 percent of the total loans due per year. And in the other hand many people agree that the initial success of MFIs can be largely attributed to the management of credit risks. Successful MFIs have managed to maintain high levels of loan recovery rates, generally over 95%. These remarkably high loan recovery ratios triggered the initial wave of funds from funding agencies and the subsequent inflow from a variety of social investors which they could use to expand their operations. While many successful MFIs continue to contain credit risks within desired levels, they face greater challenges than before as indicated by the increased volatility of their portfolio at- risk (PAR) ratios. The sources of these challenges include increased competition in the market, addition of new credit products with longer-term structures, shift to individual lending, increased scale of operations, and geographical expansion and efforts to deepen the outreach (Nimal, 2008). Credit risk also has other dimensions. Initially,

microfinance credit risk was assumed to have been confined almost entirely to risk associated with the possible default by borrowers of MFIs. This is reflected in the definition of credit risk as ―the risk to earnings or capital due to borrowers 'late and nonpayment of loan obligations. However, a broader definition of credit management also includes the management of default by other financial institutions, which have payment obligations to MFIs (Bruit, 2004). This is particularly true with MFIs that continue as NGOs. Such payment obligations may arise because MFIs use those institutions as depository institutions, investment outlets, or for money transfers. Also, such risks may arise due to the agency services that MFIs provide to other financial institutions. Aside from generally recognized default credit management by clients, another type of credit management arises when MFI clients deposit their savings in other financial institutions which are weak and not covered by a credible deposit protection scheme.

2.7. Summary of Knowledge Gap

Therefore, as maintained above, the review of the preceding studies shows that there is still need for analysis of the credit management practices funds and thus lose a source of loan repayment for their MFI loan if the bank where they keep their deposits runs into difficulties (Bruit 2004). In such cases, loan recovery rates may suddenly fall.

in the MFIs. There ware research gap which qualifies this study to be conducted. These include, the preceding studies are few in number, which implies there is still knowledge gap; especially there is no any studies conducted on the Meklite MFI institution until now.

CHAPTER THREE:

3. Research Methodology

3.1. Research Design

The research design could be an overall plan encompassing all steps in the study from the very beginning to the interpretation of the result (Wahyune,2015).it also provide appropriate frame work for the study. This research adopted a descriptive research design. The major function of descriptive research design is to explain the state of associations as it is happened.

3.2. Research Approach

The study incorporated both qualitative and quantitative research approaches. A qualitative research approach would be used to assess the opinion of the respondents towards the factors, their assumptions and the problems they faced or it would be used to examine the part of qualitatively gathered. Simple qualitative approach was used to indicate the frequency and percentage of the responses. The qualitative approach was used for explaining the actual credit management practice, whereas the quantitative approach is aimed for creating a relationship among the sample and the wider population of the study.

3.3. Source of Data

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

3.4 Target Population

The target population of this study is all the customers and the employees (employees of credit management, credit analysts and credit portfolio). in Meklite micro finance institution they are about 55 customers and employees are found and used non-random sampling technique, I select 26 customers and employees out of them.

3.4.1. Sampling Frame

Sampling frame is the list of all elements in the population from which the sample is drawn. The Sampling frame for this study were the list of all population found in Meklite Branch, means that Sampling frame is the list of all customers and employees (55) found in the Meklite branch.

3.4.2. Sample Technique and Sample Size

Since the number of customers and employees in the organization is 55, the judgmental sampling method will 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 used convenience non-probability sampling technique because there will no complete list of customers.

3.5. Method OF Data Analysis and presentation

The collected data will be analyzed by using descriptive analysis method accordingly, their percentage and frequency distributions, using corresponding pie-chart and histograms respectively will be analyzed and interpretation will be made for the data collected form the sample respondent. Based on the analyzed data or sample output inference will be made for the population, that is for meklit micro finance institution.

3.6. Ethical Consideration

Confidentiality was promised and ensured, by requesting respondents not to write their names on the questionnaire and to put their signatures. In addition, an authorized letter which explained the aim and objectives of the study accompanied each questionnaire.

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 customers and employees of the organization. Out of 55 samples size, what i could get was only 26. Thus, the study tried to analyze and interpreted the data based on the 16 customers and (10) 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	12.5
	21-30	4	25
	31-40	7	43.75
	Over 40	3	18.75
	Total	16	**100**
2.	Sex		
	Female	12	75
	Male	4	25
	Total	16	**100**

3.	Marital status		
	Married	10	62.5
	Unmarried	6	37.5
	Total	16	**100**
4.	Level of education		
	Illiterate	6	37.5
	Primary education (1-8)	4	25
	Secondary education (9-10)	2	12.5
	Preparatory (11-12)	1	6.25
	12 complete	2	12.5
	Technical & vocational	1	18.75
	Higher education	0	0
	Total	16	**100**
5.	Occupation		
	Tailor	2	12.5
	Construction work	0	0
	retailer	8	50
	Other	6	37.5
	Total	16	**100**

Sources: survey questionnaire 2015.

Table 1 item 1 shows 7(43.75%) customers are between the age of 31 and 40, 4(25%) of customers are in the age of 21-30, 3(18.75%) customers are above the age of 40 and there are only 4(6.89) customers item 2 depict that whose age are less than 20. 12(75%) of the customers are female. Item 3 shows us that 10(62.5%) of the customers are married while the other are unmarried. Item 4 tells us that most of the customers. i.e. 6(37.5%) are illiterate, 17(29.31) are primary education level, 2(12.5%) of them reached secondary education, 1(1.72%) customer

reached for preparatory education 3(18.75%) customers have completed grade 12, 2(3.44%) 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 MFIIS can have a relatively higher capital such as construction the finding in this study suggested they are not offering suds a loan, the reason for this is mainly the single borrower loan limit as national bank of Ethiopia directives is only birr 5000.

4.2. 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

Item	**Frequency of response**	
	No	**%**
Do you think the loan given to you is enough to handle a business you are running?		
Yes	11	68.75
No	5	31.25
Total	16	**100**
Do you get any training how to use the loan?		
Yes	12	75
B. No	4	25
Total	16	**100**

Does the institution collect its credit given to customers with in the specified period? Yes No	 7 9	 43.75 56.25

Sources: survey questionnaire 2015.

Table 2 item 1 shows that 11(68.75%) respondents stated that the loan is enough to handle a business, and 14(24%) disagree this. Table 2 item 2 depicts that 12(75%) respondents agreed the presence of training but the minority i.e. 4(25%) said that there is no training. Table 2 item 3 shows that 7(43.75%) of the respondents witnessed that the institution collects its credits on the specified time, were as 9(56.25%) 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 worm about how the customers use the loan. From item 3 we can understand that the constitution give priority for leading than collecting.

Table 4.3. The repayment period mostly used by customers

No	**Item**	**Frequency of response**	
		No	**%**
1.	Which period is being used by you? The repayment periods After the due date Both	 3 8 5	 18.75 50 31.25
	Total	16	**100**

Sources: survey questionnaire 2015.

From table 3 item 1 we can observe that only 3(18.75%) of the respondents repay their share of loans within the repayment period and the majority 8(50%) repay after the due date and 5(31.25%) 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 No	 11 5	 68.75 31.25
	Total	16	**100**

Sources: survey questionnaire 2015

In table 4 it is indicated that 11(68.75%) of the respondents said that there be presence of follow up and supervision whereas 5(31.25%) 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

No	Item	Frequency of response	
		No	%
1.	Amount borrowed from the institution. ≤ 3000 birr 3001 = 6000 6001-90,000 > 90,000	 8 5 3 0	 50 31.25 18.75 0
	Total	16	**100**
2.	How long did it take you, to get loan? ≤ 5 days 5 - 10 days 11-15 days	 5 7	 31.25 43.75

	Above 15 days	4 0	25 0
	Total	16	**100**
3.	For how many months did you borrow? ≤ 12 months 13-24 months 25-26 months O ≥ 36 months	 16 0 0 0	 100 0 0 0
	Total	16	**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(50%) borrowed less than birr 3000. Then next large number of borrowers took amount between 3000 birr & 6000 birr and this constitutes 5(31.25%) and the others constitute 3(18.75%) of total borrowers. There was no customer who borrowers 90,000 birr. Table 5 item 2 indicated that 5(31.25%) customers took less than 5 days to get loan most of the customers 7(43.75%) between 11 and 15 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 consumption	 14 2	 87.5 12.5
	Total	16	**100**

2.	What was the agreement regarding the repayment? monthly quarterly Yearly	 16 - -	 100 - -
	Total	16	**100**
3.	Do you think that there is problem in group lending? Yes No	 10 6	 62.5 37.5
	Total	16	**100**

Sources: survey questionnaire 2015.

Table 6 item 1 shows 14(87.5%) of sample respondents used the loan for business and 2(12.5%) used for consumption purpose. This implies that the microfinance institution is convenient for traders. Table 6 item 2 shows 16(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 6(37.5%) of customer are happy about the group lending method, on the other hand 10(62.5%) 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 ware and since of them have given their responses, the analysis and interpretation are based on the five respondents.

Table 4.7 Characteristics of respondents (employees).

No	Item	Frequency of response	
		No	%
1.	Sex		
	Female	2	20
	Male	8	80
	Total	10	**100**
2.	Marital status		
	Married	4	40
	Un married	6	60
	Total	10	**100**

Sources: survey questionnaire 2015.

Table 7 item 1 shows that 2 (20%) of respondents is female and 8(80%) of respondents are male.

Table 7 item 2 depicts about marital status and 4(40%) the respondents are married where as 6(60%) of them are unmarried.

Table 4. 8 Level of Education.

No	Item	Frequency of response	
		No	%
1.	Level of education		
	12 completed	0	-
	Diplomas	7	70
	Degree	3	30
	Total	10	**100**

Sources: survey questionnaire 2015.

Table 8 item 1 indicates that 7(70%) of employee are holder of diploma and 3 (30%) 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

No	**Item**	**Frequency of response**	
		No	**%**
1.	Do all the customers full fill the criterions? yes No	 8 2	 80 20
	Total	10	**100**

Sources: survey questionnaire 2015.

In table 9 item 1 it is depicted that 8(80%) 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	 90

		1	10
	Total	10	**100**
2.	Do you think that there is problem in group lending method? Yes No	 6 4	 60 40
	Total	10	**100**

Sources: survey questionnaire 2015.

Table 10 item 1 shows 9(90%) of the employee said that the loan disbursed is enough, because almost all of the customers are engaged in micro business activities, whereas 1(10%) employee said that the loan disbursed is not enough. This is because there is some customer 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 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.

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 new customer**	**For existing customer**
1	Individuals	2000	Up to 25000
2.	Cooperatives	Number of customers	Depends on the number of the members
3.	Edris	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 25000-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 Edris are loaned on agreement with the institution. This implies that Edris 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	 10 0	 100 -
	Total	10	**100**
2.	What do you thing about the repayment of the loan? Loan is timely repaid Loan is not timely repaid	 - 10	 - 100
	Total	10	**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

		Frequency of response

No	Item	No	%
1.	What is there payment period? Monthly Quarterly Yearly	 - 10 -	 - 100 -
	Total	10	**100**
2.	Is the repayment period suitable? Yes No	 - 10	 - 100
	Total	10	**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

No	Item	Frequency of response	
		No	%
1.	Is there any supervision on the debilitation? Yes No	 10 0	 100 -

	Total	10	**100**
2.	Is the supervision on both the loan utilization and repayment adequate? Yes No	 4 6	 40 60
	Total	10	**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 4(40%) of the employee, whereas 6(60%) of the respondents disagree by the adequateness of the supervision.

If implies that even though their supervision it is rarely done. So, this indicates that the employee of the institution focuses 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 with out paying back his debt? Group members' 11 b responsible Going to court Waiting him/her fill comes A & B	 - - - 5	 - - - 100

	Total	**5**	**100**

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

No	**Item**	**Frequency of response**	
		No	**%**
1.	What is the final measure for the defaulter? Going to court Snatching his property Fathers	 - 10 -	 - 100 -
	Total	10	**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 indicate that Since the loan amount is small, maklite 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 was 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 customer are between the age of 31-40, female, married, illiterate and are engaged in retailing activities. Most of the customers

borrow less than 3000 birrs. Almost all of the customers use the loan for business. 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 maximum loan amount of existing customer is only 25000 birrs. 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. There fore, 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 customers' complain may have negative impact especially for potential customers.

Since the loan amount is mall, 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 un employment 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 maklite credit and saving micro finance institution is one of the micro finance institutions in wolkite, 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 e.g. 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 25000 birrs 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 collected data to be used in first degree research project attitude credit management of maklite credit and saving micro finance institution maklite 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 value able 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 5 Female 5

2. Marital status Married Un married 5

3. Level of education

a) 12 completed 5 B) Diploma 5

C) Degree 5 D) Above 5

Part two data on micro finance activity

Do all the customers fulfill the criterion?

A) Yes 5 B) No 5

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

3) Is the any problem in group lending method?

A) Yes 5 B) No 5

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 5 b) No 5

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

a) Loan issued was timely re- paid 5

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 5 b) No 5

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

a) _____

b) _____

c) _____

10) Is there any follow- up and supervision

A) Yes 5 b) No 5

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 question

1. Age

2. Sex male 5 Female 5

3. Marital status Married 5 Unmarried 5

4. Level of education

Literate 5

Primary education (1-8) 5

Secondary educations (9-10) 5

12 compete 5

Technique and vocational5

Degree and above 5

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 5 b) No 5

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

a) _____

b) _____

c) _____

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

) Yes 5 b) No 5

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

a) Before you get the loan 5

b) After you get the loan 5

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

a) Once in a month 5

b) Twice in a month 5

c) Once in a year 5

d) Once in 6 month 5

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

A) Yes 5 No 5

12) If no (Q/11) why?

a) _____

b) _____

c) _____

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

A) Yes 5 No 5

14) For what purpose did you take the loan?

a) Business B) Consumption

15) What was the agreement regarding the repayment

a) Monthly 5 b) quarterly) Yearly 5

16) What is the problem in group Borrowing?

a) Yes 5 b) No 5

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

a) _____

b) _____

c) _____

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

a) <5 days 5 b) 5 -10 days 5

c) 11 -15 days 5 d) above 15 days 5