



WALLAGA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

**The effect of Credit Management Practices on Loan
Repayments Performance: - The Case of Wasasa Micro Finance
Institution in Nekemte Town**

A Research Submitted to School of Post Graduate Studies in Partial Fulfillment of
the Requirements for the Award of the Degree of Masters of Science in
Accounting and Finance (MSc)

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APPROVAL SHEET FOR SUBMITTING FINAL THESIS

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DECLARATION

I hereby declare that this thesis entitled “Effect of Credit Management Practices on Loan Repayments Performance the Case of Wasasa Micro Finance Institutions in Nekemte Town” has been carried out by supervision of Lemessa Diriba (Assist. prof.)

The thesis is original and has not been submitted for the award of any degree or diploma to any university or institutions.

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CERTIFICATE

This is to certify that the thesis entitles “Effect of Credit Management Practices on Loan Repayments Performance the Case of Wasasa Micro Finance Institutions in Nekemte Town”, submitted to Wallagga University for the degree of master of Science in Accounting and finance (MSc) and is a record of original research work carried out by Ms. Arare Ferede under supervision of Lemessa Diriba (Assist. prof.). Therefore, we hereby declare that no part of this thesis has been submitted to any other university or institutions for the award of any degree or diploma.

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ABSTRACT

Microfinance (MF) is seen as one of the most efficient institutions that promote economic development and fight poverty in poorer countries by collecting deposits and extend credit to rural and urban farmers. The biggest risk in microfinance institution is lending money and not getting it back, which leads to credit risk while it's management in micro finance institution expected to significantly influence its loan performance. By taking deposits from and providing credit to farmers in rural and urban areas, microfinance (MF) was regarded as one of the most effective organizations for fostering economic growth and combating poverty in underdeveloped nations. The objective of the study was to investigate Effect of Credit Management Practices on Loan Repayments Performance the case of wasasa micro finance institution in Nekemte town. The study employed a descriptive and Explanatory research design was used by developing hypothesis and explains that the relationships and the effect of independent on dependent variable. Measures of central tendency and dispersion (means, standard deviation), as well as distributions (percentages, frequencies), were utilized as descriptive statistical tools. Both primary and secondary data sources were employed in the investigation. The study was used primary data through close ended questionnaire likert-scale and established that there was strong relationship between loan performance of Microfinance institutions and client appraisal, credit term, credit risk control and collection policy. The study revealed that client appraisal, credit terms and collection policy are statistically significant whereas credit risk control is statistically insignificant. The study suggests that Micro finance institution Wasasa, should reinforce their client appraisal credit terms collection policy. The study recommends that MFIs should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery.

Key words: *Credit risk, Credit Management, Loan Performance, Microfinance Institution. Wasasa*

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ACRONYMS

AEMFIs Association of Ethiopian Microfinance Institution

FIs Financial Institution

MFIs Micro Finance Institutions

NBE National Bank of Ethiopia

NGO Non-Government Organization

NPL Non-Performance Loan

SPSS Statistical Package for Social Science

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Credit management was a wide-ranging process made up of the monitoring of loan facilities, an extension of credit, distinguishing the market segments as well as delineating the returns generated (Yirgalem Gebrekidan, 2021). According to (Petersen, 2017) a healthy economy was dependent on efficient transfers of resources from people who have surplus to firms, and individuals who need capital. Without efficient transfers, the economy simply could not function. The financial system was made of intricate and complex models that portray financial services, institutions, and markets that gather excess funds from savers whether households or businesses, and allocates financial capital to those with entrepreneurs and others in need of credit.

The financial institutions are central to the financial system the development of any country depends on the economic growth the country achieves over a period of time. To attain economic development, a country needs more investment and production. This can happen only when there was a sound financial system and this system was critical to the functioning of the economy as a whole (Faure, 2013) without financial system it is quite difficult and expensive to allocate resource.

Haabazoka (2016) indicated that a dynamic role of financial institution like bank and Micro finance institution, as financial intermediaries in the economy of a country can be seen as a major resource allocator of a state. They transfer deposited money from depositors to investors continuously. In addition to their intermediary function, the financial performance of banks and Micro finance institution has serious implications for economic growth of countries. (AL-Bagdadi & Bruntrup, 2002) also indicated that Microfinance (MF) was seen as one of the most efficient institutions to promote economic development and to fight poverty in poorer countries. Numerous microfinance institutions (MFIs) all over the world have proven that financial services can be offered on a sustainable basis with high quality services. Microfinance is very much defined as financial services for poor and low-income clients offered by different types of service providers. Provision of financial services is one of the important economic inputs in the effort to reduce poverty and empower economically marginalized segments of the society. These

marginalized poor people have limited access to financial services from the formal financial institutions especially in developing countries. Because formal financial system has inadequate geographical outreach, lack of adequate management system, lack of skilled manpower, high risk perception and inadequate collateral, poor people found it difficult to obtain adequate amount of credit and were charged high rates of interest by monopolistic moneylenders (Abebe, 2006)

The development of MFIs in Ethiopia was a recent phenomenon. The proclamation, which provides for the establishment of MFIs, Since then, various MFIs have legally been registered and started delivering Microfinance services(Wolday, 2000) as cited by(Peterson, 2015) and(Amina et al, 2015).In Ethiopia, several micro finance institutions (MFIs) have established and have been operating towards resolving the credit access problem of the poor particularly to those participates in the petty business . According to (Befekadu, 2007) and (NBE, 2017) there are thirty-five MFIs that are currently operating in Ethiopia.

MFIs provide a reliable source of financial support and assistance compared to other sources for financing. Loan performance refers to the financial soundness of a financial institution on the performance of their disbursed loan to various sectors. It also means how the loans are scheduled to act and how they are actually performing in terms of the schedule payment compared to the actual payments. It is closely associated with timely and steady repayment of interest and principal of a loan.

financial institution, the biggest risk in Microfinance was lending money and not getting it back (Rosemary, 2013).This is called credit risk. Credit risk is defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. According to (Froot ,K.A.and StEIN.J,C..2004) credit risk is the most expensive risk in financial institutions and its effect is more significant as compared to other risks as it directly threatens the solvency of financial institutions.

Sound credit management was a prerequisite for a financial institution's stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. According to (Brealey,R. A. and Myers,S. C, 2003)describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management

Now days micro finance institutions are playing a vital role in economic development of Ethiopia in general and the study area in particular. Therefore, I motivated to take a research to assess the credit management performance of the study area while they injecting loan to the development activities.

1.2 The Statement of the Problem

Yirgalem Gebrekidan (2021) indicated that Credit was mainly granted by banks and MFIs including to other several functions like mobilizing deposits, local and international transfers, and currency exchange service. (Njenda, 2014) conducted a research on the effects of credit management practices on loan performance in deposit taking MFIs by using descriptive research design method which resulted in collection policy significantly affect the loan performance of MFIs in Kenya.

Thisika, L.M. & Mutur,W, (2017) conducted a research on the effect of credit risk management on loan performance in Kenya Commercial banks to examine the relationship between loan appraisal and non-performing loans. The study used descriptive research design. The study infer that credit appraisal has a positive and strong relationships with non-performing loans and statistically significant.

The study found that client appraisal; credit risk control and collection policy had effect on financial performance of equity bank. The study established that there was strong relationship between financial performances of equity banks and significantly influences financial performance of equity bank.

Peterson ,M. (2014) conduct a research on the effect of credit risk management practices on loan performance in Micro finance institution in Nairobi Kenya. The research design used in this study was descriptive research design. The researcher use both primary and secondary data. the results of analysis states that both non-performing loans ratio and capital adequacy ratio have negative and relatively significant effect on return on equity with None Performing Loan Ratio having higher significant effect on return on equity in comparison to capital adequacy ratio.

Ronald, A& Bernard, W.M, (2017) conduct on the effect of loan appraisal process management on credit performance in Micro finance institution a case of MFIs in Uganda. The study used both qualitative and qualitative research data. The study revealed that MFIs use client appraisal

in credit management to a great extent. Further it established that client appraisal is available strategy for mitigating credit risk. The study also elicits that there was a strong relationship between credit performance of MFIs and client appraisal.

Hamdu,K.,& Saniya,K. , (2015) conducted on credit risk management of MFIs in Ethiopia. This study is conducted to assess the credit risk management of MFIs found in Ethiopia and to rate these institutions according to their rank. Secondary data from audited annual reports of MFIs performance analysis reports bulletins, use Morgan stanley approach was employed to assess credit risk management of the MFIs rated in accordance to their grade. Peter, et al (2015) also conducted research on Microfinance and Poverty Alleviation in Ethiopia. This research examines the link between Microfinance and urban livelihoods, exploring the challenges of access to finance for micro-enterprises, the vulnerabilities caused by unscrupulous lending practices, and the potential for improved financial access to contribute to poverty reduction and economic growth.

Hence the researcher wants to fill gap that as of other indicated countries in Africa the effect of credit management on loan performance not much focused in Ethiopia in general and study area in particular. As indicated above researcher doesn't study on that effect credit management practices on loan performance that result with assessing credit management variables that effect on non-performing loan by addressing that variable. The researcher study only on loan performance not on the financial performance; that study focus on financial performance including loan. Hence, the issue of credit management has a profound implication both at the micro and macro level. When credit was allocated poorly it raises costs to successful borrowers, erodes the fund, and reduces microfinance institutions flexibility in redirecting towards alternative activities. The problem of loan default, which was resulted from poor credit management, reduces the lending capacity of microfinance institutions. It also denies new applicants' access to credit as the microfinance institutions' cash flow management problems augment in direct proportion to the increasing default problem. Therefore, credit evaluation decisions are important for the microfinance institutions involved due to the high level of risk associated with wrong decisions and since the process of making credit evaluation decision was complex and unstructured, it needs proper credit management by the concerned institutions.

However, in terms of extant literature, there have been quite number of suggestions that seek to minimize the exposure to bad loans by persuading microfinance institutions to have greater

introspection into its customer's financial capability, prior credit history and prior payment patterns (Adamu et al., 2014). Interestingly, too much scrutiny into a borrower's ability to offset his/her obligations may equally pose as a bane to attract more customers as the ability to attract customers sometimes depends on an institution's capacity to quickly and easily make it well.

In general on the effect of loan repayment in micro finance institutions age, educational level, loan size, loan diversion, occupation, number of dependents, training, supervision and loan repayment period are the major factors affecting loan repayment and loan portfolio quality. Admittedly, the issue of credit management has become a topical issue in policy debates due to their effect they have on microfinance institutions operations.

1.3 Objective of the Study

1.3.1 Genera Objective

The general objective of this study was to examine the impact of credit management on the performance of loan in Micro finance institution in Nekemte town in Wasasa Micro finance institutions

1.3.2 Specific Objective

1. To examine the loan administration practice of Wasasa Micro finance institutions
2. To examine credit risk management of Wasasa Micro finance institutions.
3. To assess the relationship between credit terms and the performance of loan in MFIs.
4. to examine credit collection policies and the performance of loan in MFIs.

2.4 Hypothesis of the study

1. H01: There was no significant relationship between Client appraisal and the performance of loan in MFIs
2. H02: There was no significant relationship between credit terms and the performance of loan in MFIs.
3. H03: There was no significant relationship between the credit risk control and the performance of loan in MFIs
4. H04: There was no significant relationship between credit collection policies and the performance of loan in MFIs.

1.5 Significance of the Study

Microfinance institutions were established to fill the gap of scarce finance resources by providing funds to the poor and lower income group to alleviating poverty and enhance their business activities. They facilitate the proper utilization of financial resources of a country on the aim of addressing small and medium loan and saving opportunities to the economic class of the society. For these institutions to be able to render such a service on a permanent basis, they should be viable and sustainable.

The findings of this study would help the institutions to use the findings of this study in order to address problems with regard to the assessment of credit management to improve their loan performance. In addition, it would be establishing a knowledge base that enables to make a sound decision and take corrective action to help decision makers by providing relevant information about how would the institution are performed.

The findings of the study would help the researcher to elaborate the knowledge and know how about the effect credit management on the performance of loan repayment in MFIs and to practice a larger similar study that could be performed in other towns.

1.6 The Scope and Limitation of the Study

This researcher was intended to study only the, Wasasa MFI which is found in Nekemte town, Oromia regional state. These study MFI was purposively selected based on its age (year of establishment) and number of beneficiaries because the others were recent and have small number of customers. However, the finding of the study would have an important contribution to decision making and policy implementation for other similar MFIs in Ethiopia. Other limitation may be limited data sources of the MFI and lack of adequate reports and statements from the institutions engaging in the micro finance activity. Therefore, these conditions might affect the quality of the paper to some extents.

1.7 Organization of the Study

They was organized in to five chapters. The first chapter consists introduction part: background of the study and organization/case area, statement of the problem, objective of the study, significance of the study, scope and limitation of the study. The second chapter deals with theoretical and relevant empirical literature review to the research. Whereas, the third describes research methodologies applied in the study. The fourth chapter deals with data analysis and presentation and the final chapter summarizes all the study, give recommendations and conclusion for the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 An Overview of MFI

The 21st century Microfinance system emerged from a group of poor people in Bangladesh in a form of a small microcredit. It started in 1970s with Dr Muhammad Yunus being the brain behind it. He gave money to start a small scale business with 27 US dollars. They started with the making of Bamboo chairs. With the small amount he gave out to women, he understood the women could survive taking care of their families and themselves. In 1980s he started the Grameen Bank. This bank gave out loans of about 300 US dollars. The money was aimed to helping the poor to be able to sustain themselves but the interest rate was as high as about 98percent. Today the bank recounts a success story of what they did in the 1980s. The Grameen banking system of alleviating people against poverty has been a model to many other countries such as Nepal, India, USA and Norway(Rahel, 2011).

Rosemary,N,G.(2013)conducted a research on effect of credit management on the financial performance of Microfinance institution in Kenya. The study found that client Appraisal , credit risk control and collection policy had effect on financial performance MFIs IN Kenya. The study revealed that Client Appraisal ,credit risk control and collection policy have strong relationship and significantly influence Financial performance of MFIs in Kenya.

Elizabeth,M.(2016) Conducted her research on effect credit management practices on loan performance in deposit taking microfinance banks in Kenya.the study adpoted descriptive research design. The study revealed that credit standards, credit policy ,credit term and collection policy had affect the loan portfolio performance and that have significantly influence loan portfolio performance.

2.1.1 Micro Financing in Ethiopia

In Ethiopia, through there had been commercial banks before micro finance came in to existence, poor could not get financial services since they were not target of those banks. The very high risk and transaction cost associated with providing credit to poor is the main reason why poor are no targets of commercial banks. In addition, lack of trained micro finance personnel and suitable

credit methodology are obstacle which limit few banks which are interested in offering credit to poor from providing the service. The government also sporadically provided loans largely for the purchase of oxen through its rural finance department of the ministry of agriculture and cooperatives. But these loans were not based on proper needs assessment and no to be mechanism was in place to monitor their effectiveness. In many cases, these loans were not to be repaid and might have fostered a culture of not repaying loans (Getachew, 2005)

The Association of Ethiopian MFIs (AEMFI) was established in June 2002 as a non-profit non-governmental organization after its legal registration by the Ethiopian Ministry of Justice. Currently AEMFI has 35 member MFIs providing Microfinance activities in the areas of credit delivery, saving, money transfer, and pension payment services in eight of the 11 regional states/administrative organs of the EFDRE (National Bank Websites)

The Association of Ethiopian MFIs (AEMFI) was formed as a non-for-profit, non-governmental association of the Ethiopian MFIs as defined by Proclamation No. 40/1996 under which MFIs in Ethiopia are regulated by the National Bank of Ethiopia.. The original goals were for it to serve as a platform for knowledge and information sharing, and lobby for political support for the development of an enabling environment for the business of Microfinance. Since its formation, AEMFI's goals and activities have broadened to include training, research, performance monitoring and benchmarking and provision of technical assistance. Regionally, AEMFI is the strongest of the Country Level Networks in Africa.

2.1.2. Risks in MFIs

Risk involves the day-to-day uncertainties of attracting, lending and investing money, as a basic element risk could influence financial behavior. Without risk, the financial system necessary for efficient allocations of resources would be vastly simplified. Risk is understood to be the volatility or standard deviation of net cash flows of the firm, or, if the company is very large, a unit within it (Morgan, 2002)Most financial institutions find that loans are the largest and most obvious source of risk. There are different types of risk faced by financial institutions as depicted in below.



Sources; Morgan 2002

FIs have to face with the above main types of risk. They are market risk, credit risk, liquidity risk, operational risk, legal risk, business risk, strategic risk and reputation risk. It can be said that the FIs (MFI and Banks) business is extremely risky. Among the types of risks, credit risk is the biggest threat that the FIs (MFIs and Banks) have to prevent. Financial.

institutions are increasingly facing credit risk in various financial instruments other than loan, since exposure to credit risk continues to be the leading source of problems in FIs worldwide, FIs and their regulators should be able to draw useful lessons from past experiences (Kwabena, 2014). Credit risk is defined as the risk of a credit institution suffering losses due to default, late or incomplete execution of the debtor's financial obligations before the credit organization in accordance with the terms of the contract. Greuning and Bratanovic (2009) define credit risk as the chance that a debtor or issuer of a financial instrument— whether an individual, a company, or a country will not repay principal and other investment-related cash flows according to the terms specified in a credit agreement.

Credit risk is by far the most significant risk faced by FIs and the success of their business depends on accurate measurement and efficient management of this risk to a greater extent than any other risk (Giesecke, 2004).

2.2. Credit Risk Management Practices

Nikolaidou et al, (2014) define credit risk management as the combination of coordinated tasks and activities for controlling and directing risks confronted by an organization through the incorporation of key risk management tactics and processes in relation to the organizations objectives. Credit risk management can be described as a function that must be performed by financial institutions in order to ensure that the loans they advance to their clients are orderly repaid back. The basis of a sound credit risk management is the identification of the existing and potential risks inherent in the lending activities (Froot,K.A.and Stein J.C...2004)

Credit risk management in financial institutions has become crucial for the survival and growth of these institutions it is a structured approach of uncertainty management through risk assessment, development of strategies to manage it and mitigation of risk using managerial resources. The strategies of credit risk management involves transferring risk to other parties, avoiding risks, reducing the negative influence of risk and accepting some or all of the consequences of a particular risk . According to Van Gestel and Baesens (2008), credit risk is managed in various ways. The most important method starts with appropriate selection of the counterparts and products good risk assessment model and qualified credit officers are key requirements for selection strategy.

It is generally recognized that lack in credit risk administration and management policies by monetary establishments have helped altogether to the financial downturn around the world as fallout to this emergency, orders including credit risk administration are currently being given more imperativeness, particularly in monetary related areas. Like banks and other financial institutions operate in an environment where, customers are without credit histories or necessarily predictable borrowing behaviors making it more necessary to deal with credit risk management (Horne, J.C, Wachowicz, J.M, 2007)

2.3. Credit Management Variables

Specifies that a credit policy has four major components.

Client Appraisal: Screening clients to ensure that they have the willingness and ability to repay a loan based on the individual credit application by considering character assessment, capacity, condition, and collateral and security capital. Client Appraisal is the profile of the minimally acceptable creditworthy customer. Each financial institution has its analytical tools which it uses to minimize losses of money when giving out loans to customers. MFIs use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000). The 5Cs help MFIs to increase loan performance, as they get to know their customers better. This information is gotten using the five Cs of credit as the standards tools. The five Cs include; character, capacity, capital, conditions and collateral (Dev, 2009)

- **Character:** - Character basically was a tool that provides weighting values for various characteristics of a credit applicant and the total weighted score of the applicant is used to estimate his credit worthiness. The customers character being the centre because it is the character that shows them the distinct capabilities about the customer whether they can pay the loan back or not. These was because a customer could as well show a good capacity, have enough capital, and have a good collateral but, if it has a bad character, it would not still act as an inspiration for the institutions to grant the loan. On the other hand, if the character showed by the customer in question is good, it would go ahead to assure them of the customer's repayment capability more. This would thus help the institutions whether to grant the loan or not or it will determine the credit limit. This is because a customer's character shows how their previous loan transactions were handled.
- **Capacity:** - refers to the applicant's ability to meet credit obligation. This means what the customer has as assets and the value of those assets which shows that it can be able to repay its loans. According to Campesy and Brigham (1995) Capacity refers to the customer's ability to fulfill his/her financial obligations. Capacity, this is subjective judgment of a customer's ability to pay. It may be assessed using a customer's ability to pay. It may be assessed using the customer's past records, which may be supplemented by physical or observation.
- **Capital:** - was the applicant's net worth or financial reserve. It was the financial strength of the applicant as reflected by its owner ship position. Capital portends the financial strength, more so in respect of net worth and working capital, evaluation of capital may be by way of analyzing the balance sheet using the financial ratios.

- **Collateral:** - the amount of asset the applicant available for use in securing the credit. Collateral was the property, fixed assets, chattels, pledged as security by clients. Collateral security, this is what customers offer as saving so that failure to honor his obligation the creditor can sell it to recover the loan. It was also a form of security which the client offers as form of guarantee to acquire loans and surrender in case of failure to pay; if borrowers do not fulfill their obligations the creditor may seize their asset.
- **Conditions:** - refers to the current economic and business climate as well as any unique circumstances affecting either party to the credit transaction. Condition relates to the general economic climate and its influence on the client's ability to pay. Condition is the impact of the present economic trends on the business conditions which affects the firm's ability to recover its money. It includes the assessment of prevailing economic and other factors which may affect the client ability to pay (Kakuru, 2000).

Credit terms

These identify the situation under which MFI would advance credit to a customer. The credit terms would specify the credit period and interest rates attached. Credit period give a definite period within which the credit is would be granted. Mostly such period is prejudiced by security value, credit risk, in addition to the account and market competition (Ross,A.W&Jordan, 2008).The interest rate being a cost on the lend fund which affect the performance of the loan. Debt in a particular class would have its own interest rate in accordance with the theory of term structure. The interest rates charged is a cost on borrowed funds and may affect the loan performance. Researches indicate that failure to put appropriate credit terms and conditions would lead to loan default.

A credit is a contractual stipulation under which a firm grants credit to customers furthermore these terms give the credit period and the credit limit. The firm should make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing organization risk (Wamasembe, 2002).

Credit risk control

Credit risk was an investor's risk of loss arising from a borrower who does not make payments as promised. Such an event is called a default. Another term for credit risk was default risk.

Investor losses include lost principal and interest, decreased cash flow, and increased collection costs. Credit risk can be mitigated using risk based pricing, covenants, credit insurance, tightening and diversification (Ross,A.W&Jordan, 2008)

Collection policy

Dickerson et al, (2005) stated that collection policy was a guide that ensures prompt payment and regular collections. The rationale was that not all clients meet their obligations, some just take it for granted, others simply forget while others just don't have a culture of paying until persuaded to do so. According to Myers (1998) many MFI may send a letter to such individuals (borrowers) when say ten days' elapse or phone calls and if payment is not received with in thirty days, it may turn over the account to a collection agency.

2.4. Measuring MFIs Performance

Performance of an institution should be measured from the objectives of the organization angel. Microfinance's goal was to eradicate poverty. In the early days when MFI started they were financed by donor funds that have a poverty eradication goal. Hence the performance of the MFI was measured on how much MFI reach to the poor (outreach) and impact (how far the lives of those who get financial services are changing as compared to those who don't get these services). But as the MF industry grows in size, the need for increased financing coupled with unpredictability of donor funds trigger the issue of building a sustainable MFIs that stand on their own leg i.e. MFIs should start covering their own cost of operation from their program revenues (Letenah, 2009).

According to Ledgerwood (1999) as cited by, the performance (Ejigu, 2009) of MFI was measured in many parameters. This includes: Portfolio Quality indicators, Productivity and efficiency ratios, financial viability indicators, Leverage and capital adequacy ratios and scale and depth of outreach indicators.

2.5 None Performing Loans

MFIs must reach at the position of high repayment rate, as high loan repayment rates benefit both MFIs and the borrowers. Every Microfinance institution tries to maximize its repayment performance. Improving repayment rates helps reduce the dependence of the MFIs on subsidies, which would improve sustainability (Godquin, 2004). A good credit management leads to loan

performance. Loan performance refers to rate of profitability or rate of return of an investment in various loan products thus broadly, it looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments, security pledged against the borrowed funds, rate of arrears recovery and the number of loan products on the chain. Loan portfolio refers to the total amount of money given out as loans in different loan products, to the different types of borrowers. (Paul, 2000) as cited by (Samuel,K.K.& Aquilars,M., 2014).

A nonperforming loan was either in default or close to being in default. Once a loan is nonperforming, the odds that it would be repaid in full are considered to be substantially lower. If the debtor starts making payments again on a nonperforming loan, it becomes a re-performing loan, even if the debtor has not caught up on all the missed payments. Institutions holding nonperforming loans in their portfolios may choose to sell them to other investors in order to get rid of risky assets and clean up their balance sheets. Sales of nonperforming loans must be carefully considered since they can have numerous financial implications, including affecting the company's profit and loss, and tax situations (Akkizidis,I & Khandelwal,S.K, 2008).

Many loans become non-performing after being in default for more than 90 days although this may vary depending on the contract terms governing the loan agreement. A loan is nonperforming when payments of interest and principal are past due by 90 days or more, or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons to doubt that payments would be made in full. Nonperforming loans represent debts that are probably not going to be repaid, thus posing cash problems to their lenders (Al-Tamimi,H.&Al-Mazrooei M., 2007)

2.5. 1 Effect of Credit Management on None Performing Loans

According to (Mwirigi, 2012) there was a negative relationship between credit Risk Management and Non-performing loans implying that the level of nonperforming loans is inversely affected by credit risk management practices. Financial institutions should adopt appropriate credit risk management practices to maximize shareholder value by enhancing the value of the firm. Value enhancement can arise from minimization of the costs of financial distress, minimization of taxes

And minimization of the possibility that the MFIs may be forced to forego positive net present value projects because it lacks the cash because of increased in the level of nonperforming loans.

Credit management was essential to optimizing the performance of financial institutions. Lending has been, and still is, the mainstay of financial institution, and this is truer to emerging economies of developing countries where capital markets are not yet well developed. To most of the transition economies lending activities have been controversial and a difficult matter. This is because business firms on one hand are complaining about lack of credits and the excessively high standards set by financial institutions, while financial institutions on the other hand have suffered large losses on bad loans (Richard, 2006). It has been found out that in order to minimize loan losses thus the credit risk, it is essential for financial institutions to have an effective credit risk management system in place. Given the asymmetric information that exists between lenders and borrowers, financial institutions must have a mechanism to ensure that they not only evaluate default risk that is unknown to them ex ante in order to avoid adverse selection, but also that can evolve ex post in order to avoid moral hazards. Weak credit risk management is the primary cause of many commercial banks' failures (Basel, 1999). Credit risk management in Microfinance's expected to significantly influence its loan performance thus; effective credit risk management either in non-banking firms or in banking entities is expected to enhance the value of the firm and shareholder wealth (Samuel,K.K.& Aquilars,M., 2014)

2.6. Empirical Literature Review

(Moti,H.O, Masinde,J.S, Mugenda,N.G & Sindani,M.N, 2012) carried out a study on effectiveness of credit management system on loan performance, Empirical evidence from micro Finance Sector in Meru, Kenya. The overall objective of the study was to assess the effectiveness of credit management systems on loan performance in MFIs. The study adopted a descriptive survey design. This design investigates the current status and nature of the phenomena. Specifically, the study sought to establish the effect of credit terms, client appraisal, credit risk control measures and credit collection policies on loan performance. The respondents were the credit officers of the MFIs in Meru town. Collection policy was found to have a higher effect on loan performance.

(Mbuncho,C.& Senaji,T., 2015) conducted on influence of credit management on the loan performance among MFIs in Kenya. They adopted descriptive survey research design. This study sought to establish the influence of credit management on the loan performance of deposit taking MFIs in Kenya. The objective of the study was to establish influence of risk management and the

interest rate on loan performance of MFIs. The researcher revealed that risk management and interest rate affect loan performance.

(Sufi, F.A & Qaisar, A.M, 2013) conducted a research on Credit Risk Management and Loan Performance: Empirical Investigation of Micro Finance Banks of Pakistan. They examined credit risk management and loan performance with credit terms, Client appraisal, Collection policy, credit risk control as independent variables and loan performance as dependent variable. The results of the analysis showed that the credit terms and client appraisal have positive and significant impact on the loan performance, while the Collection Policy and credit Risk Control have positive but insignificant impact on loan performance.

(Alija, R. & Muhanji, B., 2017) on their research titled as the effect of loan appraisal process management on credit performance in MFIs: a case of MFIs in Uganda the study revealed that MFIs use client appraisal in credit management to a great extent. Further it established that client appraisal is a viable and necessary strategy for managing credit. Aspects of collateral are considered while appraising clients, failure to assess customer's capacity to repay results in loan defaults. Client appraisal considers the character of the customers seeking credit facilities and that MFIs have competent personnel for carrying out client appraisal and client visit is mandatory before loan disbursement. Further, the study established that there was a strong relationship between client appraisal process management and credit performance of MFIs.

Djankov et al (2007), carried out a research on the effects of credit management on loan repayment in private credit in 129 countries in Eastern Europe, financial managers of the finance institutions were interviewed and data analysis was carried out using mean and standard deviation. The findings of the study concluded that credit management practices were significant in facilitating loan repayment. Justus et al (2016) conducted a research on influence of credit risk management practices on loan delinquency in savings and credit cooperative societies in Kenya. The study used multiple linear regressions to link the relationship between loan delinquency and the independent variables credit risk control and collection policy. The research found that there is a strong relationship between credit risk control, collection policy and loan delinquency.

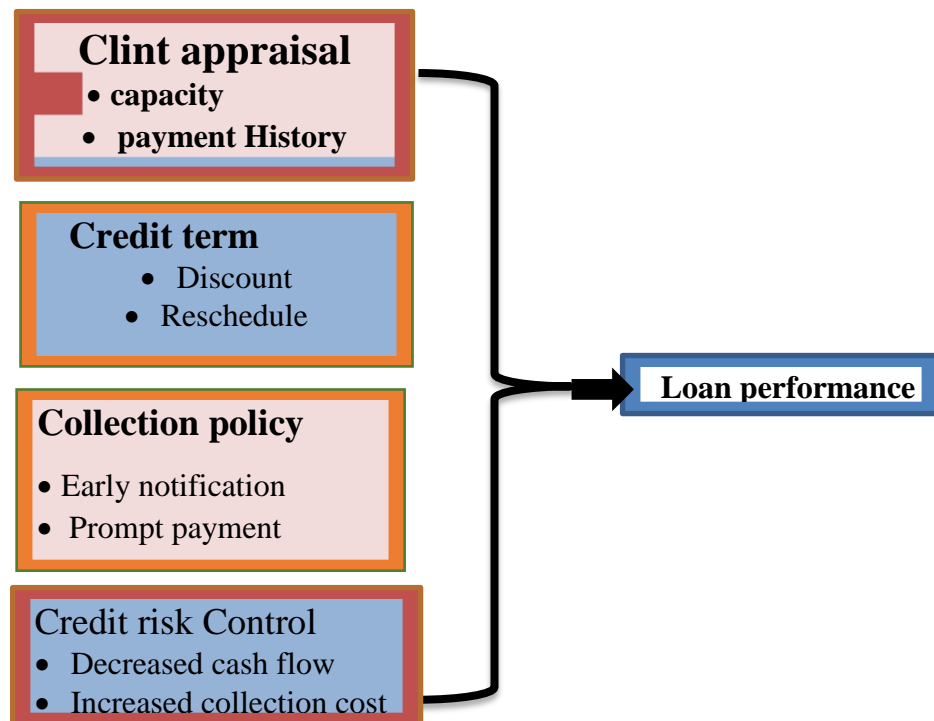
Peter, et al (2015) conducted research on Microfinance and Poverty Alleviation in Ethiopia. This research examines the link between Microfinance and urban livelihoods, exploring the challenges of access to finance for micro-enterprises, the vulnerabilities caused by unscrupulous

lending practices, and the potential for improved financial access to contribute to poverty reduction and economic growth.

Goshim, 2011 carried out a research on the performance of MFI in credit risk management: the case of five MFI in Addis Ababa. The researcher found that the overall repayment performance of the borrowers and the screening technique is sound and the credit scheme has contributed positively in terms of improving the incomes, access to education, access to health facilities and nutritional status of the borrowers.

There have been efforts in the past to study the effect of credit management on the performance of loan but the researches shows deviation and contradiction. Therefore, the researcher wants to shade this gap. In addition, Local studies that have been done on Microfinance sector do not focus on the effect of credit management on the performance of loan in Micro finance institution. From their discussion, it was evident that no known study will be examined the effects of credit risk management practices on the performance of loan in MFIs Nekemte town. This study would be seeking to fill this research gap too

Figure 1: Relationship between credit management systems and loan performance (conceptual framework)



Sources ; -Gebrekidan,(2021)

According to Ledgerwood (1999) as cited by Ejigu (2009), the loan performance of MFI was measured in many parameters. This includes:

- **Portfolio Quality indicators:** Portfolio quality ratios provide information on the percentage of non-earning assets, which in turn decrease the revenue and liquidity position of MFIs. Some of the measures used include the repayment rates, arrears rate, Portfolio at risk, delinquent borrowers, loan loss reserve ratio, and loan loss ratio.
- **Productivity and efficiency ratios:** Productivity and efficiency ratios provide information about the rate at which the MFI generate revenue to cover their expense. Productivity refers to the volume of business that was generated (output) for a given resource or asset (input). Common measures of productivity include the number of active loans per credit officer, and average portfolio outstanding per credit officer. On the other hand efficiency refers to the cost per unit of output. Common efficiency ratios includes operating cost ratio, salaries and benefits to average portfolio outstanding, average credit officer salary as a multiple of per capita GDP, cost per unit of currency lent, and cost per loan made.
- **Financial viability indicators:** Financial viability refers to the ability of the MFI to cover its costs with earned revenue. A financially viable MFI will not rely on donor funding to subsidize its operation. Common indicators here include financial spread, Operational Self Sustainability (OSS), Financial Self Sustainability (FSS) and Subsidy dependence index.
- **Profitability indicators:** These indicators measure the MFI net income in relation to the structure of its balance sheet. Common measures include Return on Equity, Return on Assets, and Return on Business
- **Leverage and capital adequacy ratios:** Leverage refers to the extent to which a MFI borrows money relative to its amount of equity. In other words, it answers the question of how many additional dollars can be mobilized from commercial sources for every dollar worth of funds owned by the MFI. The most widely used measure of leverage is the debt equity ratio. Capital adequacy refers to the amount of capital a MFI have

relative to its assets. Capital adequacy means there is a sufficient level of capital required to absorb potential losses while providing financial sustainability. The measure used for capital adequacy is the ratio of capital to risk weighted assets.

- **Scale and depth of outreach indicators.** These are nonfinancial indicators of performance. Scale of outreach indicate the scale of the MFI activities as measured by the number of clients served with different type of instruments such as saving and credit. Depth of outreach measures the type of clients served and their poverty level.

Chapter Three

Research Methodology

3.1 Descriptions of the study area

Nekemte was located in Western parts of the Oromia National Regional State at earth distance of 331 km South West of Addis Ababa and 250 km North West of Jimma. Its astronomical location is $9^{\circ} 46'$ N and $36^{\circ} 31'$ E, while its elevation is 2088 meters above sea level. The town linearly stretches, mainly along the Addis Ababa Assosa highway. (Sources from map nekemte town)

Wasasa MFI was currently operating in 38 Woredas and 8 zones of Oromia National Regional State. It has 54 offices including 28 branch offices and 20 rural outlets. Since inception, it has already disbursed more than half a billion Birr in Micro loans for more than 100,000 clients. Currently its total assets amount to about 200 million Birr. There are 335 dedicated employees working in the Institution. Wasasa has its own office buildings in Addis Ababa and other towns. Therefore, Nekemte town is one of the branch area in the western region.

The main objectives of Wasasa MFI are manly to increases the productivity and participation of poor households in income generating activities through the provision of financial services to contribute to the growth of the country. to increase clients' income and asset building, to increase the participation of the marginal-sized part of community, females and remote rural areas by inculcating banking hub.

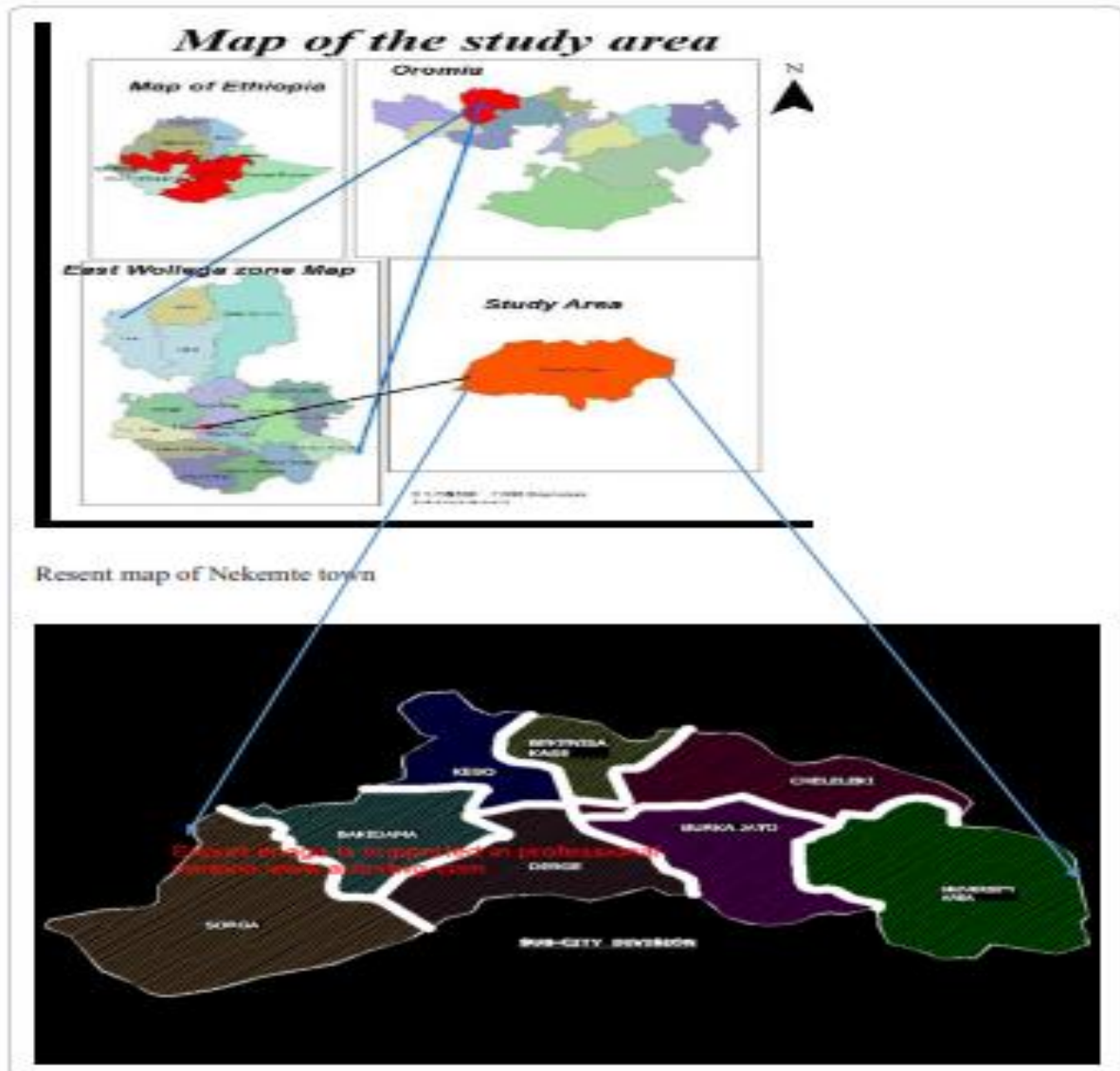


Figure 2; study area Map

3.2 Research Design

Research design was needed because it facilitates the smooth sailing of various research operations, thereby making research as efficient as possible yielding maximum information with minimum expenditure of effort, time and money (Kothari, 2004). For the purpose of this study it's appropriate to use descriptive research design and exploratory research design. As a result of selecting descriptive design the researcher would give more attention on accuracy. the explanatory method is used to examine the relationship between credit management and loan performance and their link with the respective indicators. That means the data that would be collected to be reliable the researcher would focus on evidence that maximize reliability and

minimize bias. The descriptive design refers to a survey design. Descriptive research design means surveys and fact finding enquiries of different kinds and describing the characteristics of population with respect to important factors with the major emphasis. So, as to come up with the existing problems the study the researcher decided to use this design. The research result would narrate according to prepared objectives of the study (Kothari, 2004).

3.3 Sources of Data and Data Collection Techniques

To achieve the objectives of the study which are stated above, and to address the research problem, both primary and secondary data sources was used. The primary data were collected from credit officers and operation department of the MFIs according to sample that was selected from the target population. The way to collect data from this sample is structured questionnaire. These questionnaires included closed ended questionnaires. Secondary data was obtained from different sources; Published materials of government and non-governmental organizations, different articles journals and other web site based materials will be the major sources of such information.

3.4 Target Population and Sampling Methods

3.4.1 Target Population

There are four MFIs that are currently operating in the Nakemte town. Busa Gonofa, Wasasa MFI, vision fund, and Metemamen and Mesirach fund. However, it is difficult to study all the MFI in the town due to the shortage of finance and other constraints. Hence from theses MFIs Wasasa selected purposely based on their member and time of establishment. The total client of Wasasa at Nekemte town currently is 833. Therefore, the target population is based on these frame.

3.4.2 Sampling technique and sampling size

The sampling technique used for the purpose of this study was stratified random sampling as it is assumed to provide more efficient sample considering the sort of loan clients and staff of the MFI. Moreover, the sample is assumed to reflect accurately the population on the basis of the criterion used for stratification. As the institution classifies its clients as performing and non-performing clients based on their repayment status as per their repayment agreement and the regulatory body, Wasasa MFI sampling procedure is employed to select the clients for the study.

Considering the objectives of the study, Proportionate Stratified Sampling approach is followed to select the number of respondents. Using stratified random sampling, from the total 833 about 268 loan clients out of whom 197 Performing loan clients and 71 non-performing loan clients is selected. All employees who are involved in credit processing and administrating are considered as other additional target group of the study. They were 10 in number and all are considered in the sample.

The sample was drawn systematically based on their sequence number after obtaining the list of households from the sample. Convenience sampling also used to collect data from employees of the institutions (10 in number). Convenience sampling is a non-probability sampling method where units are selected for inclusion in the sample because they are the easiest for the researcher to access.

These types of sampling help to minimize the tendency of selecting samples based on basic factor and as result the conclusion become misleading. Accordingly, there are several approaches to determine the sample size. In this study the researcher would be used the following sample size determination formula, which is developed by (Yamane, 1967) to determine the sample size

$$\text{for the study.} \quad n = \frac{N}{1+N(e^2)}$$

Where n=sample size

N=Target population

e= error term

$$n = \frac{833}{1+833(0.05^2)}$$

$$n = 268$$

The researcher would proportionate the sample size 268 to MFI to make the sample more the representative of the target population.

Table 1 sampling technique and sampling size

No	Loan clients	No	Proportion of sample size
1	Performing loan clients	613	$\frac{613}{833} * 268 = 197$
2	Non- Performing loan clients	220	$\frac{220}{833} * 268 = 71$
Total outstanding loan		833	268

3.5. Methods of Data Analysis and Presentation

Data analysis is very important aspect of this study, as it basically involves the analysis of all data that would be collected. The data that would be collected needs to be analyzed so that can be easily deducing in order to provide the justification for the work would be done during research. Data analysis is body of methods that help to describe facts, detects patterns and develop explanations. The data would be analyzed by using the statistical software program namely Statistical Package for Social Science (SPSS) version 20. The study would use descriptive statistics tools.

3.6. Variables Specification and Hypothesis Development

Dependent variable

Loan performance measured as the ratio of non- performing loan to gross loan.

Independent variables

The independent variables that are included in the study are four. These independent variables are explained below.

Client appraisal: Screening clients to ensure that they have the willingness and ability to repay a loan based on the individual credit application by considering character assessment, capacity, condition, and collateral and security capital.

Client appraisal involves gathering adequate information about a client before granting a credit facility. It primarily ensures that the loans are granted to the right people and the capital and interest income is relatively secured and it is a basic stage in the lending process. Client appraisal follows a specific procedure to maintain proper credits. It involves gathering, processing and analyzing of quality information as a way of discerning the client's credit worthiness and reducing the incentive problems between the lenders as principals and the borrowers as agents (Horne, J.C, Wachowicz, J.M, 2007).

(Orua. D, 2009) conducted a study on the relationship between loan applicant appraisal and loan performance for MFIs in Kenya. The study revealed that short-term debt significantly impacted MFI outreach positively. Long term debt however showed positive relationship with outreach but was not significant with regard to default rates. However, concluding that short term loan alone is the only factor which influence default rates on loan is not enough. Besides, it is not clear on

how short term loans effects loans performance. This study therefore assessed how client appraisal influences loan performance.

Fidrmuc *et al*, (2007) found out that before lender extends credit to customers should recognize the possibility that customers would be unable to pay or unwilling to pay as his objective. The study adopted a survey research design targeting all types of lenders. He found out that lenders must establish policies for determining who would receive credit for how long and how much. He also found out that lender should build their credit policy around 5Cs of credit, character, capacity capital collateral and conditions for them to be successful. The mostly used model of client appraisal by MFIs in Zambia is the 5Cs model. These 5Cs are: character, capacity, collateral, capital and condition (Abedi, 2000). It can further be argued that the use of client appraisal of 5Cs model should involve linking of all the 5Cs to each other to qualify the client for credit consideration. This implies that MFIs should only extend a loan to borrower whose character, Capacity, Capital, Collateral and Conditions are up to expected standard. One may furthermore claim that MFIs should base their credit analysis on the basic principles of lending which are character, Capacity, Capital, Collateral and Conditions which should be linked together”.

This implies that they should be correlation in the elements of the 5Cs. However, most MFIs use the 5Cs in their appraisal in loan granting process, but this has not reduced the number of nonperforming loans. This study would establish the extent to which the uses the 5Cs as client appraisal model.

H01: There was no significant relationship between Client appraisal and the performance of loan in MFIs

Credit terms: refers to the conditions under which a Microfinance institution extends credit to its customers. If a Microfinance institution extends credit to a customer, then the credit terms would specify the credit period and interest rates, therefore it would have an effect on the performance of loans since it specifies the time of loan repayments hence creating a timely repayment and decrease in default rate.

(Orua.D, 2009) Observes “that credit terms are normally looked at as the credit period terms of discount and the amount of credit and choice of instrument used to evidence credit”. Credit terms may include; Length of time to approve loans, this is the time taken from applications to the loan to disbursement or receipt. It is evaluated by the position of the client as indicated by the ratio

analysis, trends in cash flows and looking at capital position. When borrowers are given small amount of money it would not be sufficient for business operations yet given too much money it is spent on nonproductive activities causing high non - loan repayment. The credit manager should check on the amount the customer is demanding for, whether it is too much or little. Several previous studies have noted that the time period for which credit is advanced is affected by credit risk, collateral value, competition in the market and size of client's account (Ross et al., 2008).

Other studies such as those done by Moti, et al (2012) in her study on effectiveness of credit management system on loan performance based on empirical review established that credit terms formulated by MFIs affected loan performance. The study recommended that both credit officers and customers should be involved in formulating credit terms. However, it is unclear on how clients should be engaged in the formulation of credit terms. Besides, most clients for MFI do not understand credit terms they just sign the terms without asking. This study would seek to assess how credit terms affect loan performance.(Godquin, 2004) In his study on Microfinance repayment performance. The findings were that; credit terms such as interest rates charged by a credit institution have a dual role of sorting potential borrowers and affecting the actions of borrowers. The question of how credit terms such as interest rate can affect the actions of borrowers has remained answered.

H02: There was no significant relationship between credit terms and the performance of loan in MFIs.

Credit risk: is lending money and not getting it back from a borrower who does not make payments as promised. Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. Such an event is called a default. Another term for credit risk is default risk. Investor losses include lost principal and interest, decreased cash flow, and increased collection costs. Credit risk can be mitigated using risk based pricing, covenants, credit insurance, tightening and diversification (Ross et al, 2008).

H03: There was no significant relationship between the credit risk control and the performance of loan in MFIs.

Collection policy: was needed because all customers do not pay the firms bills in time some customers are slow payers which some are non-payers.

Collection procedure was a systematic way required to recover the past due amount from clients within the lawful jurisdiction (Boldizzoni, 2008). According to (Pandey, 1995) in his study on exploring public sector communication performance asserted that, prompt collection is needed for fast turnover of working capital; keeping collection costs and bad debts within limits and maintaining collection efficiency. A collection policy should lay down a clear cut collection procedure. The procedures should be followed with act to avoid losing some customer to other competitors by covering overdue accounts. Firms should start early enough to collect his accounts from customers and it should be known that it was the duty of the firm to remind debtors to pay their due accounts. Well an administered collection was needed for better performance of the loan. If financial institutions do not follow well administered collection procedures, this would result in loan defaults (Boldizzoni, 2008) However, it is unsearched if collection procedure have an impact on the performance of loans. This study would bridge this knowledge gap.

Kariuki, (2010) conducted a study on Effective Collection Policy. Found out that an institution should put in place a collection policy to ensure recovery is done effectively. Nevertheless, the question on whether collection policy can improve loan performance in Microfinance sector in Zambia has remained unanswered. This study would assess the impact of credit risk management on loan performance.

H04: There is no significant relationship between credit collection policies and the performance of loan in MFIs.

3.7. Model Specification

When there are two or more than two independent variables, the analysis concerning relationship is known as multiple correlations and the equation describing such relationship as the multiple regressions (Kothari, 2004). As the researcher would analyze the effects of credit management on performance of loan in case of Nekemte town, the regression model would be used.

The model treated loan performance as the dependent variable while the independent variables were the credit management practices. Multiple linear regression models were applied to the data on the impact of credit risk management on the performance of loan in MFIs in Nekemte town. The regression model was developed as follows;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Y=loan performance

α = Constant Term

X1= Credit Standards

X2=Credit term

X3=Collection policy

X4=Credit risk control

ε =Error term

The above regression equation shows four independent variables which are Credit Standards, credit term, Collection policy, credit risk control and the dependent variable is loan performance.

CHAPTER FOUR

4/ RESULT AND DISCUSSION

Introduction

This chapter presents, examines, and interprets data from primary and secondary sources, including questionnaires, and the MFI seasonal reporting guides. To make the data more easily understandable, they were presented in the form of tables. The responses served as the basis for the information gathered. The analysis was conducted using the Statistic Package for Social Sciences version 20 (SPSS 20). Each variable was evaluated independently to identify the effect of credit management on the success of loans granted by Wasasa Microfinance Institutions in Nekemte town.

4.1 Responses from Loan Clients

4.1.1 Demographic Characteristics of Respondents

The demographic section provides background data about the survey participants who provided responses. The demographic data collected includes the respondents' gender, age, education level, and job history with the business.

Table.2; Demographic Characteristics of Respondents

Variables	Level of variables	Frequency	%
Gender	Male	205	76.5
	Female	63	23.5
Marriage statues	Married	215	80.0
	Single	41	15.3
	Other	12	4.6
Age	20-30	52	19.4
	31-40	106	39.6
	41-50	90	33.6
	>50	20	7.5
Education	None	7	2.6
	primary education	45	16.8
	secondary education	60	22.4
	College/Diploma	81	30.2
	1st Degree and above	75	28.0

Source; survey 2023

As shown in table, table.2. the gender composition of the respondents, from the findings the study established that majority of the respondents were males as shown by 205 whereas 63 of the

respondents were females, this is an indication that an attempt was made to include both genders. In terms of the age levels, the result established that majority of respondents accounting for 19.4 percent were aged between 20-30 years while 39.6 percent were aged between 31-40 years, on the other hand, those aged between 41-50 years are 33 percent. This implies that the respondents represented both old and young as a result offered varied opinion in regard to the objective of the study.

The level of education results of respondents indicate that the highest education level from the findings, 28.0% of the respondents indicated their highest education level as Bachelors' Degree, whereas 30.2% of the respondents indicated their highest education level Diploma, whereas 22.4% of the respondents indicated their highest education level secondary education 16.8% of the respondents indicated their education level is primary education.

4.2 DESCRIPTIVE ANALYSIS

4.2.1 Clint's' Loan application

Loan applications are the first step in the loan processing process, which also includes gathering personal information from multiple sources and conducting interviews with applicants to determine their eligibility. This makes it possible to reduce the dangers that may arise once the loan is approved.

Table; 3; Application condition of respondents

Application condition of respondents	Clients	
	Frequency	Percentage
Applied by self-motivation	63	25.4
Effort of former client of the Wasasa	185	69.0
Staff effort of the Wasasa	20	7.6
Total	268	100

Source; survey 2023

Descriptive statistics of each variable were produced to give a descriptive understanding of their nature in order to assess the effects of credit management on the performance of loan of micro finance institutions in Nekemte town. Table 3 is noted that, 25.4 percent of the clients applied to the MFI through their own initiation and 68 percent of the new applicants were approached to the MFI by former loan clients, and only 7.6 percent of the clients were applied due to staff

influence. Loan processing was one of the indicators of credit management in MFIs and other financial sectors like microfinance after loan registration with the bank. Therefore, the ease of lending facilities is determined by a number of criteria, including the processing process, transparency, and time, which supports loan growth and long-term client-bank relationships.

4,2,2 Loan processing

According to Mortgage & Company,(2015) loan processing is the phase of the loan process that occurs between the taking of the loan application and the underwriting of the loan. It consists of gathering and verifying all of the documentation required to make a quality loan decision. Loan processing is one of the most important steps in the mortgage loan process. It must be done carefully and quickly. The scope of loan processing, the specific tasks involved, and role of the person performing the phase vary by company and change as the industry evolves. However, the purpose of the loan processing remains the same.

The quality of that decision is only as good as the information on which it is based. If the information is incomplete or inaccurate, the underwriting decision may not be the correct one. A borrower that should have received a loan may be denied or a loan that should have been denied may be funded only to create financial problems for the lender down the road.

Table 4; Loan processing

Loan processing	Yes		No	
	Freq.	%	Freq.	%
Is the application process easy	103	38.4	165	61.6
Is the time for processing is conducive	119	44.4	149	55.6
Is the MFI information you have helped you	156	58.2	112	41.8
Have you met the MFI service as expected	161	60.1	107	39.9
Employees visit during loan request	140	52.2	128	47.8

Source; survey 2023

As noted in table 4, 61.64% of the respondents argued that the application process where not easy and it has complicated process. Due to the fact the loan processing has no conducive environment (55.6 percent). Further, most of the respondents, 58.2 percent revealed that they get the required information and counseling/answers to their questions in whatever time from any of the branches. As business visiting and assessment was part of the viability assessment for loan

processing, 52.2 percent of the respondents replied positively regarding the importance of visiting of the employee such as branch manager/assistant branch manager, loan officer, and property assessor to their business and property. This confirms that as part of prudent credit management system whenever there was loan request the concerned bank employee uses to visit and supervise and gather some important information that helps for loan processing and decision making minimizing risk. This indicates the level of competence of the staff in treating clients and promoting the vision of the MFIs. Adequate and reliable information enhances prudent credit management and long lasting loan client of the institution.

4.2.3 Client’s loan experience

Table 5; client’s loan experience

Years of experience	Number of clients	
	Freq.	Perce.
Less < 1 year	21	7.8
1-2 year	35	13.1
3 year	63	23.5
4 year	71	26.1
5 year	65	24.3
>5 years	13	4.9

Source; survey 2023,

Additionally, as the number of years rises, the MFI experienced loan clients become less in number, revealing the client churn as they have access to other competing MFIs as they gain experience with loans. This hinders the MFI's performance and loan growth.

In table 5 it is disclosed that 13,1 percent of the respondents of the IMF have between one and two years’ experience, 23.5 percent have two to three years,26.1 percent have three to four years, 24.3 percent have four to five years, and 4.9 percent have more than five years’ experience in relation to the of the institution.

4.3. Reasons for Default (Response from Non – performing)

Many agreed that if a borrower fails to make timely payments, the loan could go into default and the asset, or collateral, used to secure it would then be in jeopardy. Similarly, a company unable to make required coupon payments on its bonds would be in default. Defaults can also occur on unsecured debt such as credit card balances. Default may occur if the debtor is either unwilling

or unable to pay their debt. A loan default occurs when the borrower does not make required payments or in some other way does not comply with the terms of a loan.

Customers may become unable to make their recurring repayment for a variety of reasons. These include issues with the market, the environment, loan diversion, the MFI's credit policy, a lack of follow-up, and others. The summaries of the responses are displayed in the tables below as a result. While some of these problems were the MFI's fault, others were the clients' fault. The remaining components were sourced externally, including commercial and environmental factors.

Table 6 Reasons for default

Factors for default	None performing clients	
	Frequency	Percent
Market problem	27	38.0
Loan diversion problem	14	19.7
MFI policy problem	25	35.2
Environmental problem	5	7.0
Total	71	100

Source; Own survey 2023

Table 6 shows that 38 percent of respondents who are unable to make their periodic repayments cited market problems, 19.7 percent loan diversion (using the loan for things other than what was intended), and 35.2 credit policy issues with the institution, such as payback schedules. the time (season) and amount of the loan. The remaining 7.0 percent of respondents said that environmental issues such an Instability due to conflicts.

4.3.2 Factors contributing to non-performing

Numerous studies on non-profitable loans have focused solely on two types of determinants: bank-specific factors, which are accountable for variations in MFIs non-performing Loans. According to table 7 which lists the factors that influence non-performing loans, 73.2 % of new applicants had no credit relationships with or credit experience (luck of loan Experience) with other banks or microfinance, whereas In terms of the credit duration, 54.9% of consumers were unhappy with the loan provision time. Particularly when processing a loan takes a while and the season for which a loan is required has past, this happens. The establishment of non-performing loans is also influenced by the amount of money replayed

Table 7; Factors contributing to non-performing

Indicators	Yes		No	
	Convenience of repayment duration	32	45.1	39
Was the amount per your request fair	38	53.5	43	60.6
Loan experience in other MFI	19	26.8	52	73.2
Are measures taken fair and legal	32	45.1	39	54.9

Source; Own survey 2023

4.3.3 Mechanisms created by loan recipients to resolve NPL

According to Alvarez & Marsal, (2016)., the best course of action for banks to manage their stock of NPLs is to develop comprehensive strategic plans that detail their methodical approach to dealing with NPLs. Asset classifications are typically split into two categories: Retail loans include mortgages and consumer loans. Non-retail loans, principally corporate, SME, and commercial real estate loans, are also regarded as loans: Mechanisms designed by the loan clients to settle the NPLS

Table 8; Mechanisms created by loan recipients to resolve NPL

Mechanisms created by loan recipients	Frequency	Percent
Sell of property	48	67.6
Change of business type	9	12.7
Borrowing from relatives, friends and family	14	19.7
Total	71	100

Source; Own survey 2023

As is customary, borrowers make numerous attempts to repay their loans during times of default and bankruptcy by employing a variety of strategies, including switching the nature of their businesses, selling movable goods, borrowing money from friends, family, and lenders, among other things. Table 7 shows that 67.6 percent of people are able to pay off their debt by selling their property, 12.7 percent do so by Change of business type, and 19.7% do so by borrowing money from friends, family, and relatives.

4.3.4 Measures taken by the MFI to recover the NPLS

The resolution of non-performing loans (NPLs) that have reached systemic levels is complex and costly. Therefore, achieving meaningful NPL resolution strategies would be imperative in some banking systems to ensure that banks can continue to intermediate credit and support economic recovery (Alvarez & Marsal, 2016). Table 9 provides some measure taken up on the loan clients to recover the none performance loans.

Table 9 Measures taken by the MFI to recover the NPLS

Measures taken	Frequency	Percentage
Warning	46	64.8
Foreclosing	5	7.0
Refusal of additional loan	20	28.2
total	71	100

Source; Own survey 2023

The MFI employs a number of procedures when loans fail and become non-performing. Rescheduling is recommended among the procedures if the reasons for non-performance are legitimate and the loan client's background, experience, and track record in previous records are reliable. A further borrowing was not advised unless the situation was extremely justified. If there are no good reasons to reschedule, coercive measures such stringent follow-up, counseling, and letters of reminder and caution are used.

These are the actions that promote peaceful resolution. When all other options have been tried, the only remaining options for recovery are foreclosure and legal action. Table 9 shows that 64.8% of non-performing loan clients receive warnings, 28.2% are rejected consideration for new loans, and the remaining 7% are in the process of being foreclosed upon.

4.4 Responses from the MFI Employees with Demography

The employee's demographic makeup significantly affects how well loans are managed in terms of credit, as well as how well they comprehend and apply credit policies and procedures.

Table 10; Demography of the Employee

	Values	Frequency	Percentage
Gender	Male	6	60
	Female	4	40
	Total	10	100
Age	18-30 years	4	40
	30-40 years	6	60
	40-50 years	-	-
	>50 years	-	-
Level of education	Certificate	-	
	Diploma	2	20
	Degree	7	70
	Masters	1	10
	Total	10	100
Work experience with the organization	1-2 years	-	-
	2-5 years	2	20
	5-10 years	7	70
	Above 10 years	1	10
	Total	10	100

Source; Own survey 2023

Table 10 shows the socio-demographic characteristics of the surveyed sample households. Accordingly, of the surveyed sample household's 60 percent and 40 percent were male and female respectively. As shown in table 9, 60 percent of the questioned household heads were over 30-40 years old, and 70 percent of these households had a work experience and 20 percent have 2-5 years.

4.4.2 DESCRIPTIVE ANALYSIS

Table 11: Adoption of credit management practices

Does your MFI have adopted loan administration practices?	Yes	No	Total
	100%	0	100%
Does your institution have independent loan disbursement system?	87%	13%	100%

Source; survey 2023 in table 11 Data show that 91% of respondents claimed their MFI had adopted loan administration strategies, while only 9% said their organizations hadn't.

This implies that a large percentage of MFIs have implemented credit management procedures. Additionally, it was asked of the respondents if MFIs had their own loan disbursement mechanism. According to the table, 87 percent of respondents indicated that their institution had an independent loan distribution system, while 13 percent said that their institution hadn't yet adopted one.

4.4.3 Credit Management Practices

The techniques a company use to make sure its amount of credit was acceptable and is efficiently managed are known as credit management procedures. The study identifies a number of credit management strategies that MFIs employ. The following credit management practices were requested for implementation levels by the respondents' institutions:

4.4.3.1 Client Appraisal

One of the major problems confronting financial institutions most especially microfinance institutions was the increasing incidence of loan defaults and consequence loan losses which manifested in their financial performance with huge uncollectible loans and advances (Enoch et al., 2021). Client appraisal was one of the factors contributing to this problem the employees were asked to state the extent to which their MFI make client appraisal when giving out loans.

Table 12, MFI use client appraisal in credit management

<i>1. Extent to which MFI use client appraisal in credit management</i>	Mean	Std. Deviation
To what extent does the MFI use client appraisal in credit management?	4.91	.91
<i>2. Level of agreement on client appraisal in MFIs</i>		
Client appraisal is a viable strategy for credit management.	5.03	.82
The MFI has competent personnel for carrying out client appraisal.	4.82	.90
Client appraisal considers the character of the customers seeking credit facilities.	4.25	.92
Aspects of collateral are considered while appraising clients.	4.54	.81
Failure to assess customers' capacity to repay results in loan defaults.	4.37	.97

Source; computed from Own survey 2023

The extent to which MFIs used customer appraisal in credit management is depicted in table 12 above with a mean of 4.91 and a standard deviation of 0.91. This demonstrates that client evaluation was a common practice in MFI credit management.

The majority of respondents felt that client appraisal was a workable technique for credit management, as evidenced by a mean of 0.503, according to the table of respondents' levels of agreement or disagreement with the aforementioned claims about client appraisal in MFIs. The mean of 4.25 indicates that factors related to collateral are taken into account when valuing clients. Loan defaults are caused by failure to evaluate clients' ability to repay, as evidenced by a mean of 4.82, According to a mean of 4.54; the MFIs have qualified staff to conduct client evaluations. Additionally, the client appraisal takes into account the credit-seeking consumers' personalities, as indicated by a mean of .437 The outcome infuriated that microfinance institutions evaluate clients before extending credit.,

4.4.3.2 Credit Terms

Sound credit management was a pre-requisite for a financial institution's stability and efficient loan performance. Proper credit management of any financial institution improves on loan repayment rate, reduces non-performing loans and default rates(Mugabe, n.d.). MFI respondents were questioned about the conditions their company examined before making loans in order to determine whether the organizations actually followed the terms that were specified.

Table 13, Extent to which MFI use credit term in credit management

<i>1. Extent to which MFI use credit term in credit management</i>	Mean	Std. Deviation
To what extent does the MFI use credit term in Credit management?	4.23	1.01
<i>2. Level of agreement on the use of Credit term in MFIs</i>		
The terms and conditions are clear in writing.	4.72	.92
The borrowers signs for the terms and conditions before each issue of loan is released.	4.32	1.00
Interest rates and calculations are clear to the borrower before any issue	4.94	.91
Repayments dates and deadlines are clear and known to the borrower.	4.11	0.96
Repayments amounts are clear, segregated as principal and interest.	4.42	.70

Source; computed from Own survey 2023

As can be seen in the table 13 above, there was a mean of 4.23 and a standard deviation of 1.01 for the amount of credit terms utilized in credit management by MFIs. According to this, credit terms were employed in the credit management process by the majority of MFIs. From the table, majority of the respondents agreed that repayments amounts are clear, with a mean of 4.72 and respondents agreed that interest rates and calculations are clear to the borrower before any issue as shown by a mean of 4.94. The borrower signs for the terms and conditions before each issue of the loan was released, as indicated by a mean of 4.32 from the respondents. They also concurred that the repayment dates and deadlines are obvious and known to the borrower, as indicated by a mean of 4.94 and 4.11, respectively. This shows unequivocally that microfinance institutions closely adhered to all the rules and regulations established by their institutions.

4.4.3.3 Credit Risk Control

According to there was a positive relationship between credit risk management practices and the financial performance depicting the relationship between credit risk management practices and financial performance in organizations (Mwangi & Muturi, 2016). The respondents from MFIs

were questioned about their opinions of the credit risk management practices used by these organizations. To do this, the study first investigated the degree to which the business uses credit risk management as a form of credit risk control.

Table 14; Credit Risk Control mechanisms

1. Extent to which MFIs use credit risk control in credit management	Mean	Std. Deviation
To what extent does the MFI use credit risk control in credit management?	4.50	.98
2. Level of agreement on the use of credit risk control in MFIs		
Imposing loan size limits is a viable strategy in credit management and interest rates charged affect performance of loans in the MF	4.71	.71
The use of credit checks on regular basis enhances credit management.	4.32	.88
Flexible repayment periods improve loan repayment	4.21	1.00
Penalty for late payment enhances customers' commitment to loan repayment.	4.83	.73
The use of customer credit application forms improves monitoring and credit management as well credit committee's involvement in making decisions regarding loans are essential in reducing defaults/credit risk.	4.92	.67

Source; computed from Own survey 2023

The amount of credit risk control utilized by MFIs in credit management has a mean of 4.5 and a standard deviation of .98, as seen in the table above, table 14. This shows that credit risk management was employed by the majority of MFIs. The percentage of respondents who agreed with the aforementioned claims about credit risk management.

The majority of participants, as shown by a mean of 4.92 in the table, concurred that using customer credit application forms enhances monitoring and credit management and that including credit committees in loan decision-making was essential in reducing default and credit risk. Others concurred that late payment fees strengthen borrowers' resolve to repay loans, as seen by a mean of 4.83. On the other hand, respondents agreed that Imposing loan size limits is a viable strategy in credit management and interest rates charged affect performance of loans in the MF as shown by a mean of 4.71 and the use of credit checks on regular basis enhances credit

management as well as the respondents agreed that Flexible repayment periods improve loan repayment as shown by the mean of 4.32 and 4.21 respectively.

4.4.3.4 Collection Policy

The employees were asked to comment on how well their company had implemented collection procedures to guarantee that debt would be paid off on schedule. This is expected to determine whether the MFIs' debt collection policies were effective in lowering nonperforming loans (NPL). *Table 15: problems of credit collection policy*

1. Extent to which MFI implements collection policy in credit management	Mean	Std. Deviation
To what extent does the MFI use collection policy in credit management?	4.92	.83
2. Level of agreement on the implementation of collection policy in MFIs	Mean	Std. Deviation
Available collection policies have assisted towards effective credit management.	4.44	.1.01
Formulation of collection policies have been a challenge in credit management.	4.54	.81
Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults.	4.46	.72
Staff incentives are effective in improving recovery of delinquent loans.	3.92	1.02
Regular reviews have been done on collection policies to improve state of credit management.	4.7	.98
A stringent policy is more effective in debt recovery than lenient policy.	4.2	.87

Source; computed from Own survey 2023

The extent to which MFIs implemented collection policies in credit management had a mean of 4.92 and a standard deviation of .83, as seen in the table above, table 15. This shows that the majority of MFIs employed collection policies when handling credit.

To know how much respondents agreed or disagreed with the aforementioned claims about MFIs' collection practices. According to the table, the majority of respondents firmly agreed that formulation of collection policies has been a challenge in credit management, as indicated by a

mean of 4.54, and that enforcement of guarantee policies provides chances for loan recovery in case of loan defaults, as indicated by a mean of 4.46.

A mean of 4.7 indicates that regular reviews of collection policies have been made to improve the state of credit management. A stringent policy is more effective in recovering debt than a lenient policy, and the respondents agreed that staff incentives are effective in enhancing recovery of delinquent loans as shown by the mean of 4.7 and 4.2, respectively. Available collection policies have aided towards effective credit management, as shown by a mean of 4.4.

4.4.3.5 LOAN PERFORMANCE

Table 16 Level of agreement on the loan performance items in MFIs

<i>Level of agreement</i>	Mean	Std. Deviation
To what extent Stringent credit collection policy affects the performance of our loans.	4.20	1.01
To what extent Label credit collection policy affects the performance of our loans	4.42	.83
To what extent has the credit management process had on the quality of loan portfolio of the institutions	4.1	1.3
To what extent reaching has been the effect of credit management policy on the loan recovery rates	4.21	.99
To what extent the effect of credit management policy and practices on the profitability of the institution	4.24	.95
To what extent has the credit management practices in MFIs affected loan default rates	4.10	.78

Source; computed from Own survey 2023

The majority of respondents indicated that level credit collection policy has a significant impact on how well our loans perform, as shown by the mean of 4.42 in the preceding table, table 16, while others concurred. How much have credit management practices in MFIs impacted loan default rates, as evidenced by the mean of 4.42, how much have strict credit collection policies impacted how well our loans are performing, as evidenced by the mean of 4.21, and how far-

reaching has the impact of credit management policy been on loan recovery rates? How much do credit management policies and practices affect the institution's profitability as Evidenced?

4.5 CREDIT MANAGEMENT VARIABLES AND LOAN PERFORMANCE

Table 17: Descriptive analysis of research variables

	Mean	Std. Deviation
Client Appraisal	4.53	.370
Credit Term	4.18	.3790
Credit Risk Control	4.75	.383
Collection Policy	4.17	.374
Loan Performance	4.20	.380

Source; computed from Own survey 2023

As shown in the table 17 the credit risk control variables as show by the mean of 4.75, loan performance shows by the mean of 4.2 collection policy show by the mean of 4.17 and client appraisal show by the mean of 4.53 as well as credit term show by the mean of 4.18

4.5.1 RESULT OF REGRESSION ANALYSIS

A multiple regression analysis was conducted to ascertain the link and influence between the independent variables of credit duration, customer evaluation, credit risk control, and collection policy and the dependent variable of loan performance. Before using regression analysis, the assumption was validated. The analysis used the statistical software for social sciences (SPSS) to compute the measures of the multiple regressions for the study.

4.5.1.1 Regression Diagnostics Testing

Multiple linear regressions were carried out using IBM SPSS Statistics 20 under the assumption that the relationship between the dependent variable and the independent factors was linear (SPSS). Other assumptions in regressions, besides linearity, concern the model definition, the homogeneity of variance, the independence of errors, and the normality of the distribution of errors. The data were subjected to tests for normality, collinearity, and serial correlation to check that they were consistent with some of the regression assumptions. This was done to ensure that

the study's findings were accurate. The results of the model tests for the main regression model, as previously described, are explained below.

4.5.1.2 Assumption of Normality

When performing a multiple regression, it is presumed that the residuals minus the projected values less the observed values (the residuals) would follow a normal distribution. The distribution of the variables should therefore be examined to see if this assumption was falsified.

To check for normalcy in this study, skewness and kurtosis were applied. According to the general rule, for a normal distribution, the skewness must be zero (0) and the kurtosis must be equal to 3. Positively skewed data have skewness values larger than zero; negatively skewed data have skewness values less than zero.

Table.18: Descriptive Statistics for Skewness and Kurtosis

Values	Skewness		Kurtosis	
	Statistic	Std. Error	Statistic	Std. Error
Client Appraisal	-0.34	0.25	-0.62	0.50
Credit Term	-0.62	0.25	0.45	0.50
Credit Risk Control	-0.41	0.25	-0.32	0.50
Collection Policy	0.004	0.25	-0.56	0.50
Loan Performance	-0.208	0.25	-0.40	0.50

Source; computed from Own survey 2023

Results from the descriptive statistics revealed that the distribution is negatively skewed for client appraisal (skewness = -0.34; kurtosis = -0.62; less than 3); it is positively skewed for credit term (skewness = 0.004; kurtosis = 0.45); and it is negatively skewed for collection policy (skewness = 0.006; kurtosis = -0.56; less than 3). We may state that the data is normally distributed because the majority of the variables had skewness that was closer to zero. therefore, we may say that data is normally distributed.

4.5.1.3 Collinearity

Refers to the almost perfect linear relationship of two variables. However, because multiple regressions have several variables the term multicollinearity is generally used to define similar

highly correlations of the independent variables. It describes a nearly flawless linear relationship between two variables. However, due to the large number of variables in multiple regressions, the word "multicollinearity" is typically used to describe the strong correlations between the independent variables (Gujarati, 2003). This is due to the fact that multicollinearity renders the regression coefficients undefinable or unstable, and the standard errors for the coefficients are greatly exaggerated, rendering these coefficients notably not different from zero.

Additionally, factors may be excluded from the regression, not because they have no influence, but rather because the sample size is insufficient to clearly isolate the effect. In other words, it becomes more challenging to distinguish between the different effects of the variables. Despite a potentially high R² and a highly significant F statistic, this outcome occurs. Alternatively said, a multicollinearity problem is a regression with a high R² and a highly significant F statistic but almost no significant t-statistics on the individual coefficients. Therefore, even with a large R², we need not be concerned about multicollinearity if t-statistics are significant. (Gujarati, 2003).

Due to the significant inter-correlation between the predictors, multicollinearity presents a challenge in multiple regression analysis since it makes the regression equation unstable. The measurements tolerance and variance inflation factor in SPSS is used to measure the degree of multicollinearity (VIF). Multicollinearity issues are frequently evaluated using the Variance Inflation Factor (VIF). It displays how much each independent variable contributes to the explanation of the others. A VIF greater than 10 generally denotes the presence of hazardous collinearity.

Table 19; Collinearity statistics

Model		Collinearity Statistics	
		Tolerance	VIF
1	Client Appraisal	.61	1.99
	Credit Term	.53	2.42
	Credit Risk Control	.71	1.33
	Collection Policy	.69	1.41
a. Dependent Variable: Loan Performance			

Source; computed from Own survey 2023

In Table 19, which was obtained from the coefficients output table (dependent variable: financial leverage), the tolerance ranged from 0.53 to 0.71, while the VIF (the reciprocal of tolerance) ranged from 1.33 to 2.42. Multicollinearity was not an issue because these statistics were within the predetermined limits of 0.1 for tolerance and >10 for VIF.

4.5.1.4 ANALYSIS OF VARIANCE

The study used an Analysis of Variance to evaluate the model's significance. The statistical test for the overall model fit is provided by the ANOVA analysis. The results are displayed below.

Table 20: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9.82	4	2.61	81.63	.000 ^b
	Residual	2.82	86	.031		
	Total	12.64	90			
a. Dependent Variable: Loan Performance						
b. Predictors: (Constant), Collection Policy, Credit Risk Control, Client Appraisal, Credit Term						

Source; computed from Own survey 2023

The coefficients for analysis of variance (ANOVA) are shown in 20 above. if there is any significant F ratio in the ANOVA with a probability of less than 0.05. Statistically significant describes this. The processed data value from the ANOVA statistics in the table above had a significance level of less than 0.05, or 0.000, indicating that the data is excellent for drawing a conclusion about the parameter of the population because the value of significance (p-value) is less than 5%. The statistical significance of the model was indicated by the significance value being less than 0.05.

4.5.1.5 Regression Model summary

Table 21; Regression Model summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.88 ^a	.82	.79	.18
a. Predictors: (Constant), Collection Policy, Credit Risk Control, Client Appraisal, Credit Term				

Source; computed from Own survey 2023 In accordance with Table 21, the model summary table, the multiple correlation coefficient (R) using all predictors simultaneously is 0.88, and the R-Square is 0.82, indicating that 82 percent of the variance in loan performance can be predicted from the combination of client evaluation, credit term, credit risk control, and collection policy. Another indicator of the precision of our prediction is the standard error of estimate. The value, 0.18, is the square root of the degrees of freedom divided by the square root of the total squared errors. It represents an estimate of the standard of the actual dependent values around the regression line; that is; it is a measure of variation around the regression line.

Table 22: Regression Coefficients Results and Residuals Statistics

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.154	.323	--	-.480	.557
	Client Appraisal	.301	.082	.281	3.325	.000
	Credit Term	.633	.091	.620	7.243	.000
	Credit Risk Control	.052	.062	.064	1.345	.321
	Collection Policy	.135	.074	.125	1.821	.039
a. Dependent Variable: Loan Performance						

Source; computed from Own survey 2023

As can be seen from table 21, shown above, client appraisal has a positive impact, ($B = 0.301$, $p < 0.001$), significantly on loan performance of Wasasa microfinance institutions. This indicates that a unit increase in client appraisal would lead to an increase in the loan performance of MFIs. Kurui, et al (2015) stated that the loan performance of microfinance institutions is significantly affected by client appraisal.

Credit term and collection policy have significant positive impact on loan performance of microfinance institutions, ($B = 0.577$; $p < 0.001$ and, $B = 0.105$; $p < 0.1$, respectively). And the credit risk control variable is the variable of credit management that has insignificant positive impact on loan performance of microfinance institutions, with $B = 0.074$. The finding was not similar with (Ahamed et al, 2015) which stated that there is a positive relationship between credit risk control and loan performance but similar with the finding of Njenga (2014) collection policy has positive relationship with loan performance but not significantly influence loan performance. Thus, from developed hypotheses to be tested in this study; hypothesis 1, that states credit appraisal has a significant relation and impact on loan performance, hypothesis 2, that states credit term has a significant relation and impact on loan performance and hypothesis 4, that states credit policy has a significant relation and impact on loan performance were accepted; whereas hypothesis 3, that states credit risk control has a significant relation and impact on loan performance was rejected in this study.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. SUMMARY OF FINDINGS

Microfinance institutions operate in the financial system which is full of uncertainty. For this reason, credit risk management is very important to ensure that before and after disbursement, the risk is taken care of. Loans as the main assets for MFIs should be carefully managed to avoid none performing loan which may lead to bankruptcy.

The main objective of this study was to assess credit management practices and its impact on performance of loan the case of Wasasa micro finance institution in Nekemte town. So as to achieve the objective both primary and secondary data were collected. The primary data were collected using questionnaires' and the secondary data were collected from reports of MFIs. The data under the study were analyzed using descriptive and inferential statistics. The main target population for this study was the loan clients and employees of the Microfinance institution.

As it indicated in the report majority of loan clients argued that the application process is not easy to process the loan. This directly affecting the interest of the customer to practice the loan process. According to the loan clients the main factor of default were market problem and MFI policy on loan which directly related to the time of payment, loan experience, and other factors. Majority of these NPL were decided to pay the credit by selling their property. This indicates that during the client appraisal the MFI did not critically evaluating the capacity of these clients.

The study found that Microfinance Institutions heavily rely on client appraisal during the Credit Management process. It was further established that client appraisal is a viable strategy for credit, that client appraisal takes into account the characteristics of the customers seeking credit facilities, that client appraisal takes into account the characteristics of the customers seeking credit facilities, and that MFIs have qualified personnel for conducting client appraisal. The study found that credit terms are extensively used in the credit management process by microfinance organizations as well. The study also acknowledges that the borrower signs for the terms and conditions before each release of a loan, and that the borrower is aware of the interest rates and calculations.

The study found that MFIs heavily rely on credit risk control in their credit management. The study also found that interest rates charged have an impact on how well loans perform in MFIs, regular credit checks improve credit management, penalties for late payments increase customers' commitment to loan repayment, customer credit application forms improve monitoring and credit management, flexible repayment periods improve loan repayment, and finally regular credit checks improve credit management.

The study revealed that MFIs use collection policy in Credit Management to a great extent. Formulation of collection policies have been a challenge in credit management , enforcement of guarantee policies provides chances for loan recovery in case of loan defaults, Staff incentives are effective in improving recovery of delinquent loans, a stringent policy is more effective in debt recovery than a lenient policy, regular reviews have been done on collection policies to improve state of credit management, and finally that available collection policies have assisted towards effective credit management.

5.2. CONCLUSION

The study concluded that credit management is one of the most important activities in any MFIs. In conclusion, it was observed that Microfinance institutions have adopted loan administration practice and they do have independent loan disbursement system and it was also observed that there was a positive significant association among the study variables which included credit term, collection policy, credit risk control and client appraisal affect the loan performance.

The study revealed that a unit increase in client appraisal would lead to increase in loan performance of MFIs; this is an indication that there was positive association between client appraisal and loan performance of MFIs, an increase in credit risk control would lead to increase in loan performance of MFIs, which shows that there was positive relationship between loan performance of MFIS and credit risk control, a unit increase in collection policy would lead to increase in loan performance; this is an indication that there was a positive relationship between loan performance of MFIs and collection policy. A unit increase in Credit term would lead to increase in loan performance of MFIs, which shows that there was positive relationship between loan performance of MFIs and credit term. Client appraisal, credit term and collection policy significantly influence loan performance of MFIs but credit risk control statistically insignificant that influence loan performance of MFIs.

5.3. Recommendations

- ✓ The study therefore indicated that there should be an ideal client appraisal indicating that before issuing any loan. Microfinance institutions should assure to a very large extent on the adoption of credit terms, collection strategy, credit risk control, and client appraisal. The nature of the customers requesting credit facilities should be taken into account while evaluating a client.
- ✓ The credit length, interest rate, method of calculating interest, and frequency of loan installments are often spelled out in the credit terms. Microfinance organizations should consider the input of clients and credit specialists when drafting credit terms. To ensure that protections are in place to manage the loan portfolio, MFI should establish and maintain a credit administration function that provides direction to anybody participating in the institution's credit function.
- ✓ The report suggests that microfinance organizations should improve their loan collection procedures by implementing stricter regulations. To improve the status of credit management, collection policies should be reviewed on a regular basis. To guarantee that credit administration is carried out successfully and to increase the impact of loan repayments and bad debts, MFIs should create appropriate credit policies.
- ✓ Credit risk controls adopted by microfinance institutions have an effect on loan performance. The study recommends that Microfinance institutions should use credit checks on regular basis to enhance their credit management. Therefore, microfinance institutions should consider credit risk controls.

5.4 Implications for Further Research

Wasasa Micro Finance Institution was the subject of this study, which is being conducted as a case study of credit management techniques and their effects on loan performance. Although there are other performance variables, such as profitability and liquidity, the study has focused on credit. In order to address enduring issues and advance the MFI in line with its goal to a competitive level, it is worthwhile to research thoroughly.

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APPENDIXES

A; Five-year distribution of outstanding and Non-performing loans

Wasasa MFI													
Nekemte branch Urban Credit Status													
S/No.	Description	2018 to 2019		2019 to 2020		2020 to 2021		2021 to 2022		2022 to 2023		Total	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	Loan disbursed	879	14,926,400.00	745	18,250,200.00	415	13,065,000.00	464	17,084,000.00	416	22,848,000.00	2,919	86,173,600.00
3	Loan in a default(NPL)	167	138,090.36	180	332,432.06	170	531,533.25	135	356,163.99	220	330,120.20	872	1,688,339.86
4	Loan Outstanding	1,156	14,079,688.01	1,360	19,617,014.03	922	17,093,056.73	856	20,906,239.76	833	24,403,031.40	5,127	96,099,029.93

Discription	YEAR					Total
	2011	2012	2013	2014	2015	
Loan performing	2047/2,919x87 9=616	2047/2919x745= 522	2047/2919x415 =291	2047/2919 x464 =325	2047/291 9x416 =291	2045
Non –performing loan	872/2919x167 =49	872/2919x180=5 4	872/2919x170 =55	872/2919x 135 =40	872/2919 x220 =65	263
Total out standing	668	576	346	365	356	2308

Sources;-Wasasa MFIs.

In the above tables the researcher would proportionate with the sample size for each year had been draw. And the rate of loan performing is 2045 for five years, as well as the non-performing loan is 263 Five-year distribution of outstanding and Non-performing loans

Background and objectives of Wasasa MFI

Wasasa Microfinance S.C.

Background of Wasasa MFI

1. Establishment of Wasasa Microfinance Share Company

WASASA is a microfinance share company established to provide financial services to the poor both in rural and urban areas that have little or no asset base to finance their enterprises. It is established under Proclamation No. 40/1996 issued for licensing and supervision of Microfinance Institutions, replaced in 2009 by Proclamation No 629/2009, and has got its license from the National Bank of Ethiopia on September 9, 2000. The micro-financing business license granted to Wasasa enables it to operate throughout the country by opening branches as required.

Vision

The vision of Wasasa Microfinance is to make money/capital no more a constraint for the poor.

Mission

The mission of Wasasa Microfinance is to provide sustainable financial services to the active poor in order to employ capital for poverty alleviation.

Values

1. Transparency and accountability for major stakeholders.
2. Continuous improvement in client services and operational processes.
3. Encourage employee growth and accomplishment.
4. Excel in efficiency and effectiveness among the MFIs in Ethiopia.
5. Strive for sustainable growth and profitability of the organization.
6. Provide an enabling environment for leadership quality.
7. Passion for poverty alleviation.
8. Commitment to gender balance at all levels (Board, staff, and clients).
9. Prudent financial services to the clients.

10. Dedication and loyalty to the client.
11. Commitment to the mission of the organization.

Cultures of Wasasa MFI

1. Poverty-focus and positive impact on client.
2. Performance and outcome oriented.
3. Product Innovation.
4. Shared purpose of poverty alleviation among staff.
5. Client driven.
6. TRUST.
7. Professionalism
8. Passion

Objectives

The overall objectives of WASASA are to contribute towards sustainable socio-economic advancement of communities both in rural and urban areas of the Region:

Specific Objectives include:

- ✓ Relieving the communities especially the poor from exploitation by local moneylenders (usurers);
- ✓ Availing micro-credit services to enable the economically active population to engage in income generating activities to support themselves and their families;
- ✓ Establishing financial and banking mechanisms that are within easily accessible areas to communities and ensure the sustainability of the services;
- ✓ Creating alternative employment opportunities for off-farm income generating activities. This would help to relieve pressure on cultivable land;
- ✓ Increasing the productivity of the land by lending for investments in better technology and purchasing of agricultural inputs on time;
- ✓ Inculcating banking habit among the rural community; and
- ✓ Undertaking other activities customarily performed by micro-finance institutions.

5. Is the loan processing time short and convenient for you?
 - a) Yes
 - b) No
6. When you approach the branch do you get relevant information to your request/ need?
 - a) Yes
 - b) No

III. Loan provision and Loan collection

1. For how long are you loan client of the MFIs?
 - a) 1- 2 years
 - b) 3 years
 - c) 4 years
 - d) 5 years
 - e) >5 years
2. Do you think to extend your relation further with the MFIs?
 - a) Yes
 - b) No
 - c) It depends
3. Does the MFIs visit your business sites after loan granting?
 - a. Yes
 - b) No
4. Do you think visiting to your business has significance?
 - a) Yes
 - b) No
5. Do you think the amount of loan approved was enough for the intended Purpose per your request?
 - a) Yes
 - b) No
6. Do you think the loan repayment duration convenient to your business?
 - a) Yes
 - b) No

(Questioner for non-performing loan clients only)

I Instruction

Please encircle or/and fill in the blank spaces your possible answer to the corresponding question and comment on open questions. **I. Personal Details:**

1. Gender:
 - a) Male
 - b) Female
2. Age:
 - a) 18__ 25
 - b) 26-35
 - c) 36-45
 - d) Above 45
3. Marital Status:
 - a) Single
 - b) Married
4. Educational level:
 - a) Illiterate
 - b) Primary education
 - c) Secondary education
 - d) Above Grade 12th

II. Loan provision and Loan collection

5. Did you have any experience of loan with other MFIs before?
 - a) Yes
 - b) No
6. How many times did you take loan from the MFIs?
 - a) once
 - b) Twice
 - c) three times
 - d) four times
 - e) more than five times
7. Was the amount you took enough for the intended purpose and per your Interest?

4. Work experience with the organization
 1-2 years 5-10 years
 2-5 years

Section B: The loan administration practice of MFIs

1. Does your MFI have adopted loan administration practices?
 Yes No
2. Does your institution have independent loan disbursement system?
 Yes No

13. Would you please specify any problem/s/ of credit management that your institution faces so far apart from the above raised issues? _____

14. Would you please specify the major credit problems you assume _____

15. For the problem/s/ that you mentioned above, please list out all the possible and better solution/s/ that can improve the credit management system of your MFIs.

Section D: Credit Risk Management Practices

CLIENT APPRAISAL

1. To what extent does the MFI use client appraisal in Credit Management?
 Great extent Low extent
 Moderate extent Not all

2. What is your level of agreement on the following statements relating to client appraisal in MFIs?

		5	4	3	2	1
		Strongly Agree	Agree	Uncertain	Disagree	Strongly disagree
1	Client appraisal is a viable strategy for credit management.					
2	The MFI has competent personnel for carrying out client appraisal.					
3	Client appraisal considers the					

	character of the customers seeking credit facilities.					
4	Aspects of collateral are considered while appraising clients.					
5	Failure to assess customers capacity to repay results in loan defaults					

CREDIT TERM

3. To what extent does the MFI use credit term in Credit Management?

Great extent Low extent [

Moderate extent [Not at all [

4. What is your level of agreement on the following statements relating to credit term in MFIs?

		5	4	3	2	1
	Values	Strongly Agree	Agree	Uncertain	Disagree	Strongly disagree
6	The terms and conditions are clear and in writing					
7	The borrower signs for the terms and conditions before each issue of loan is released					
8	Interest rates and calculations are clear to the borrower before any issue					
9	Repayments dates and deadlines are clear and known to the borrower					
10	Repayments amounts are clear, segregated as principal and interest					

CREDIT RISK CONTROL

5. To what extent does the MFI use credit risk control in Credit Management?

	5	4	3	2	1
Values	Strongly Agree	Agree	Uncertain	Disagree	Strongly disagree
Imposing loan size limits is a viable strategy in credit management and Interest rates charged affect performance of loans in the MFI					
The use of credit checks on regular basis enhances credit management.					
Flexible repayment periods improve loan repayment.					
Penalty for late payment enhances customers commitment to loan repayment					
The use of customer credit application forms improves monitoring and credit management as well Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk					

6. . What is your level of agreement on the following statements relating to credit risk control in MFIs?

	5	4	3	2	1
Value	Strongly Agree	Agree	Uncertain	Disagree	Strongly disagree
Imposing loan size limits is a viable strategy in credit management and Interest rates charged affect performance of loans in the MFI					
The use of credit checks on regular basis enhances credit management.					
Flexible repayment periods improve loan repayment.					
Penalty for late payment enhances customers commitment to loan repayment					
The use of customer credit application forms improves monitoring and credit management as well Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk					

COLLECTION POLICY

7. To what extent does the MFI use collection policy in Credit Management?

Great extent [] Moderate extent [] Low extent [] Not at all []

	5	4	3	2	1
	Strongly Agree	Agree	Uncertain	Disagree	Strongly disagree
Imposing loan size limits is a viable strategy in credit management and Interest rates charged affect performance of loans in					

the MFI					
The use of credit checks on regular basis enhances credit management.					
Flexible repayment periods improve loan repayment.					
Penalty for late payment enhances customers commitment to loan repayment					
The use of customer credit application forms improves monitoring and credit management as well Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk					

8. What is your level of agreement on the following statements relating to collection policy of MFIs?

	5	4	3	2	1
	Strongly Agree	Agree	Uncertain	Disagree	Strongly disagree
Available collection policies have assisted towards effective credit management.					
Formulation of collection policies have been a challenge in credit management.					
Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults					
Staff incentives are effective in improving recovery of delinquent					

loans.					
Regular reviews have been done on collection policies to improve state of credit management.					