# St. MARY'S UNIVERSITY COLLEGE
## BUSINESS FACULTY
## DEPARTMENT OF MANAGEMENT


# PERFORMANCE EVALUATION OF CREDIT SEVICE MANAGEMENT: IN THE CASE OF MEKLIT MICRO FINANCE INSTITUTION


**BY**

**SITI SHEFA**



**JUNE 2010**
**SMUC**
**ADDIS ABABA**

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**A SENIOR ESSAY SUBMITTED TO THE**
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**APPROVED BY THE COMMITTEE OF EXAMINERS**

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| **Examiner** | **Signature** |

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# CHAPTER ONE

# Introduction

## 1.1 Background of the Study

Micro finance is the term used to refer to different methods for giving poor people access to financial service. More than twenty years experience of micro financing around the world shows that poor people with little education are reliable borrowers who invest wisely and are willing to save it given the chance Sida. (1999:99)

The national micro finance of Ethiopia states that establishing a basis for evolution of an efficient and effective micro finance system in the country that serves the low income supplement of the society will contribute to economic growth and poverty reduction. In developing countries like Ethiopia the poor section of the population have little or no access to financial resources consequently their participation in economic development is either limited or denied. Many specialized financial institutions created in the 1950s and 1960s were unable to meet the dual challenge of institutional and financial sustainability on the one hand, and outreach to large numbers of poor people on the other hand Wahid and HSU.(2000:149)

Over more recent years micro finance schemes have been under taken often combining financial and social intermediation in both urban and rural areas. Advances in financeial intermediation and into stimulate by the deregulation of the financial sectors and facilitated by modern technology have put the spot light participatory mechanisms for iterating the poor into the economic main streams. The advances in financial intermediation include recent efforts to design and deliver very small loans to poor borrowers, both individuals and groups Meger. (2002)

Most micro finance in Ethiopia have the problem of shortage of fund, low repayment rate of disbursed loan, lack of addressing the poor people poor credit management system and other related problems. Meklit micro finance is also one part of Ethiopian micro finance institution the shortage like lack of addressing to the poor in the remote area is one of the indicator of low performance of delivering credit and saving service to the poor. Therefore Credit Management Performance in its term has also its own shorthand in terms of identifying customer's capacity amount of loan and accountable auditing of the disbursed credit and accruals.

### 1.2 Background of the Organization

Meklit Micro finance Institution(MMFI) is a share company established according to Proclamation No.40/1996 and the Guidelines of the National Bank of Ethiopia (NBE) for the establishment of Micro Financing Institution (MFIs) in Ethiopia. It is established with a paid up capital of Birr 200,000.00.

The Institution was established by 10 Shareholders. The supreme body of the MMFI is the General Assembly, consisting of all Shareholders. The Board of directors elected among the shareholders is responsible for policy issues and the general guidance of the Institution. The Board of Directors has 7 members.

The Institution has the Mission of addressing the financial and related needs of disadvantaged people specially women who are willing, hardworking and able to engage themselves in micro and small business activities in urban and rural setups on a sustainable basis.

Major Institutional Objectives are Provide credit services to micro and small business operators with feasible and viable projects, Mobilize saving using different techniques so that clients will gradually break the vicious circle of poverty and build their own capital, Facilitate or/and provide capacity building programs based on the needs of clients so that they can generate adequate income for themselves and their families and Gradually reach operational and financial self-sufficiency.

## 1.3 Statement of the Problem

Poverty is the major problem in most developing economy. In these economies it is argued that among others absence of access to credit is presumed to be the cause for the failure of the poor to come out of poverty. Lending to the poor involves high transaction cost and risks associated with information asymmetry and moral hazard. The number of institutions are increasing from time to time and they have a great role in poverty reduction. The delivery of efficient and effective micro finance service to the poor is required to enhance the development of an economy specially to developing countries like Ethiopia. Therefore, credit management performance evaluation in its term has also its own short hands interims identifying customers capacity, amount of loan and accountable auditing of the disbursed credit and accruals.

Apart from this Micro financing institutions are base for most of the rural and urban poor people those who have no enough initial capital for the work of their interest. The client of micro finance institutions are the poorest and most vulnerable people ask to participate the program of micro credit and saving institutions. world Bank final report. ( June 26,2000)

Micro finance institution have a main role in financing the poor society. But different microfinance institutions of low performance in quality to finance the poor one. In terms of out reaching the poor, financial sustainability and benefit to customers are the main gaps.

As Meklit Micro Finance Institution is one of the institution in the country, it shares the same gaps.

## 1.4 Research Questions

Based on the statements of the problem and the objectives stated, the study would try to seek answers for the following questions.

1. What are the indicators of performance evaluation of credit service management in the institution?
2. What are the main problems of the Meklit MF in delivering credit service to the poor People?
3. What the institution credit management evaluation looks like?
4. What are the mechanisms of credit management in the institution?

## 1.5 Objectives of the study

### 1.5.1 General Objective

The main objective of study is to evaluate the performance of Meklit Micro Finances institution in credit management system.

**Specific Objectives**

- To evaluate the role of management system of the institution in serving the poor
- To identify the main problems of Meklit MF during delivering of its credit service to its client efficiently
- To identify the targets of credit management activities
- To identify the mechanisms of credit management activities in the institution. which help to evaluate the performance of credit services management.

## 1.6 Significance of the study

This study is believed to be significant in that it can provide the interested readers with information about performance evaluation of credit service management system in Mekit micro finance institution. The study will also pin points the possible solution that could help to solve the problem. More over the study will be documented and used as a reference material for the study of other researchers.

## 1.7 Scope and Delimitation of the study

Poverty have wide coverage area due to its wide contents. But this study only concern traces on the evaluation of the performance of micro finance intuition spastically Meklit Micro Finance in delivering credit and saving service to the poor society.

This study also delaminates on Addis Ababa Abenet Area Kebele 26. This is due to the access of information the researcher on the institution .This study needs sufficient time and resource in order to present detail evaluation of Meklit Micro Finance.

## 1.8 Research Design and Methodology

### 1.8.1 Research design

This study paper uses a descriptive method to describe the term of what, who and when ideas about the stated title. In addition to this the descriptive method address the specific research questions clearly and precisely

### 1.8.2 Population and Sampling Technique

**Population**

The total population of the study is 329, which are 300 clients, 7 management bodies and 22 employees.

**Sample size**

The sampling size was due to the nature of the title that credit management concerns to clients, employees and management bodies. To collect the primary data the research question has been distributed to the given correspondents, which are 90 clients, 22 employees and 7 management bodies. These numbers are selected due to the fact that, the total employees and total managements member of the intuition is 29(100%) and the clients are taken as a sample size that is 90 clients ( 30% of total clients ). Due to cost and time issues I have selected only 30% the total clients

**Sampling Technique**

The researcher took a stratified sampling technique due to the existence of different population groups.

### 1.8.3 Types of Data Used

The researcher used both primary and secondary data which are necessary for the completion of the study.

### 1.8.4 Methods of Data Collection

To come up with the required result, the researcher used questioner of documents as a data collection tool due to the following reason.

Questioner is a fairly reliable tool for gathering data from diverse and varied social groups.

**Primary data**

The primary data of the study was collected by distributing a questionnaires to the respondents which are customers, management bodies and officials

**Secondary data**

The secondary data of the study was collected from different books and unpublished documents of the institution.

### 1.8.5 Method of data analysis

The qualitative and quantitative data collect by using the specified method of data collection was analyzed in detail.

The method of analysis was descriptive analysis. The rationally for choosing this method of data analysis is that it would allow distributing, summarizing and presenting the qualitative data. Figures and which enable that patterns and relationship of the analytical data to be show clearly. The qualitative data also analysis by qualifying them accordingly.

To analyze the collected data the researcher would use tabulation, percentage and simple statistical method.

## 1.9 Organization of the study

The study is organized into four chapters. The first chapter includes background of the study which generally gives general highlights of the study. The second chapter deals with the related reviews of the study and the third chapter concerns with the presentation analysis and interpretation of the study finally, the fourth chapter has indicated summary, conclusion and Recommendation of the study.

# CHAPTER TWO

# 2. REVIEW OF RELATED LITERATURE

## 2.1 DEFINITION

A Micro Finance Institution (MFI) is an organization that provides financial service targeted to the poor, while every Micro finance institution is different, all share common characteristics of providing financial services to customers poorer and more venerable than traditional customers. (performing candies financial service sector, 1999 : 33**)**

Microfinance institutions offer loan (credit)small sums of money, which are increased according to fixed down payment terms. The amount rise gradually to the compliance in time and amount of payments, training to learn how creditors are handled and savings to make individual and /or family asses.

Micro finance institutions are quit diverse ranging from large commercial banks to smaller NGOs Micro finance institutions also differ greatly in terms of their methodologies clients base and numbers range of financial products, average loan size, term of loans repayment incentives, savings requirements, interest rats and fees collateral requirements, reliance on external funding governance and management, communication capabilities and non-financial products and training they offer. (Paper presented at FAO hade over her. ( March 2003)

A micro-finance institution provides micro credits for their client. Micro credit refers to small loan made to law-income individuals to sustain self-employment or the start up very small business. Although there is no standard definition of micro credit in practice such loans are quit small, amounting to a few thousands birr.(Department of Finance Canada, Retorting Canada financial service sector 1999)

## 2. 2 The Purpose of Micro Finance

About 83% of the Ethiopians population live in rural areas where 70% if the countries nation out put is produced most of people living in these areas are poor farmers and are the principal beneficiaries of microfinance policy ( National Bank 2001). The rural sector, like in many other African countries has largely remained under Development of the rural sector is there fore central in Ethiopia strategy to increase national out put and employment, and in its fight against poverty. Experience from studies of micro financing (Wahid and HSU 2000) shows that well designed microfinance programmers can make a significant impact on the living conditions of the poor. Poor people in most countries have virtually no access to formal financial services. A small loan can help break the cycle of poverty when it is invested in an economic active it that generates increased earnings, similarly, saving money in a safe place provides the poor a cushion against sudden shocks such as illness or bad harvest which could easily push them in to poverty. Innovators access to financial service and increased incomes allow the poor people to invest in. For example their children's future. They can also be able to seek health care services when needed rather than to wait until anilines has reached crisis proportions ( The world bank, 2002)

## 2.3 Factors for Efficient Micro Finance in Ethiopia

The development of the microfinance industry is dependent on number of factors and its success depends on the combined impact of the different stake holder's actions on those factures. The factors influencing microfinance operations in culled economic opportunities, rural infrastructures sectional development policy, demographic factors and social setup, others are financial infrastructure and institutional capacity of both the supply and demand side (Ethiopia national Bank 2001). Using these conditions for assessing the institutions embedding the microfinance sector of Ethiopia is more a matter discretion.

## 2.4 The Need of Micro Finance

Traditionally, banks not have provided financial service to clients which little or no cash income. Banks must incur substational costs to manage a client account regardless of how small the sum of money involved. There is a break-even point improving loans or deposits below which banks lose money on each transaction they make, poor people usually fall below it. In addition most poor people have few assets that can be secured by a bank as collateral.

As documented extensively by (Heknado Destoto) and others. Even if they happen to own land in the developing world. They may not have effective title to it. This mean that the bank will have little recourse against defaulting borrowers.

Seen from broader perspective, it has log been accepted that the development of a healthy national financial system is an important goal and catalyst for broader gal of national economic development.( Anne Krueger)

Because of these stated difficulties, when poor people borrow they often rely on relatives or allocate money lender, whose interest rates can be very high. An analysis's of 28 studies of informal money lending rates in Asia, Latin America and Africa concluded that 76% of money lenders rates exceed 10% per month. Money lenders usually charge higher rates to poor borrowers than false poor ones. While money lenders are often demonizes and accused of usury. Their services are convenient and fast, and they can be very flexible when borrowers run into problems hopes of quickly putting them out of business have proper unrealistic, even in places where micro finance institutions are very active. Over the past centuries practical visionaries from the Franciscan Monks who founded the community oriented pawnshops of the fifteenth century, to the founders of the European credit union Movement in the 19th century (such as Fredrick Wilhelm Raiffeisen ) and the founders of the micro credit movement in 1970's ( Such as Mohammed Yunus) have tasted practices and build institutions designed to bring the kind of likelihood opportunities and risk management tools that financial service provide to the door steps of poor people. While the success of gamin bank has inspired the world,

it has proved difficult to replicate this success in practice in nations with lower population densities, meeting the operating costs of a retail costs of a retail branch by sieves near by customers has proven considerably more challenging. Although much progress ha been solved yet and the overwhelming majority of people who earn less than one dollar a day, especially in the rural areas, continue to have no practical access to formal sector finance. Micro finance has been growing rapidly with twenty five dollar currently at work in micro finance loans.

## 2.5 Boundaries and Principles of Micro Finance

Micro finance may encompass only efforts to increase access to or improve the quality of financial services. Poor people currently or could benefit from using. There are not many bright lines that can sharply distinguish micro finance from similar activities. Claim could be made that a government orders stack banks to open deposit accounts for poor customers or a charity that runs a heifer pool are engaged in micro finance. Furthermore correcting the problem of access is best done by expanding the number of financial institutions available to them, as well as the capacity of those institutions. In recent years have has bee increasing emphasis on expanding the diversity of those institutions. As well, since different institutions serve different needs. Micro finance can also be distinguished from charity. It is better to provide grants to families who are destitute, or so poor they are unlikely to be able to generate the cash flow required to repay a loan.

## 2.6 Situation of Poverty in Ethiopia

Poverty is mostly the manifestation of developing countries like Africa and Asia and Latin America Ethiopia is among the developing countries in the world facing severe poverty. It rank $169^{th}$ out of 175 countries (UNDP2003) the world bank estimated the per capita in come of the country is less than USD 110 poverty remains a threat to the political. economical and social stability of the country.

The majority of people in Ethiopia are living in ruler areas where poverty is more wide spread than in urban areas. About 45% of the rural population are below the nationally defined poverty line while it is 37% for urban population. Poverty is also deeper and server in rural area than in urban areas on average the income of the rural poor is 12.1% far from the poverty line while it is 10.1% for the urban poor. (Tassew 2004) Similarly mofed

(2002) estimated the poverty incidence of 45.5% and 36.9% depth of 12% and 10% and severity of 4.6% and 3.9% for rural and urban Ethiopia respectively. Most of the poor are women children the elderly small scale farmers and unskilled workers these people lack the financial capacity to meet the minimum standards of living.

(AEMFI, 2005) Generally the socio economic situation of the country is characterized by low growth of income, inadequate social service, high population growth rate, economic ineffectively and high un employment rate. (wolday 2002)

### 2.7 Evaluating micro Finance Performance in their Credit Management

Poverty is major problem in most developing economies in these economies. It is argued that among others absence of access to credit is presumed to be the cause for the failure of the poor t come out of poverty meeting the gap between demand and supply of credit in the formal financial institutions frontier has been challenging. (von pischke 1991)

In fact the gap is not because of shortage of loan able fund the poor rather it arise because it is costly for the formal financial Institution to lend to the poor . Lending to the poor involves high transaction cost and risks associated with in nation asymmetries and moral hazards. (stiglitz and weiss 1981)

Nevertheless in Several Developing governments Economies have intervened through introduction of micro finance Institutions to minimize the gap then allow the poor access credits.

There are different arguments concerning how to evaluate the performance of micro finance Institutions to minimize the gap then allow the poor access credits.

There are different arguments concerning how to evaluate the performance of Micro finance institutions. mayer (2002),citing from Zeller and mayer (2002) indicated that there is what is called “critical Micro finance triangle” that we need to look at to evaluate micro finance Institutions based on their objective as (Maywr 2002) Here the concerns of the triangle represent outreach to the poor , financial sustainability and welfare impact. And ” performance criteria are required for each objective and all there must be measured thoroughly evaluate micro finance performance” noted meyer (2002). Further be indicated “the inner circle the figure represents MFI innovation in technology, policies, organization and management that affect how well each objective is met. The outer circle represents the environment new within which micro finance operates that also affects performance this environment broadly includes the human and social capital possessed by the poor, the Economic policies of the country and the quality of the financial infrastructure that supports financial transactions. Improvement in the environment make it easier for MFIs to reach the there objectives member (2002:2)

### 2.8 Measuring out Reach to the Poor

Out reach at glance means the number of client saved but, mayer (2002) not that out reach is multi dimensional concept. In order to measure out reach we need to look in to different dimensions.

The first is simply the number of persons now saved that were previously denied access to formal functional service usually these persons will be the poor because they can not provide the collateral required for accessing formal loans are perceived as being too risky to serve and impose high transaction costs on financial institution because of the small size of their financial activities and transaction.

Women often face grater problems than men in accessing financial service so number of women served is often measured as anther criterion.

Although difficult to measure depth of poverty is a concern because the poorest of the poor face the greatest access problem. Some measure of depth of out reach is needed to evaluate how well MFIs reach the very poor. Finally the variety of financial service provided is the criteria because it has been shown that the poor demand and their benefit well be improved if efficient and secure savings, Insurance, remittance transfer and other service are provided in addition to the loans that are the predominant concern of policy makers. Navajos et.As(2000) indicated that there are six aspects of measuring out reach depth worth of users, cost to users, breadth. length and scope. Where depth of out reach refers to the value of the society attacks to the net gain from the use of the micro credit by given borrower. This measure is to identify the poor clients. Because the poor are the one who fail to get access to get credit from formal financial institutions. Since they fail to signal that they can repay their loan (conning 1997) and worth of out reach to users refers to how much a borrower is willing to pay for a lone.

(Navajas efal 2000:355) Similarly cost of out reach to users refers to cost of a loan to borrower these lost to users might consists of price like interest rates and variances to the lender and other loan related transaction costs like expense on documents transport food taxes etc.

### 2.9 Financial Sustainability and Credit Management

A micro finance institution is its financial sustainability different literature noted that financial sustainability is one of the areas that we need to look at to assess the performance of micro finance institutions. meyer(2002) noted that the poor needed to have accesses to financial service on long term basis rather than jest a one time financial support. Short term loan would worsen the welfare of the poor. (Navajas etas2000) Operational self sustainability is when the operating income is sufficient enough to cover operational costs like salaries, supplies. loan loss, and other administrative costs. And financial self sustainability is when MFIs can also cover the costs of funds and other forms of subsidies received when they are valued at market prices. Meayr (2002) indicated measuring financial sustainability requires that MFIs maintain good financial account and follow recognized accounting practices that provide full transparency for income expanses loan recovery and potential losses.

There is also some dispute on the link between financial sustainability and out reach the poor according to (christen 1995) out reach and financial sustainability are complimentary. This is because as the number of clients increase MFIs enjoys economics of scale and hence reduce costs which help them to financial sustainable on the other hand. Hulme and mosely(1996) argued that there is inverse relationship between out reach and financial sustainability. argument is higher out reach means higher transaction costs in order to get information about credit worthiness of clients and make MFI financially unsustainable.

## 2.10 The Important of Micro Finance Institution

In principle micro finance institution offer all standard of banking services. However, they are specialized in loans more specifically in loans for small and very small business. These business peoples are generally very poor but economically active people who have some form of business experience and are seeking credit as away of expanding their business.

They would not be grated small scale loans of this nature by traditional financial services providers. This is where the micro finance institution come into play they clarify locally whether such business deservers to recycle loans. These small loans more of possible for business to expand or to implement measures to boost their efficiency. The end result is more income for the families but also for the employers in the given business sector.
Micro finance is promoted as a mechanism for triggering or sustaining social and economic development by supporting entrepreneurial activities. Micro finance can have
Multiple span off profits including the potential to be a component of poverty reduction strategies. This contributing to the millennium development goal (MDG) with clients who use micro finance service as individual or in group typical micro finance clients in many parts of the world have been recourse poor female entrepreneurs. (promoting gender sensitive entrepreneurship MFI :1078)

Expanding micro finance programs often going with consolation with community officials and villager. In order to brief them on the micro finance institution and its policies. In the other cases micro finance services evolve from NGOs often legally separates any type of welfare services provision from its micro finance work. Another micro finance program grows from groups already established in the community such as informal saving group guarantee groups or cooperatives. This group evolves when there are individuals with relevant financial skill and experience in formalizing and organization that provides financial services to its members. (paper presented at FAO head quarter on March 2005)

The success of micro finance programs getting depends on the degree of networking in corporate into the program both with in the community. in which it operators and with external agencies and institution that can help development. The major importance of micro finance to the society is to reduce poverty , remove subsidy mobilize serving ,out reaches the rural poor. (Padmanabhan KP.1988).

### 2.11 Micro Finance Institution In Ethiopia

Micro finance institutions are views as institution which provides sustainable financial and other services using innovative methodologies and system at a low cost to meet the need of low income section of the population and act as financial intermediaries in genuine sense. The development of financial sectors in Ethiopia affects economic and social development in general rural finance play significant role in improving food security and alleviation of poverty.

The capacity of the conventional banking sector in Ethiopia has been to weak to serve the rural poor community. Since the issuance of proclamation 40/1996 which provide the establishment of micro finance institution thirty one micro finance institution (MFIs) have been legally registered by the national bank of Ethiopia and started delivering service to the rural as well as the urban poor who needs financial service to save small amount to engaged themselves income generating activities. (the world bank final report June 26,2000) The national bank of Ethiopia is authorized by the proclamations to issue directives at anytime and prescribe additional condition to be complied with before license is issued.

When the bank intends to change or vary the terms and conditions attached to license it shall notify the concerned micro finance institutions of such intervention 45 days before the date it prepossess to carry the same into effect. Accordingly the bank has issued several directives such as the loan ceiling to be get at birr 5000.00 repayment of loan not to exude 12 months the minimum interest paid per annum by micro finance institution are free to set own lending interest rate ceiling. (review of micro finance industry in Ethiopia August 2000)

## 2.12 Credit Management System

Most financial professional employ their own models to rank potential and existing costumers according to risk and then apply appropriate strategies with products such as unsecured credit cards and over drafts risk is controlled through the setting of credit limits some products also security most communally in the form of property Bluhm wanger (2002:131).

Credit scoring models also form part of the frame work used by banks or lending institution grant credit to client for corporate and commercial borrowers these models generally have qualitative and quantitative section outlining various aspects of the risk including but not limited to operating experience management expertise asset quality and leverage and liquidity ratios respectively once this information has been fully reviewed by credit officer and credit committees the lender provides the funds subject to the terms and conditions presented within the contact.

## 2.13 Credit Risk Management in Business

Companies carry credit risk when they do not demand up-front cash payment for products or service. (Damino masetti 2006 :196) significant resources and sophisticated programs are used to analyze and manage risk. Some companies run a credit risk department whose job is to assess the financial health of their customers and extend credit (or not) accordingly. They may use in house payment to advise on avoiding, reducing and transferring risk. They also use third party provided intelligence.

Credit risk is not really manageable for very small companies (ie. those with only one or two customers). This makes these companies very venerable to defaults or even payment delays by their customers Darrell,J, singleton (2003:143)

Consumers may fall credits risk in a direct from as depositors at banks or as investors /lenders. They may also face credit risk when entering in to standard commercial transactions by providing a deposit to their counter party. In some case governments recognize that an individual's capacity to evaluate credit risk may be limits and the risk may reduce economic efficiency, governments may enact various legal measures or mechanism with the intention of protective customers against some of these risks. Bank deposit notably is insured in many countries (to some maximum amount) for individual effectively limiting their credit risk to banks and increasing their willingness to use the banking system.

**2.14 Sound Credit Risk Assessment and Evaluation for Loans**

Effective credit risk assessment and loan accounting practice should be performed in a systematic way and in accordance with established polices and procedures to be able to prudently value loans and to determine appropriate loan loss provision, it is particularly important that banks have a system in place to reliably classify loans on the basis of credit risk. Larger loans should be classified on the basis of a credit risk grading system. (cornett Anthony. (2006 5th edition :215)

Other smaller loans may be classified on the basis of either accredit risk grading payment system or payment delinquency status. Both accounting frame work and other basis recognize credit grading systems as tools in accurately assessing the full range of credit risk. A well structured credit risk grading system is an important tool in differentiating the degree of credit risk in the various credit exposures of a bank or an institution. This allows a more accurate determination of the over all characteristics of the loan portfolio, probability of difficult and ultimately the adequacy of provisions for loan losses in describing a credit risk grading system, a bank should address the definition of each credit risk grade and the delineation of responsibilities for the design implementation operation and performance of the system.

Credit risk grading system typically take into account a borrowers current financial condition and paying capacity the current value and reliability of collateral and other borrower and facility specific characteristics that affect the prospect for collection of principal and interest. Because these characteristics are not used solely for one propose (example credit risk or financial reporting) a bank

may assign a single credit risk grade to a loan regardless of the purposes for which the grading is used. Duncan H.meldrum(1999:365)

Credit risk assessment and loan loss provisioning may involve risk measurement models and assumption based on estimates. Models may be used in various aspects of the credit risk assessment process including credit scoring. Estimating or measuring credit risk at both the individual transitions and over all portfolio, levels, administration, stress testing loans or portfolios and capital collation. Credit risk assessment models often consider the impact of changes to borrower and loan related variable such as the probability of difficult loss given default exposure amount. Collateral values rating migration probabilities and internal borrower ratings.

As credit risk assessment models involve extensive judgment effective model validation procedures are crucial. Financial institution should periodically employ stress testing and back testing in evaluating the quality of their credit risk assessment models and establish internal tolerance limits for differences. Between expected and actual out comes and processes for updating limits as condition warrant financial institution should have policies that requires remedial actions be taken when policy tolerance are expected. In addition to this financial institution also document their validation process and results. These results should be regularly reported to the appropriate levels of institution's managements of internal credit risk assessment models should be subject to periodic review by qualified or independent individuals.

Experienced credit judgment uses to determine an acceptable period that will yield reliable historical loss rate as loss rate periods should not be restricted to a fixed time period to determine the average historical loss experience for any group of loans with similar credit risk characteristics.

A financial institution should maintain sufficient historical loss data over a full credit cycle to provide robust and managing full statically loan loss estimates for establishing the level of collective improvement losses for each group loans with similar credit risk characteristics when Appling experienced credit judgment a bank should provide a sound rational for excluding a way historical loss data that is deemed not representative of the performance of the portfolio. Arnaud Abd olive renallt. (2003:932)

### 2.15 Principal of Credit Management

Financial institution have faced difficulties over the years for a multitude of reason's the major causes of serious financial institution problem continues to be directly related tax credit standards for borrowers and counter parties poor portfolio risk management or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the crediting standing of the institutions counterparts.

Credit risk is most simply defined as the potential that a bank borrower or counter party will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a banks risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters financial institutions need to manage the credit risk inherent in the enter portfolio as well as the risk in individual credit or transaction. financial institutions should also consider relation slips.

Between credit risk and other risk.(Bluhm christain 2002 :315)

For most financial institution loans are the largest and most obvious source of credit risk however other sources of credit exist through out the activities of the financial including in the banking book and in the trading book and both on and off the balance sheet Banks are increasingly facing credit risk (or counter party risk) in various financial instruments other than loans including acceptance inter bank transaction trade financing foreign exchange transaction financial futures swaps bonds equities options and in the extension of commitments and guaranties and the settlement of transactions.

Since exposure to credit risk continuous to be the leading source of problems in banks world wide banks and their supervisors should be able to draw useful lessons from past experiences financial institutions should have a keen awareness of the need to identify measure monitor and control credit risk as well as to determine that they hold adequate capital against these risk and that they hold adequate capital against these risk and that they are adequately component for frisk incurred. Darrell dufge( 2003:125)

## CHAPTER THREE

## 3. DATA PRESENTATION, ANALYSIS AND INTEPRITATION

This part of the paper deals with the possible presentation analysis and interpretation of the collected data. Both the primary and secondary data ,characteristics of respondents and other relevant information.

### 3.1 General Characteristics of the Respondents

| Item No. | Characteristics of respondent | | No respondent | % |
|---|---|---|---|---|
| 1 | **Sex** | male | 79 | 66.6 |
| | | Female | 40 | 33.4 |
| 2 | **Age** | 18-30 | 41 | 34.4 |
| | | 31-42 | 38 | 31.4 |
| | | 43-54 | 25 | 21.6 |
| | | >55 | 5 | 4.2 |
| 3 | **Educational Status** | Masters | 3 | 2.5 |
| | | 1st Degree | 20 | 16 |
| | | Diploma | 20 | 16 |
| | | Certificate | 39 | 32.7 |
| | | Reading& writing | 20 | 16 |
| | | Illiterate | 20 | 16 |
| 4 | **Work experience** | < 1 year | 26 | 21.8 |
| | | 1-2years | 44 | 36.9 |
| | | 3-5 years | 30 | 25.2 |
| | | > 5 years | 19 | 15.9 |

Source own survey.

According to the general characteristics of the respondents, they characterized by their sex. Based on this, out of the total respondents 79(66%) of them are males but 40(33.44%) of the remaining ones are females this in plies that majority of the existing customers are males.

Concerning to the age distribution of the respondents 41 ( 34.4%)of them ranges their age from 18-30 years old. 38 (31.4%) of the other ones ranges on the age status of 31-42. Apart from this 25 (16.6o%) of the respondents ranges their age on the interval of 43-54 . finally 5 ( 4.2%) of the respondents ages their age > 55 years old .Which may indicates that majority of the institution customer's ranges their age 18-30 who are the targeted population in the employment rang or young's. This is its case the institutions have young employees which have the power of effective productivity.

With regard to the educational status of the respondents 3 ( 3.5%) of them are masters degree holders, 37 (30%) of the respondents holds the $1^{st}$ degree educational status. .Majority of the respondents ( 33.6%) of them are diploma holders. At last but not least 39 (32.7% )of the respondents are certificate holders. This presentation indicates that majority of the customers have on educational status of certificate which can help to the credit management of the institution by training and fallow up of the customers easily

Concerning to the work experience of the respondents 26 (21.8%) of the respondents have < 1 year work experience for the officials and customers experience for the customers 44 (36.9%) of the respondents have 1-2 years of experience in the institution. 30 ( 25.3%) of the respondents on the other hand have an experience year of 2-5 years, at last but least 19 (15.9%) of the respondents have a work experience > 5 years.
Regarding to work experience of the customers majority of them have a work experience 1-2 years and this may be an indication for the profile of the customers to disburse credit.

## 3.2 The Role of the Credit Management System of the Institution in Serving the Poor

Credit management of ones institution is the indicator of ones financial institution performance whether it is positive or negative. The institution with efficient and effective credit management system is the one that have a good performance in serving the poor.

**Table 3.2 Performance indicators**

| No | Performance indicator of credit management | Existence level | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Very high | | high | | Medium | | low | |
| | | No. | % | No. | % | No. | % | No. | % |
| 7 | What are the level of performance indicator | | | | | | | | |
| | a ) Timely evaluation of credit | 25 | 22.7 | 35 | 29.4 | 45 | 37 | 14 | 117 |
| | b ) Proper Presentation of loan sections | 15 | 12.6 | 35 | 29.4 | 50 | 42.5 | 19 | 16.0 |
| | c ) Performance evaluation of creditors | 15 | 12.6 | 30 | 25.2 | 47 | 40.0 | 17 | 14.2 |
| | d ) Setting of interest rate | 16 | 13.4 | 29 | 24.3 | 40 | 33.6 | 24 | 20.1 |
| | e ) Loan defect level | 12 | 10.8 | 34 | 28.5 | 39 | 32.7 | 14 | 11.7 |

Source own survey

Based on table 3.2 the researcher takes five indicators of performance for credit management system in the institution. These are timely or on time evaluation of credits, proper presentation of credit transactions, performance evaluations of creditors setting system of interest rate and loan deficit level .Majority of the respondents respond that the timely evaluation credit by the institution fails in its medium level and it may have problems with reaction to uncollected loans.

According to the performance indicators table the expected respondents respond on the first criteria that is timely evaluation of credits, 25 ( 27.7%) of them respond that there is very high level of timely credit evaluating system, 35 ( 29.4%) of them comes with the response that there is high level of timely credit evaluation system in the institution. Apart from this the majority 37% of the respondents agree with the idea that the timely evaluation level of credit in the institution exists in its medium level at last but not least 14 (11.7 %) of the respondents comes up with the idea that the timely credit evaluation system of the institution exists in its low level. In this case the proper presentation of loan sections is in its medium level and this can be a means of problem for error in the financial transaction and poor performance of credit management.

Concerning to the second one that is proper transactions presentations 15 (12.6%) of them responses the idea that there is very high level of proper transaction presentation in the institution. 35 ( 29.4 %) of the respondents respond that there is high level of proper transaction presentation in the institution, 50 (42.5%) of them respond that the proper transaction presentation of the institution exists in its medium level. But, 19 ( 16.%)of the respondents agree with this criteria exists in its low level in the institution. In this regarded the institution have medium level of standards and needs to Improve in order to identify the potential and targeted customers.

With regard to the third criteria that is performance evaluation of creditors, 15 ( 12.6 % )of them responds that there is very high level of evaluation of creditors performance, 30 ( 25.2%) of the other ones comes up with the response that there exists a high level of performance evaluation of creditors in the institution, 47 (40 %) of the respondents responded that there is medium level of creditors performance evaluation as a means of credit management indicator in the institution. But, 17 (14.25%) of the respondents comes up with the idea that there is low level of performance evaluation of creditors in the institution. Presentation of loan indicates with the medium level of performance in setting interest rate. This medium level can challenge the capacity of customers to repayment purpose.

Concerning to the fourth criteria that is setting of interest rate, 16 (13.4 %) of them agrees with the existence of very high setting of interest rate. 29 (24.3 %) of the other respondents respond that there is high level stetting of interest rate in the institution Apart from this 40 (33.6 % )of the respondents respond that there is medium level of reasonable setting of interest rate in the institution. But, 24 ( 20.1%) of the respondents agree with the existence of law level of setting of reasonable interest rate in the institution. This presentation shows the institution have high level interest rate which is the critical obstacle for the credit management of the institution.

The last criteria that is low defect level of creditors, 12 (10.8%) of them responds that there is very high level of low defect level existence in the institution. 34 (22.5%) of the other one comes with the idea that there is high level of low deficit level in the institution and 39 (32.7%) of the respondents agree with the existence of medium level of loan deficit level in the institution. At last but not least the institutions deficit level existed at good situation or it have low level of loan deficit level. These indicates that shortage of fund have high determination in the credit management of the institution which is the core obstacle of the institution.

### 3.3 . Determinates of the Institution in its Credit Management

In doing any activity there are reasonable determinants. The institution have also its own determinants in delivering and managing its credit.

**Table 3.3 determinants of credit management in the institution**

| Item No. | Item | Degree of determination | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Very high | | High | | Medium | | Low | |
| | | No. | % | No. | %/ | Number | % | No. | % |
| 8 | What are the main short comes? | | | | | | | | |
| | a ) Shortage of fund | 40 | 33.6 | 32 | 26.8 | 28 | 23.5 | 19 | 15.9 |
| | b ) Poor Management | 28 | 23.5 | 30 | 25.2 | 46 | 38.6 | 15 | 12.6 |
| | c ) Risk lending system | 20 | 16.8 | 26 | 31.8 | 54 | 45.3 | 19 | 15.9 |
| | d) Low capacity of creditors | 36 | 30.2 | 42 | 35.2 | 26 | 21.8 | 15 | 12.6 |

Source own survey

Based on the above table the main determinants of credit management in the institution are shortage of fund, poor management system ,risk lending system and low capacity of creditors. According to this the respondents have respond on each level of determination of the above stated problems.

With regard to the first determinant that is shortage of fund, 40 (33.6% )of the respondents respond that there is high determination the problem in the credit management of the institution. 32 ( 26.8%) of the other respondents respond that there is high level of determination to the activity of credit management of the institution. Apart from this 46 ( 38.6%) of the respondents respond that there is medium level of determination power in the credit management system of the institution. But, 15 (12.6 %) of the respondents respond that the power of determination of this shortage of fund in the credit management activity of the institution so low. From the presentation the poor management systems have medium level of determination and this is the one that can be solving in ternary.

With regard to the second determinant that is poor management system, 28 ( 23.5 %) of the respondents respond that there is very high degree of determination of the credit management system due to the existence of the problem, 30 (25.2 %)of the other respondents comes up with the degree of determination of the problems to the credit management is high. On the other hand 46 (38.6 %) of the respondents respond that the degree of determination of poor management system of the institution to the credit management activity have medium level of determination, At last but not least 15 ( 12.6 %) of the respondents respond that this poor management system have low level of determination to the credit management performance of the institution. This indicates the stated determination have medium level of determination to the credit management status and is the way that raiser from poor level of investigation in creditors back ground and capacity.

With regard to the third determinant that is risky lending system, 20 (16.8 %) of the respondents respond that this type of determinant have high level of determination to the credit management system of the institution. On the other hand 26 ( 21.8 %) of the respondents also respond that the level of determination of this determinants exists in a high level determination. 54 (45.3 %) of the respondents on the other hand respond that the level of determination of this problems to the status of credit management of the institution exists in its medium level. 19 (15.9 %) of the respondents comes up with the response that the level of determination of this problem to the credit management system of the institution exists in its low level. The indicators are that the determination power to the credit management of the study is high and it is the result of poor performance supervision and follow up.

With concern to the financial determinant that is low capacity of the institution, 36 (30.2%) of them responds that the level of determination of this problem to the credit management system of the institution is very high. 42 ( 35.2 %) of the respondents on the other hand respond that the level of the determination of this problem to the credit management existed in a high level 26 (21.8 %) of the other ones responds that the level of the determination of this problem exists in its medium level. At last but not least 15 ( 12.6 %) of the respondents agree with the low level of determination. This presentation indicators frequency of identifying of customers performance is in some times case. This is the Mali failure in identifying customers back ground and potential.

### 3.4 The Credit Management Evaluation Condition of the Institution

Evaluation of Credit Management serves to identify the weakness and strengths of the activity in the day to day management system.

**Table 3.4 Credit Management and Mechanism of the Institution**

| Item No. | Evaluation mechanisms | Frequency of the evaluation | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Usually | | Some times | | Annually | | Rarely | |
| | | No. | % | No. | % | No. | % | No. | % |
| 9 | What are the evaluation mechanism? | | | | | | | | |
| | a)Identifying of customers performance before giving credit | 5 | 17.3 | 10 | 34.5 | 8 | 28 | 6 | 20 |
| | b)Providing training to customers how to use the loan | 9 | 31 | 11 | 38 | 5 | 17.3 | 4 | 13.7 |
| | c)Evaluating credit amount and type of business | 8 | 27.6 | 9 | 31 | 7 | 24 | 5 | 17.2 |
| | d)Estimating time of repayment | 4 | 13.8 | 6 | 20.6 | 9 | 31 | 10 | 34.4 |

Source own survey

Note: this response is based on the officials found management bodies response.

Based on the above table the researcher take four different evaluation mechanisms that employee in the institution. These are identifying of customers performance before giving credit. Providing training to customers has to use it. Evaluating credit amount and type of business and estimating time of repayment.

Concerning to the first evaluation mechanism that is identifying of customers performance before giving credit out of the total 29 respondents 5 (r 17.3%) of them responds that there is usual identification of customers performance before giving credit in the institution, 10 (34.5%) of the employee and management body respondents respond that the identifying of customers performance before giving credit is implemented in some times in the institution. On the other hand 8 ( 28 %) of the respondents agree with the annual existence of the mechanism in the institution, but 6 (20.6%) of the respondents respond that the implementation of this mechanism in the institution is rarely. This presentation indicted the providing training to customer how to use the loan is in some times and this is the one that builds the capacity of customers and must render usually.

With regarded to the second evaluation mechanism that is providing training to customers how to use the credit. Out of the total 29 employee and management officials 9 ( 31. %) of the implements usually in the institution,, 11 ( 38 %) of the respondents respond that this mechanism implements in some times in the institution, on the other hand 5 ( 17.3 %) of the respondents respond that there is nauall evaluation of the mechanism in the institution. Out of the total 29 employee and management officials 4 (13.7 %)of the respondents comes up with the idea of the rarely implementation of the mechanism in the institution. The above presentation indicates the institution performance in evaluating credit amount and type of business is medium level. But it is the one that must be improve to get reliable customers.

The third criteria that is evaluating credit amount and type of business, out of the total 29 employee management respondents, 8 ( 27.6 %) of them agrees with the usual existence of the mechanism as an evaluation mechanism in the institution . On the other hand 9 ( 31 %) of the respondents agrees with the idea that the above mechanism is in implemented in some times. Apart from this 7 (24 % )of the respondents respond that the are usual implementation of the mechanism in the institution as a means of credit evaluating system. 5( 172 %) of the other ones also agrees with contrast that there is rarely implementation of the mechanisms in the institution. The above presentation indicates estimating time of repayment is rarely. Which indicates the time of repayment of the loan is unknown by the customers.

Finally, the respondents also respond on the idea of estimating time of credit repayment. Bases on this out of the total 29 employee and management body respondents 4 ( 13.8 %) of them agrees with the usual existence of the mechanism and 6 (20.6 %) of the respondents agree with the some times existence of the mechanism as an evaluation mechanism in the institution. Further more, 9 (31 %) of the respondents respond that there is annual implementation of this mechanism in the institution. Finally 8 ( 27.5 %) of the institution agree with the rarely existence of the means of evaluation in the institution. This indicates that the institution highly concerning the customers back ground in providing credit rather than other characters in.

3.5. The institution’s lending criteria and their effect in the credit management performance of the institution

Lending criteria are the pre-conditions of credit availability to customers. On the other hand lending criteria have a decisive role for the effective repayment of these disbursed loans.

## 3.5 The Institution’s Lending Criteria and their Effect in the Credit Management Performance of the Institution

Leanding criteria are the pre-conditions of credit availability to customers. On the other hand lending criteria have a decisive role for the effective repayment of these disbursed loans.

**Table 3.5 Lending criteria of the institution**

| Item No | Existence of lending criteria | Yes | | No | |
|---|---|---|---|---|---|
| | | No. | % | No. | % |
| 14 | What are the leanding criteria? | | | | |
| | a) Historical back ground of creditors | 90 | 69.8 | 29 | 30.2 |
| | b) Amount of loan | 60 | 47 | 82 | 53 |
| | c) Type of business | 80 | 62 | 62 | 48 |
| | d) Type of repayment | 60 | 46.5 | 82 | 63.5 |

Source: own survey

Based on the above table the lending criteria for ones small and micro credit institution are historical background of creditors, amount of loan type of business and type of or time of repayment. Based on this out of the total respondents, 90 ( 69.8 %) of the respondents agree with the existence of historical background of creditors as a means of lending criteria in the institution. But 29 ( 30.2 %) of the respondents did not agree with the existence of the criteria in the institution. This indicates the amount of loan gets a considerable intention in providing credit in the institution.

Concerning to the second idea that is amount of loan 60 ( 47 %) of the respondents respond that this system existed in the institution a means of lending criteria.

With regard to the third one that is type of business activity, 80 (62 %) of the respondents agree with the existence of this criteria as a means of sounding criteria in the institution but, 62 ( 48 %) of the respondent did not agree with this existence. The above presentation indicates the institution highly conceders type of business as consider abut criteria.

The respondents also responds their idea concerning to the existence of type or time of repayment as a means of lending criteria. Based on this out of the 119 respondents 60 ( 46.5 %) of the respondents agrees with the existence of the type and time of repayment as a means of lending criteria in the institution, but 82 ( 63.5% )of the respondents did not agree with its existence. This implies that time and type of repayment of the discovered credit takes a major Considerable Value in delivery a credit to customers

## CHAPTER FOUR

# 4. SUMMARY, CONCLUSION AND RECOMMENDATION

### 4.1 Summary

This chapter summarize the main findings of the study and forwards recommendation based on the conciliation. The study was designed to examine the performance of credit management of Meklit Micro Finance Institution. It was also intended to suggest possible solution to the problems identified in order to enhance successful implementation of performance evaluation of credit service management. Accordingly; the study has come up with the following findings.

- Concerning to the age distribution of the respondent majority of 32.4% of them ranges From 31-42 years old, apart from this 33.6% of the total respondents are diploma holders. 36.9% of the resonant have a work experience 1-2 years in the institution.

- With regard to the role of credit management in addressing the poor the respondents Raised their ideas on the different performance indicators 42.1% of the respondents agree with idea that the institution has medium level of proper presentation transaction its credit management system. But 20.1% of them responds with the low performance of the institution in settling of fair interest rate.

- Different determinants of the institution, credit management have also raised in the analysis part majority of 45.3% of the respondents comes with the idea that the risk of lending system of the institution have a medium level of determination impact. 40 ( 33.6%) of them also agrees with the high determination of shortage of found in the institution.

- The idea of credit management evaluation also rose as a one means of analysis concerning to this the targeted respondents are employees and management bodies based on this majority of 31% of them agrees with the usual existence of providing training to customers how to use it as a means of evaluation mechanism in the institution. 27.5% of the respondents aggress with the rarely existence of estimating time of repayment a means of evaluation mechanism in the institution.

- The institutional lending criteria and its impact to credit management of the institution is Also taking as one idea in the analysis based on this 90(69.8% )of the total respondents agree with the historical back ground of creditors as a means of lending criteria in the institution.

**4.2 Conclusion**

This research assessed the prospects and constraints of the performance evaluation of credit service management in Meklit microfinance institution. Trying to find out the problems and cause of the problem was good in order to pin point the solutions for the betterment of the of the institution. The researcher used questionnaires as main instrument to collect the relevant data from the customers, management bodies and the employees to analyze its findings. Performance of credit service management have a critical role to indicate the capacity of the institution in serving the poor society. Having this t he institution have low level of credit service management performance.

The financial institutions have number of problems . The stated institution have shortage of fund, poor credit service management system, risk leanding system and low capacity of customers, an equipped criteria for disbursing a credit have also its own critical role in managing the credit.

This researcher also suggest some solution as recommendations to over come the mentioned problems of Meklit micro finance institution with regard to build the goodwill of the institution.

### 4.3 Recommendation

So far it was tried to identify the problem and their causes. To minimize these problems in this regard some points are recommended from the solutions suggested by the respondents.

- The institution medium level of timely evaluation of credit and low performance in settling fair interest rate. This performance can challenge the performance of the institution and status of customers and should be improved through evaluating on time creditors by employing professional auditors and settling fair interest rates by conducting as research to the interest of the market.

- Budget or shortage of fund is raised as a main problem or determinant of the institution in its credit management of performance. This determinant should improve by settling proper management system, taking loan agreement with banks and other big financial institutions.

- Evaluation of credit management system is the internal strength of financial institution. This performance indicator should be improved through identifying negative side and uses these negative side as basements for the further planning of the institution and keep upping the positive side ones.

- Lending criteria have a critical role for the success of both the institution and customers. This identification of lending criteria should improve through working with the community due to the fact that the power of community have a critical value more than birr to build the financial strength of customers and lending system of the institution.

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# Appendices

## Appendix A

## ST. MARY'S UNIVERSITY COLLEGE
## BUSINESS FACULITY
## MANAGEMENT DEPARTMENT

**Questionnaires to filled by Management and workers on the performance evaluation on credit management in Meklit micro finance institution in Addis Ababa at Abenet Area Kebele 26.**

**First I would like to thank you for your willing to answer this questioner. The objective of the interest to evaluate the on going status of your institution's credit management practice and which in turn, to give recommendation for its improvement.**

**Hence, there is no correction would be made upon your answer rather it is clearly to show the level of your personal opinion to the individual enquiry. Therefore, your frank and sincere reply is highly appreciated for it will positively contribute to the validity of the data to be collected.**

**I appreciate your devotion of time and participation.**

**For the question which appear on part one and two put your answer by making (√) in the box or write your idea on the space provided. Please as much as possible do not jump the open ended question un answered.**

**Part I**

**1. SEX**

☐ **Male** ☐ **Female**

**2. Age**

☐ **18-30** ☐ **31-42** ☐ **43-54** ☐ **> 55**

**3. Educational Status**

☐ **Masters** ☐ **2nd Degree** ☐ **1st Degree** ☐ **Diploma** ☐ **Certificate**

☐ **Others Specify** ________________________

**4 . Work Experience in the MFI**

☐ **< 1year** ☐ **1-2 year** ☐ **2-5 year** ☐ **>5year**

**5. Your Job Position**

☐ **Manager** ☐ **Officer (finance)** ☐ **Department Head** ☐ **Loan coordination**

☐ **Others Specify** ________________________

## Part II Assessment on the performance of credit management.

**6. Name of the Institution** ________________________________________

**7. What is the level of performance indicator in its credit management in the Institution? Please make (√)**

| No | Performance indicator of credit management | Existence level | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Very high | | high | | Medium | | low | |
| | What are the level of performance indicator | No. | % | No. | % | No. | % | No. | % |
| | a )Timely evaluation of credit | | | | | | | | |
| | b )Proper Presentation of loan sections | | | | | | | | |
| | c )Performance evaluation of creditors | | | | | | | | |
| | d )Setting of interest rate | | | | | | | | |
| | e ) Loan defect level | | | | | | | | |

**8. What are the main short comes of poor performance during the evaluation**

☐ **Shortage of fund** ☐ **Risk leanding system**

☐ **Poor Mnagement** ☐ **Low capacity of custmet**

**9. What are the evaluation mechanisms and frequency of their evaluation? Please make (√)**

| Item No. | Evaluation mechanisms | Frequency of the evaluation | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Usually | | Some times | | Annually | | Rarely | |
| | | No. | % | No. | % | No. | % | No. | % |
| a | Identifying of customers performance before giving credit | | | | | | | | |
| b | Providing training to customers how to use the loan | | | | | | | | |
| c | Evaluating credit amount and type of business | | | | | | | | |
| d | Estimating time of repayment | | | | | | | | |

**10.. If your answer for question No. 7 is yes what is the mechanism?**

☐ **Identifying the customers before giving accredit**

☐ **Provides training to the customs how to use the credit**

☐ **Evaluating credit amount and type of business**

**11. What are the sources of fund for the MFI which you are managing?**

☐ **Donations** ☐ **Banks** ☐ **Loans**
☐ **Others Specify** ____________________

**12. What are the main aims and objective of the MFI**

☐ **Serving the poor**

☐ **Improving credit management performance**

☐ **Developing new entrance customers**

☐ **Others Specify** ____________________

**13. What do you observe from the institution evaluation in its credit management?**

☐ **Very high** ☐ **High** ☐ **Middle** ☐ **Low**

**14. What are the leanding criteria and their existence in the institution? Please make (√)**

| Item No | Existence of lending criteria | Yes | | No | |
|---|---|---|---|---|---|
| | | | | | |
| a | Historical back ground of creditors | | | | |
| b | Amount of loan | | | | |
| c | Type of business | | | | |
| d | Type of repayment | | | | |

**15. Who are the responsible bodies in evaluating the credit management of the institution ?**

☐ **Credit officer** ☐ **Management bodies'**

☐ **Financial officer** ☐ **Others Specify___________________________**

**16. Is there any pre loan activity or training to the costumers?**

☐ **Yes** ☐ **No**

**17.Are there any action which are taken by the MFI when borrowers are not in a position to repay their loan property ?**

**----------------------------------------------------------------------------------------------------**

**----------------------------------------------------------------------------------------------------**

**18 What did you think about the general performance of credit management of the institution?**

**----------------------------------------------------------------------------------------------------**

**----------------------------------------------------------------------------------------------------**

**Appendix B**

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1. ••

☐ ••• ☐ ••

2. •••

☐ 18-25 ☐ 26-33 ☐ 34-41 ☐ 42- 60

3. •••• •••

☐ •••/• ☐ ••••/• ☐ ••••/•

☐ •• •• •••• ____________________

4. •••••• •••

☐ ••••• ••• •••••/•••• ☐••••• ••• ••••/••••

☐•••••• ••• •••••/• ☐ •••• ••• •••••/•

☐ •• •• •••• ____________________

5. •••• •••

☐ ••• ☐ ••• •• ☐ ••••

••• 2. •••• •••• •••

6. •••• •• ____________________

7. •••• ••• ••••••• •••• ••• •• ••• •• ••

☐ < 1 ••• ☐ 1-3 ••• ☐ > 4 •••

8 ••• •••• •••• •••••• ••••

☐ •• ☐ ••••••••

9. •8•• ••• •••• •• ••• •• •••• ••••• ••• ••?

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# Declaration

I, the undersigned, declare that this senior essay/project is my original work, Prepared under the guidance of Ato Wondafrash Mulatu . All sources of materials used for the manuscript have been duly acknowledged.

Name:______________________________

Signature:___________________________

Place of Submission: ___________________

Date of Submission ____________________

This paper has been submitted for examination with my approval has the university college advisor.

Name _____________________________

Signature _________________________

Date _________________________________