Effect of Credit Management on the Financial Performance on Micro Finance Institution; *Case study on OMO Micro finance institution Southern Ethiopia*.

A Research Report Submitted to the School of Graduate Studies of Jimma University in Partial Fulfillment of the Requirements for the Award of Master of Sciences Degree in Accounting and Finance

By: Wubishet Shitaye

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

SCHOOL OF GRADUATE STUDIES

DEPARTMENT OF ACCOUNTING AND FINANCE

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Under the guidance of

Main Advisor: Abiy Getahun

Co-advisor: Mengistu Deyasa

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DECLARATION

I, the undersigned, declare that this study entitled "**Effect of credit management on the financial performance on micro finance institution; Case study on OMO micro finance Institution Southern Ethiopia"** is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the study have been duly acknowledged.

Declared by:

Name: Wubishet Shitaye

Signature: ______________________

Date: ______________________

CERTIFICATE

This is to certify that this study, "**Effect of credit management on the financial performance on micro finance institution; Case study on OMO micro finance institution Southern Ethiopia"**, undertaken by **Wubishet Shitaye** for the partial fulfillment of Master of Sciences Degree in Accounting and Finance at Jimma University, is an original work and not submitted earlier for any degree either at this University or any other University.

Research Advisor:

Mr. Abiy Getahun

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Date: ______________________________

Research Co-advisor:

Mr.Mengistu Deyasa

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Date: ______________________________

JIMMA UNIVERSITY

COLLEGE OF BUSINESS & ECONOMICS

MSC IN ACCOUNTING AND FINANCE PROGRAM

Board of Examination Thesis

Approval Sheet

Members of the Board of Examiners

As members of the Examining Board of the Final Open Defence, we certify that we have read and evaluated the thesis prepared by **Wubishet Shitaye**, entitled "Effect of Credit management on the financial performance on Micro finance institution: A case study on OMO micro finance institution Southern Ethiopia", and recommend that it be accepted as fulfilling the thesis requirements for the award of the degree in Master of science in Accounting and Finance.

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Name of Chairman	Signature	Date
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Name of Internal Examiner	Signature	Date
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Name of External Examiner	Signature	Date

JUNE, 2020

JIMMA, ETHIOPIA

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Abstract

Sound credit management is a precondition for a financial institution's stability and continuing profitability, while failing credit quality is the most frequent cause of poor financial performance and condition. As with any financial institution, the main risk in micro finance is lending money and not getting it back. The study sought to determine the effect of credit management on the financial performance of micro finance institution; case study on OMFI in Ethiopia. The study adopted a descriptive survey design. The target population of study consisted of some selected 15 branches. Entire population was used as the sample giving a sample size of size of 90 employees. Purposive sampling technique was used in sampling where the entire population was included in the study. Primary data was collected using questionnaires where all the issues on the questionnaire were addressed to the respondents by the researcher and secondary data collected from annual report 2015-2019 financial statement. Descriptive statistics were used to analyze data. Furthermore, descriptions were made based on the results of the tables. The study found that client appraisal; credit risk control and collection policy had effect on financial performance of MFI in Ethiopia. The study determine that there was strong relationship between financial performance of Micro finance Institution and client appraisal, credit risk control and collection policy. The study recognized that client appraisal, credit risk control and collection policy significantly influence financial performance of Micro finance Institution in Ethiopia. Collection policy was found to have a higher effect on financial performance and that a stringent policy is more effective in debt recovery than a lenient policy. The study recommends that MFI should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery.

Key words; Micro finance, Credit management and financial performance

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List of Acronyms

MFI	Micro finance Institution
OMFI	OMO micro finance Institution
PAR	Portfolio at Risk
ROA	Return for Asset
ROE	Return for Equity
NBE	National Bank of Ethiopia
WOR	Write-Off ratio

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Credit is one of the many factors that can be used by a firm to influence demand for its products. According to Horne and wachowicz(1998) firms can only benefit from credit if the profitability generated from increased sales exceeds the added costs of receivables. Myers, C.S. and Brealey(2003) Define credit as a process whereby possession of goods or services is allowed without spot payment upon a contractual agreement for later payment.

Microcredit is the provision of small loans to very poor people for self-employment projects that generate income. It is a new approach to fight poverty. In its heart are new financial institutions, often non-profit organizations, whose aim is to serve those people who would not have access to a loan from a traditional trading bank. Scheufler(2002).

New financial institutions have arisen that are in touch with the local community, that can obtain information about the loan taker at low cost, and that often are not only interested in profit but also on the creation of jobs, women' employment, development, and green issues. These new financial intermediaries, the MFIs, provide small loans to poor people who can offer little or no collateral assets. But the provision of such microcredit is not limited to not-for-profit organizations. Traditional financial institutions can, and often do, make loans to the deprived as part of a socially responsible investment policy.

The fact that Microfinance Institutions (MFIs) tend not to operate in the same way as traditional banks does not mean that they are not interested in profitability and efficiency issues. However, existing tools to assess the performance of traditional banking institutions may not be appropriate within this new context.

Modern microfinance is often credited to Dr. Mohammad Yunus, who began Experimenting with lending to poor women in the village of Jobra, Bangladesh during his tenure as a professor of economics at Chittagong University in the 1970s.As these financial services usually involve small amounts of money - small loans, small Savings, the term "microfinance" helps to differentiate these services from those which

Formal banks provide. Microfinance institutions provide a reliable source of financial support and assistance compared to other sources for financing. Sources operating outside the microfinance industry typically form informal relationships with borrowers and have no real legal or substantial ties with their customers. As a result, loan terms tend to carry high costs with no guarantee that lenders will remain in one place for any length. In contrast, microfinance institutions typically work alongside government organizations and also have ties with larger global organizations. As with any financial institution, the biggest risk in microfinance is lending money and not getting it back. Credit risk is a particular concern for MFIs because most micro lending is unsecured (i.e., traditional collateral is not often used to secure microloans (Churchill and Coster 2001 PP 201). The people covered are those who cannot avail credit from banks and such other financial institutions due to the lack of the ability to provide guarantee or security against the money borrowed. Many banks do not extend credit to these kinds of people due to the high default risk for repayment of interest and in some cases the principle amount itself.

Therefore these institutions required to design sound credit management that entails the Identification of existing and potential risks inherent in lending activities. Timely identification of potential credit default is important as high default rates lead to Decreased cash flows, lower liquidity levels and financial distress. In contrast, lower credit Exposure means an optimal debtors‟ level with reduced chances of bad debts and therefore financial health. According to (Scheufler, 2002), In Today's business environment risk Management and improvement of cash flows are very challenging with the rise in bankruptcy rates, the probability of incurring losses has raised.

Economic pressures and business practices are forcing organizations to slow payments while on the other hand resources for credit management are reduced despite the higher expectations. Therefore it is a necessity for credit professionals to search for opportunities to implement proven best practices. By upgrading your practices five common pitfalls can be avoided. (Scheufler, 2002)summarizes these pitfalls as failure to recognize potential frauds, underestimation of the contribution of current customers to bad debts, getting caught off guard by bankruptcies, failure to take full advantage of technology, and spending too much time and resources on credit evaluations that are not related to reduction of credit defaults.

1.2 Statement of problem

Sound credit management is a requirement for a financial Institutions stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. According to Gitman(1997) the probability of bad debit increases as credit standards are relaxed.

Firms must therefore ensure that the management of receivables is efficient and effective Such delays on collecting cash from debtors as they fall due has serious financial problems, increased bad debts and affects customer relations. If payment is made late, then profitability is eroded and if payment is not made at all, then a total loss is incurred. On that basis, it is simply good business to put credit management at the „front end" by managing it strategically.

As with any financial institution, the biggest risk in microfinance is lending money and not getting it back. Credit risk is a particular concern for MFIs because most micro lending is Unsecured (i.e., traditional collateral is not often used to secure micro loans Craig Churchill and Coster (2001)The people covered are those who cannot avail credit from banks and such other financial institutions due to the lack of the ability to provide guarantee or security against the money borrowed. Many banks do not extend credit to these kinds of people due to the high default risk for repayment of interest and in some cases the principle amount itself. Therefore these institutions required to design sound credit management that involves the identification of existing and potential risks characteristic in lending activities.

Matu (2008) carried out a study on sustainability and profitability of microfinance Institutions and noted that efficiency and effectiveness were the main challenges facing Kenya on service delivery, (Orua, 2009) did a study on the relationship between Capitals Structure and financial performance of microfinance institutions in Kenya, (Gitau, 2010) did a study on assessment of strategies necessary for sustainable competitive advantage in the Microfinance industry in Kenya with specific focus to Faulu Kenya.

(Chua etal (2000)) also found that managing credit risk is one of the basic tasks to be done in micro financial institutions, once it has been identified and known. As a result, effective and sound credit risk management is a foundation for the safe and sound operation of a micro finance institution to improve their performance. In connection with this issue, different empirical studies are conducted internationally.

The following are some of them. The studies by (Michael (2006) and Samuel , 2006)tries to touch the issue of credit risk management in some micro finance institutions in Ethiopia but they did not assess exhaustively the performance of micro finance institutions in credit management.

(Laurentis and Mattei , 2009) in their study of Lessons' recovery risk management capability shows that the development of modern reliable systems of risk management like credit scoring can enhance even more those management capabilities.

In Ethiopia, the studies by (Wolday , Zigju , and Michael , 2001,2008 and 2006)focus on progress of micro finance institutions in terms of number of clients, loan amount and number of branches the institutions have throughout the country.

Other studies by(Befikadu, 2007)outreach and financial performance analysis of MFI in Ethiopia from NBE and financial performance analysis of a sample of Micro Finance in Ethiopia (Letenah, 2009).

From, the above studies, (Letenah, 2009) have conducted financial performance analysis on the MFIs operating in Ethiopia and indicate the status of financial performance of Ethiopian MFIs.

(Fernando, 2000) Conducted research study on managing microfinance risks; some observations and suggestions stated that risk management has become more important now and its importance will continue to grow in the future.

Most of the studies have followed similar approaches they mainly focused on the overall operational performance of MFIs and assessment of credit risk management in micro finance institutions. So, that the effect of credit management on financial performance on micro finance institution were not specifically addressed in these studies.

As a result, this study is designed to fill the aforementioned gaps (particularly in OMO micro finance institution share company) having the main objective of Credit management and financial performance Profitability. Therefore, the purpose of this study is to determine the effect of credit management on financial performance in OMO micro finance institution Share Company.

1.3 Research Questions

1. What is the effect of credit management on financial performance of the institution in terms of credit appraisal?

2. What is the effect of credit management on financial performance of the institution in terms of collection policy in micro finance?

3. What is the effect of credit management on financial performance of the institution in terms of credit risk control?

1.4 Objective of the study

1.4.1 General Objective

The main aim of this study is to identify the effect of credit management on financial performance and find out the ways to manage the effect of credit management on performance of OMO micro finance institution.

1.4.2 Specific objectives

- To determine the effect of credit management on the financial performance of the institution in terms of credit appraisal.
- To examine the effect of credit management on the financial performance of the micro finance institution in terms of credit risk control.
- To find effect of credit management on financial performance of the institution in terms of collection policy in micro finance

1.5 Significance of the study

The result of this study is expected to have a great importance to evaluate Micro finance institutions in providing efficient and effective services for those who are in trouble of working capital and also expected to have the following importance. It will give constructive suggestions based on the findings in order to deliver best quality Microfinance service to OMO Micro finance institution and stake holders.

The findings of this paper also will serve as a base for other researches by providing the findings who want.

- This study helps the institutions to evaluate its financial performance and minimize some risk.

- This study was sleeked to examine the relationship between credit management and its financial performance that was experienced on the institutions.
- It enhances the knowledge of the readers on Credit managing.
- It helps the researchers to improve the skill and knowledge about the credit management and its performance.
- In order to deliver the best quality in micro finance service to micro finance institution and stake holders.
- It helps for the other researcher as a reference for more studies

1.6. Scope and Limitation of the study

1.6.1 Delimitation (Scope) of the Study

The study focused on the effect of credit management on financial performance; case study on OMO Micro finance institution in Southern Ethiopia.

It focuses on effect of credit management on financial performance used to maximize its level of profitability and how the loaning criteria influence the loan recovery and the relationship between credit management and financial performance of OMFI. To measure the financial performance and also the study used the financial statements of five years the period of 2015 and 2019.

1.6.2 Limitation of the study

The study extent is limited due to the confidentiality of the information requested from the respondents. However, assurance will be given through a letter from the University that the information obtained will only be used for academic purposes only. Besides, time limitation is another factor that would be handled through the appointment of a research assistant.

The other constraints limitation for this study was lack of similar studies have not enough to done in this topic in micro finance institution on Ethiopia.

Additionally also other limitation is cause of COVID 19 virus that would be handled the researcher time to organizing, analyzing and interpretation of the data. This constraint was leads to not to have enough and sufficient time for organizing, analyzing and interpretation of the data. So in order to mitigate the constraints researcher give her full time to accomplish the research works and to achieve the research objectives properly.

1.7 Organization of the study

The organization of this paper has five chapters. Chapter one is the introductory part of the study which consists of background of the study, statement of the problem, objective of the study, research Question, significant of the study, scope & limitations of the study. Chapter two is deals about review of related literatures. Chapter three were discusses about research methodologies which involves description of research area, research design, types and sources of data, study Population, sample design, data collection methods and data analysis and presentation. Chapter four was focuses on Data analysis and interpretation. Chapter five were giving attention on Summary of findings, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Literature review

Micro finance has evolved as an economic development approach intended to benefit low income women and men. The term refers to the provision of financial services generally include savings and credit; however, some micro finance organizations also provide insurance and payment services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus the definition of Micro finance often includes both financial inter mediation and social inter mediation. Microfinance is not simply banking it is a development tool.

Micro finance activities usually involve some loans, typically for working capital, collateral substitutes, such as group guarantees of compulsory-savings, access to repeat and larger loans based on repayment performance, streamlined loan disbursement and monitoring secure saving products. As Ledger wood stated it, Micro-finance institutions (MFls) can be non-governmental organizations (NGOs) savings and loan cooperatives, credit unions, governmental banks, or nonbank financial institutions. Micro-finance clients are typically self-employed, low income entrepreneurs in both urban and rural areas, Clients are often traders, street vendors, small farmers, service providers (hairdressers), artisans and small producers. Usually their activities provide a stable source of income (often from more than one activity). Although they are poor, they are generally not considered to be the “poorest of the poor”.

2.1.1. Concept of Credit Management

Credit management is one of the most important activities in any company and cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature. It is the process to ensure that customers will pay for the products delivered or the services rendered.

Myers and Brealey(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. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting.

Nelson(2002)Views credit management as simply the means by which an entity manages its credit sales. It is a prerequisite for any entity dealing with credit transactions since it is impossible to have a zero credit or default risk. The higher the amount of accounts receivables and their age, the higher the finance costs Incurred to maintain them. If these receivables are not collectible on time and urgent cash needs arise, a firm may result to borrowing and the opportunity cost is the interest expense paid.

Nzotta(2004)Opined that Credit management greatly influences the success or failure of commercial banks and other financial institutions. This is because the failure of deposit banks is influenced to a large extent by the quality of credit decisions and thus the quality of the risky assets. He further notes that, credit management provides a leading indicator of the quality of deposit banks credit portfolio.

A key requirement for effective credit management is the ability to intelligently and efficiently manage customer credit lines. In order to minimize exposure to bad debt, over-reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns. Credit management starts with the sale and does not stop until the full and final payment has been received. It is as important as part of the deal as closing the sale. In fact, a sale is technically not a sale until the money has been collected. It follows that principle of goods lending shall be concerned with ensuring, so far as possible that the borrower will be able to make scheduled payments with interest in full and within the required time period otherwise, the profit from an interest earned is reduced or even wiped out by the bad debt when the customer eventually defaults.

Credit management is concerned primarily with managing debtors and financing debts. The objectives of credit management can be stated as safeguarding the company's‟investment in debtors and optimizing operational cash flows. Policies and procedures must be applied for granting credit to customers, collecting payment and limiting the risk of non-payments.

2.1.2. Process of Credit Management

The process of credit management begins with accurately assessing the credit-worthiness of the customer base and his/her business viability. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. Hence, proper credit management is setting specific criteria that a customer must meet before receiving the proposed credit arrangement. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer. Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the potential customer's current financial condition, including the current credit track record that discloses the character of a customer in meeting obligations as well as collateral value. The current ratio between income and outstanding financial obligations will also be taken into consideration.

Competent credit management seeks to not only protect the bank or any financial institution involved from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner. When the process of credit management functions efficiently, everyone involved benefits from the effort. The financial institution such as banks has a reasonable amount of assurance that loans granted to a client will be paid back within terms, or that regular minimum payments will be received on credit account balances. Customers have the opportunity to build a strong relationship with the creditor and thus create a solid credit reference.

2.1.3 Financial Performance

According to the business dictionary financial performance involves measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firms return on investment, return on assets and value added. Stoner(2003) as cited in Turyahebya (2013), defines financial performance as the ability to Operate efficiently, profitably, survive, grow and react to the environmental opportunities and threats.

In agreement with this, Sollenberg and Anderson (2005) declare that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives.

Hitt,etal (1996)believes that many firms' low performance is the result of poorly performing assets. MFIs earn financial revenue from loans and other financial services in the form of interest Fees, penalties, and commissions. Financial revenue also includes income from other financial assets, such as investment income. An MFI"s financial activity also generate various expenses, from general operating expenses and the cost of borrowing to provisioning for the potential loss from defaulted loans. Profitable institutions earn a positive net income (i.e., operating income exceeds total expenses).

Today, Microfinance institutions are seeking financial sustainability. Many MFIs were restructured in order to achieve financial sustainability and finance their growth. Sustainability is defined as the capacity of a program to stay financially viable even if Subsidies and financial aids are cut off (Wool cock,1999).

It embraces “generating sufficient profit to cover expenses while eliminating all subsidies, even those less-obvious subsidies, such as loans made in hard currency with repayment in local currency” (Tucker and Miles, 2004).

Tucker and Miles (2004) studied three data series for the period between March 1999 and March 2001 and found that self-sufficient MFIs are profitable and perform better, on return on equity (ROE) and return on assets (ROA), than developing-world commercial banks and MFIs that have not attained self-sufficiency. In order to optimize their performance, MFIs are seeking to become more commercially oriented and stress more on improving their profitability; therefore self-sustainability.

2.1.4. Effect of Credit Management on Financial Performance

Credit management is the method by which you collect and control the payments from your customers. Myers and Brearley(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. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting.

A proper credit management will lower the capital that is locked with the debtors, and also reduces the possibility of getting into bad debts. According to (Edwards, 1993) Un less a seller has built into his selling price additional costs for late payment, or is successful in recovering. Those costs by way of interest charged, and then any overdue account will affect his profit. In Some competitive markets, companies can be tempted by the prospects of increased business if additional credit is given, but unless it can be certain that additional profits from increased Sales will outweigh the increased costs of credit, or said costs can be recovered through higher prices, then the practice is fraught with danger. Most companies can readily see losses incurred by bad debts, customers going into liquidation receivership or bankruptcy. The writing-off of bad debt losses visibly reduces the Profit and Loss Account.

The interest cost of late payment is less visible and can go unnoticed as a cost effect. It is infrequently measured separately because it is mixed in with the total bank charges for all activities. The total bank interest is also reduced by the borrowing cost saved by paying bills late. Credit managers can measure this interest cost separately for debtors, and the results can be seen by many as startling because the cost of waiting for payment beyond terms is usually ten times the cost of bad debt losses.

Effective management of accounts receivables involves designing and documenting a credit Policy. Many entities face liquidity and inadequate working capital problems due to tax credit standards and inappropriate credit policies. According to Pike and Neale(1999), a sound Credit Policy is the blueprint for how the company communicates with and treats its most Valuable asset, the customers.

Scheufler(2002)Proposes that a credit policy creates a common set of goals for the organization and recognizes the credit and collection department as an important contributor to the organization's strategies. If the credit policy is correctly formulated, carried out and well understood at all levels of the financial institution, it allows management to maintain proper standards of the bank loans to avoid unnecessary risks and correctly assess the opportunities for business development.

2.1.5. Micro finance in Ethiopia

In Ethiopian context, MFIs are those organizations, which are approved by the Ethiopian Government according to proclamation No. 40/1996, which established the licensing and supervision of microfinance institution as a share companies in accordance with the commercial code of Ethiopia.

The development of microfinance institutions in Ethiopia is a recent phenomenon. The proclamation, which provides for the establishment of microfinance institutions, was issued in July 1996. Since then, various microfinance institutions have legally been registered and started delivering microfinance services (Wolday et.al, 2014)The introduction of microfinance in Ethiopia has been gradual with its initiation attributed to the proclamation in 1996 (Wabekon, 2006).

In doing so, several micro finance institutions have established and have been operating towards resolving the financial service access problem of the poor in Ethiopia based in different regional states of the country. Among these micro finance institutions, OMO microfinance institute is the one, which was established in October 1997 and legally registered by the National Bank of Ethiopia by the accord of Proclamation No.40/1996. It is operating in the Southern Nations and Nationalities Peoples Regional Sate (SNNPRS) through 17 district offices and 165 branch offices in order to render its financial services of credit, saving, insurance, money transfer and micro lease.

Accordingly, OMO microfinance is one by which poor and individuals with low income levels can get the access of credit and saving in order to be involved in economic opportunity created. Hence, the primary and main objective of OMO micro finance is to provide credit and saving services to poor society or community in order to overcome the financial constraints and Expand job and economic opportunity.

Economic opportunity is a part of growing effort with in the business and development communities to make the links between business activity and poverty alleviation (Marc and Ramya, 2007). On the same year (land, 2007)gave the same meaning to Economic opportunity and explore four key strategies, companies can use to expand economic opportunity.

Among these Creating inclusive business models is the one strategy which involving the poor as employees, suppliers, distributors, retailers, customers and source of innovation in financially viable ways. In view of that, OMF institution is giving several financial services to different target groups in collaboration with different stake holders in order to make individuals with low income level to be participated in inclusive business models discovered by (Ashley, 2007).

2.1.6. Financial Performance Measures

According to (Hermes and Lensink, 2007), the financial systems approach, which emphasizes the importance of financial sustainable microfinance programs, is likely to prevail the poverty lending approach. The argument is that microfinance institutions have to be financially sustainable in order to guarantee a large-scale outreach to the poor on a long-term basis. Measuring and comparing the performance of MFI has been difficult due to both lack of publicly available financial information and differences in reporting in a mostly no regulated industry (Michael and Miles, 2007).

A myriad of financial ratios are available for assessing the performance of (MFIs CGAP, 2003) (The Seep Network and Alternative Credit Technologies , 2005)Although it is difficult to synchronize the different interpretations of all the ratios, they provide alternative Perspectives in assessing the performance of MFIs for each of the domains namely, Profitability, efficiency, leverage and risk .In essence, interpreting the determinants of MFIs‟ financial performance due cognizance should be taken of the precise focus of each Ratio.

Control variable

Depending on the previous studies in the literature, the researcher added some control variables in the models, the researcher will try to ensure that there is no exclude ding dependent variables which could affect the relationship between effect on credit management and financial microfinance Performance. All the variables in the models can be defined as follows.

2.1.7. Financial Profitability

Return on Assets (ROA) falls within the domain of performance measures and tracks MFIs‟ ability to generate income based on its assets. The ratio excludes non-operating income and donations. ROA provides a broader perspective compared to other measures as it exceeds the core activity of MFIs namely, providing loans, and tracks income from operating activities including investment, and also assesses profitability regardless of the MFIs funding structure.

Return on Assets. An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment" The assets of the company are comprised of both debt and equity. Both of these types of financing are used to fund the operations of the company. The ROA figure gives investors an idea of how effectively the company is converting the money it has to invest into net income. The higher the ROA number,

Return on equity: The Return on Equity measures the Net Earnings in relation to the total Stockholders‟ Equity. The idea is that the higher the ROE, the faster the dividends will grow, and so the higher the intrinsic value. Return on Equity describes how well contributions from stockholders generated earnings for the company. A company wants to maximize its use of stockholder's equity, as it is the stockholders the company must answer to on how they spent the stockholder's money. Return on Equity basically show any dollars of earnings were generated per dollar of equity the stockholder's provided. Return on equity is the ratio of net income of a business during a year to its stockholders' equity during that year. It is a measure of profitability of stockholders investments. It shows net income as percentage of shareholder equity. Return on equity is an important measure of the profitability of a company.

Higher values are generally favorable meaning that the company is efficient in generating income on new investment. Investors should compare the ROE of different companies and also check the trend in ROE over time. However, relying solely on ROE for investment decisions is not safe. It can be artificially influenced by the management, for example, when debt financing is used to reduce share capital there will be an increase in ROE even if income remains constant (Christopher & Santosh, 2006)Return on Equity ratios is expressed by the Net income/Total Equity x100.

2.1.8. Credit Risk Exposure

The credit risk exposure (CR) is measured by the sum of the level of loans past due 30 days or more and still accruing interest namely Portfolio at Risk (PAR-30). In robustness tests we include further measures of credit risk by estimating various econometric specifications for three additional different explanatory variables; the write-off ratio (WOR) which is the value of loans written off during the year as uncollectible, as a percentage of average gross loan portfolios over the year. An additional measure of credit risk is the Risk Coverage Ratio (RC) which is measured as the Adjusted Impairment Loss Allowance/PAR>30 Days and finally Loan Loss Reserve Ratio (LLR). This is measured as the ratio of loan loss reserves to gross loans or simply put as Loan loss reserve/Value of loans outstanding. It is an indicator of how much of the gross loan portfolio has been provided for but not charged off. (Amoah-Binfoh, et.al…2005).

2.1.9 Credit Risk management Indicators

Risk and liquidity are other words for the quality of portfolio. According to (Ayayi, Ayi Gavrielet. al., 2010)there are several risk management methods are used by MFI‟s, such as sequential loans, credit scoring etc. E.g. when a borrower stops making payments on a loan, on MFI has two options. First, it can keep the loan on its books and try to collect the outstanding payments, thereby keeping the loan registered in the portfolio. Delinquent loans are tracked in the portfolio -at-risk ratios, depending on how long they have been in non-payment status.

The other option for the MFI is to decide that it cannot collect the loan and write the loan off its books. In this case the loan registers in the write off ratio, thereby reducing the loan portfolio by the remaining balance of the loan. Due to the critics on the issue of repayment, these variables are considered less valid, since many MFIs are suspected of misreporting this issue. Yet the hypothesis on the quality of portfolio is that good quality, i.e. low portfolio at risk and low write off ratio, means high profitability since the MFI s get high repayment (Ayayi, Ayi Gavrielet. al., 2010).Portfolio quality is a crucial area of performance analysis, since the largest source of risk for any financial institution resides in its loan portfolio (Wolday et.al, 2014)The loan portfolio is, by far, the largest asset and, in addition, the quality of that asset and therefore, the risk it poses for the institution can be quite difficult to measure. For microfinance institutions, whose loans are typically not backed by bankable collateral, the quality of the portfolio is absolutely crucial (Wolday et.al, 2014).

Loan portfolio is the most important asset of an MFI. Portfolio quality reflects the risk of loan delinquency and determines future revenues and an institution's ability to increase outreach and serve potential and existing clients. Many MFIs have learned how to maintain loan portfolios of very high quality. In fact, leading MFIs are typically better at maintaining a higher portfolio quality than commercial banks in many countries (Wolday et.al, 2014)

2.1.10 Portfolio at Risk (PAR)

According to the (Wolday et.al, 2014) the most widely used indicator of portfolio quality in the microfinance industry is Portfolio at Risk (PAR), which measures the portion of the loan portfolio "contaminated" by arrears as a percentage of the total portfolio. Although various other measures are used, PAR has emerged as the principal indicator. It is easily understandable, does not undertake risk, and is comparable across MFIs. A microenterprise loan is considered to be at risk if a payment on it is more than 30 days late from the due date. This rule could be much stricter due to lack of bankable collateral in microfinance (Wolday et.al, 2014).

Apart from this, PAR is also a sound measure of Credit Risk management which also provides information about portfolio quality of a firm. It tries to measure the amount of loan outstanding that an MFI stands to lose in case an overdue client does not pay a single installment from the day of calculation of PAR. PAR is the proportion of loan with overdue clients to the total loan outstanding of the organization. Portfolio at risk > 30 days, which has replaced the repayment rate, is the leading measure of loan portfolio quality, following the lead of traditional commercial banks. This relatively new and valuable measure of loan portfolio quality compares the remaining outstanding balance of loans with at least one installment overdue for a specific period, here 30 days, to the total loan portfolio. In microfinance, 30 days is a common breakpoint (Wolday et.al, 2014)PAR is calculated as: PAR = (Outstanding balance on arrears over 30 days + Total gross outstanding Refinanced (restructured) portfolio) / Total outstanding gross portfolio

2.1.11 Write-Off ratios (WOR)

In addition to PAR, (Wolday et.al, 2014)has also included Write-Off ratio (WOR). According to (Stauffenberg& Ramirez , 2003)WOR is a significant indicator of portfolio quality. This indicator simply represents the loans that the institution has removed from its books because of a substantial doubt that they will be recovered. The writing off of a loan is an accounting transaction to prevent assets from being unrealistically inflated by loans that may not be recovered. The writing off of a loan affects the gross loan portfolio and loan loss reserves equally. So unless provision reserves are inadequate, the transaction will not affect total assets, net loan portfolio, expenses or net income. Write-offs have no bearing whatsoever on collection efforts or on the client's obligation to repay.

Some institutions will take aggressive write-offs to attempt to sanitize their portfolios. They will then show a low portfolio at risk, and only the write-off ratio will allow an analyst to detect that this improvement is more apparent than real (Stauffenberg& Ramirez , 2003). Other MFIs, particularly NGOs resist writing off their seriously delinquent loans because, they argue, collection efforts continue.

Write-off policies vary widely among MFIs. For example, (Stauffenberg& Ramirez , 2003)writes off loans if they have been delinquent for 90 days. The write-off ratio is therefore better understood in the context of the portfolio at risk of an institution. In fact, its main purpose is to serve as a control indicator that will allow better understanding of portfolio at risk. Write Off is the final thing the MFIs do to remove the persistently overdue accounts from the books of accounts of MFIs. In the write off the outstanding balance of the overdue accounts are reduced by making book adjustment drawing the balance from the Loan Loss Reserve. Thus after the write off, equal amount (equivalent to the overdue loan amount getting written off) is reduced both from asset side and liability side of the balance sheet (Wolday et.al, 2014)). Writing-off of loan is and accounting transaction to prevent assets from being unrealistically overstated with loans that may not be recovered . Write-Off ratio is calculated as follows: WOR = Write-Off amount for a given period/ Average gross portfolio (Wolday et.al, 2014).

2.1.12 .Loan Loss Provision Ratio (LLPR)

LLPR, This measure gives an indication of the expense incurred by the institution to anticipate future loan losses (Stauffenberg& Ramirez , 2003)One should expect this expense to increase in step with overall portfolio growth. For formalized MFIs, local banking and tax laws will prescribe the minimum rate at which they must make provisions to allow for loan losses. NGOs on the other hand can follow a wide variety of practices, including making no provisions at all (this is rare), provisioning a certain percentage of new loans, or relating provisions to the quality of the portfolio. Loan Loss Provision Ratio or LLPR is a percentage (%) that reflects accumulated provision expenses (minus write-offs) and gives an indication of the management's expectation of future loan losses. It is a rough indicator of the overall quality of the portfolio, and it represents the loan loss reserve amounts maintained by an MFI to offset the default risk in its total (outstanding) loan portfolio. LLPR can be calculated using the following formula; LLPR = Principal Amount Written off during Period Average Outstanding Loan Portfolio. (Ramesh S. Arunachalam , 2006).

Credit Management Variables

Key Credit management variables include;

2.1.13. Client Appraisal

The first step in limiting credit risk involves screening clients to ensure that they have the willingness and ability to repay a loan. Microfinance Institutions 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. These 5Cs are: character, capacity, collateral, capital and condition.

Character, refers to the trustworthiness and integrity of the business owners .it's an Indication of the applicant's willingness to repay and ability to run the enterprise.

Capacity, assesses whether the cash flow of the business (or household) can service loan repayments.

Capital, Assets and liabilities of the business and/or household.

Collateral, Access to an asset that the applicant is willing to cede in case of non-payment, or a guarantee by a respected person to repay a loan in default.

Conditions -A business plan that considers the level of competition and the market for the product or service, and the legal and economic environment the 5Cs need to be included in the credit scoring model. The credit scoring model is a classification procedure in which data collected from application forms for new or extended credit line are used to assign credit applicants to „worthy‟ or „bad‟ credit risk classes (Constantinescu et al., ., 2010). Inkumbi, (2009) notes that capital (equity contributions) and collateral (the security required by lenders) as major stumbling blocks for entrepreneurs trying to access capital. This is especially true for young entrepreneurs or entrepreneurs with no money to invest as equity; or with no assets they can offer as security for a loan.

Any effort to improve access to finance has to address the challenges related to access to Capital and collateral. One way to guarantee the recovery of loaned money is to take some Sort of collateral on a loan. This is a straightforward way of dealing with the aspect of Securing depositors‟ funds.

2.1.14 Credit Risk Controls

Key Credit controls include loan product design, credit committees, and delinquency Management. (Churchill and Coster,2001).

- **Loan product design**

MFIs can mitigate a significant portion of default risk by designing loan products that meet client needs. Loan product features include the loan size, interest rate and fees, repayment schedule, collateral requirements and any other special terms. Loan products should be designed to address the specific purpose for which the loan is intended. (Amoah-Binfoh et.al., 2005).

- **Credit Committees**

Establishing a committee of persons to make decisions regarding loans is an essential control in reducing credit (and fraud) risk. If an individual has the power to decide who will receive loans, which loans will be written off or rescheduled, and the conditions of the loans, this power can easily be abused and covered up. While loan officers can serve on the credit committee, at least one other individual with greater authority should also be involved. The credit committee has the responsibility not only for approving loans, but also for monitoring their progress and, should borrowers have repayment problems, getting involved in delinquency management. (Amoah-Binfoh et.al., 2005).

- **Delinquency Management**

To minimize such delinquency MFIs can use the following delinquency management methods Institutional Culture: A critical delinquency management method involves cultivating an institutional culture that embraces zero tolerance of arrears and immediate follow up on all late payments. MFIs can also remind clients who have had recent delinquency problems that their repayment day is approaching.

- **Client Orientation**

A logical first step toward developing a zero-tolerance institutional culture is to communicate this concept to each new client before she receives a loan.

- **Staff Incentives**

Creating staff involvement in discouraging delinquency, through a staff incentives system, can be effective. Delinquency Penalties: Clients should be penalized for late payment. This could include delinquency fees fixed to the number of days late and limiting access to repeat loans based on repayment performance.

- **Loan Rescheduling**

Given the weakness of the target market, it is common for borrowers to be willing but unable to repay. After carefully determining that this is indeed the case it may be appropriate to reschedule a limited number of loans. Only done under extreme circumstances, this may involve extending the loan term and/or reducing the payment size.

2.1.15 Collection Policy

There are various policies that an organization should put in place to ensure that credit management is done effectively; one of these policies is a collection policy which is needed because all customers do not pay the firms bills in time. Some customers are slow payers while some are non-payers. The collection effort should, therefore aim at accelerating collections from slow payers and reducing bad debt losses (Kariuki, 2010)

2.2. Empirical Review

Pyle, (1997) In his study on bank risk management held that banks and similar financial Institutions need to meet forthcoming regulatory requirements for risk measurement and Capital. However, it is a serious error to think that meeting regulatory requirements is the sole or even the most important reason for establishing a sound, scientific risk management system. It was held, managers need reliable risk measures to direct capital to activities with the best risk/reward ratios. They need estimate of the size of potential losses to stay within limits imposed by readily available liquidity, by creditors, customers and regulators. They need mechanisms to monitor positions and create incentives for prudent risk taking by divisions and individuals. Nagarajan, (2001)in his study of risk management for microfinance institutions in Mozambique found that risk management is a dynamic process that could ideally be Developed during normal times and tested at the wake of risk. It requires careful planning and commitment on part of all stakeholders. It is encouraging to note that it is possible to minimize risks related losses through diligent management of portfolio and cash-flow, by Building robust institutional infrastructure with skilled human resources and instructing Client discipline, through effective coordination of stake holders.

Achou and Tenguh , (2008) Also conducted research on bank performance and credit risk management found that there is a significant relationship between financial institutions performance (in terms of profitability) and credit risk management (in terms of loan performance). Better credit risk management results in better performance. Thus, it is of crucial importance that financial institutions practice prudent credit risk management and safeguarding the assets of the institutions and protect the investor's "interests. This is also true for micro finance institutions. Method used by the researchers is mixed research method. Matu, (2008) Carried out a study on sustainability and profitability of microfinance Institutions and noted that efficiency and effectiveness were the main challenges facing Kenya on service delivery.

Soke Fun Ho and Yusoff(2009) in their study on credit risk management strategies of selected financial institutions in Malaysia the majority of financial institutions and banks losses stem from outright default due to inability of customers to meet obligations in relation to lending, trading, settlement and other financial transactions. Credit risk emanates from a bank's dealing with individuals, corporate, financial institutions or sovereign entities. A bad portfolio may attract liquidity as well as credit risk.

The aim of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable boundary. The efficient management of Credit risk is a vital part of the overall risk management system and is crucial to each bank's bottom and eventually the survival of all banking establishments. It is therefore important that credit decisions are made by sound analyses of risks involved to avoid harms to bank's profitability. They held effective management of credit risk is an essential component of a comprehensive technique to risk management and critical to the long-term success of all banking institutions.

Orua, (2009) Did a study on the relationship between capital structure and financial Performance of microfinance institutions in Kenya it 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, both short and long term debts showed expected results but were not significant indicating that maturity may not necessarily be of essence. Generally highly leveraged MFIs were found to perform better by reaching out to more clients. It was also revealed that such MFIs also enjoyed economies of scales and therefore were better able to deal with moral hazards and adverse selections which also enhanced their ability to manage risks.

Sindani, (2012) in her study on Effectiveness of Credit Management System on Loan Performance: Empirical Evidence from Micro Finance Sector in Kenya found out that Credit Terms formulated by the microfinance institutions do affect loan performance; the Involvement of credit officers and customers in formulating credit terms affects loan Performance. Interest rates charged had a negative effect on the performance of the loans, the higher the interest rates the lower the loan performance

Alia Kagoye and Jaya Shukira,(2016) Studies research on Commercial bank Credit management and financial performance. Studies conducted research on micro finance institution on financial performance and credit risk management practice in selected financial institution the study found that client appraisal, credit risk control and collection policy had effect on financial performance of Equity bank.

Credit risk controls adopted by microfinance institutions have an effect on loan performance, credit insurance, signing of covenants with customers, diversification of loans, credit rating of customers, reports on financial conditions, refrain from further borrowing had an effect on loan performance. Collection policies adopted by microfinance institution had an effect on loan performance, stringent policy had a great impact on loan performance, and the lenient policy had an effect but was not as great as that of stringent policy.

There are some studies conducted on the financial performance of credit management and related issues of MFIs operated in Ethiopia. Some of the studies, which are found more relevant to this particular study, are reviewed as follows.

Deje.A,(2019) Studies conducted research on micro finance institution on financial performance and credit risk management practice in selected financial institution .the study found that there is a significant relationship between financial performance (in terms of profitability) and credit risk management (in terms of financial performance). Update their credit risk management practice more and more in order to improve their financial performance.

Yebabie,(2017). Studies research on micro finance institutions financial performance and credit risk management on Addis credit and saving institutions. Study found that there is strong relationship between credit risk management of MFIs and client appraisal, credit risk control and collection policy by adapting a more stringent policy to a lenient policy for effective debit recovery.

Belayinesh, (2016) Conducted research on micro finance Institutions financial performance analysis on selected micro finance institutions. The study shows that Ethiopian MFIs financial performance on financial sustainability and profitability, efficient and productivity .MFIs to adjust their loan loss reserve as per their PAR value and good performing better in their capital structure and asset allocation.

Zewude, (2016)Conducted research on micro finance institutions performance credit management practices in micro finance institutions in Ethiopia Addis credit and saving institutions (ADCSI).the study found assessing the effectiveness of credit management systems on loan performance of micro finance institutions on selected institutions. Frequently follow up and supervision, loan period, giving them a discount, increasing the penalty rate and discretionary limits affecting the performance of credit management.

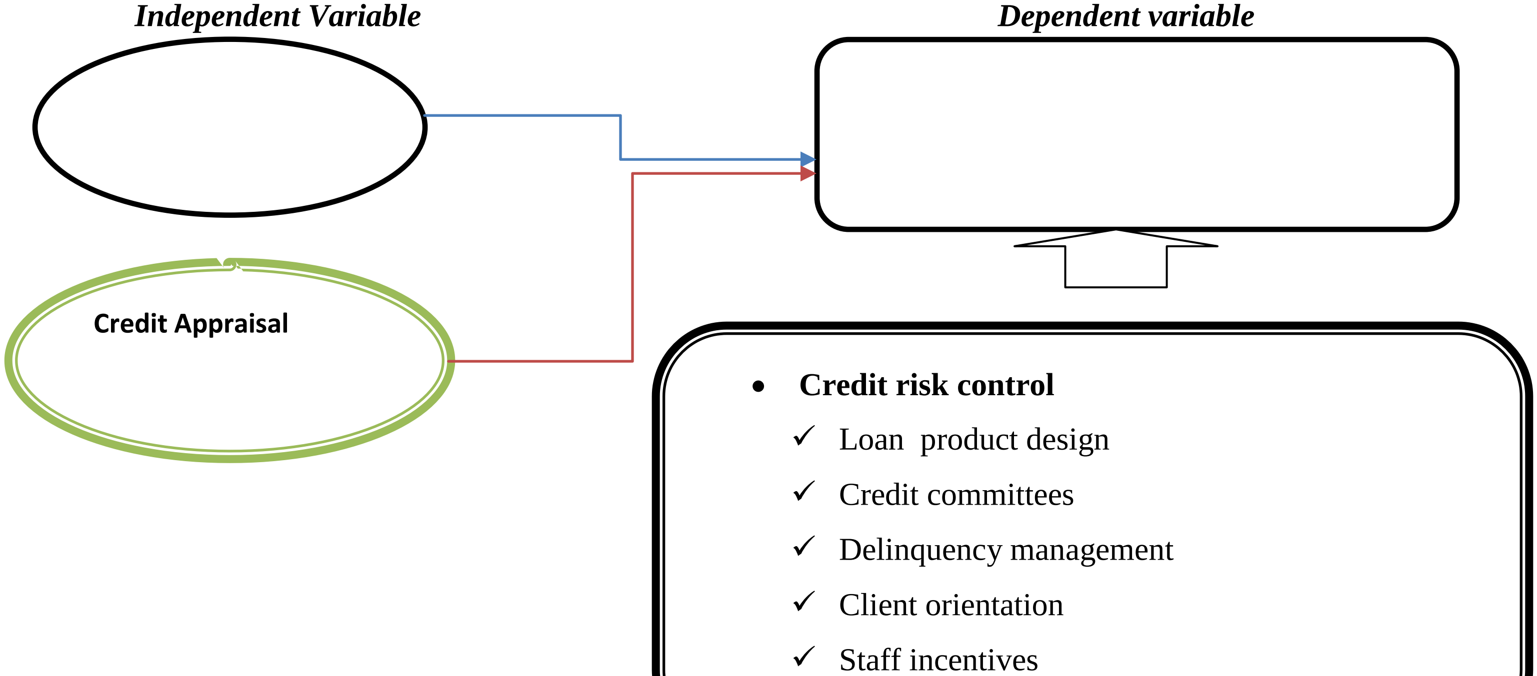
This chapter begun by providing a brief discussion on key theoretical approaches and findings reported in prior related studies on credit risk management and administration and money related financial performance, and also concentrated on empirical facts of credit management on the financial performance .the recent studies that have been done on micro finance and credit management have not concentrated on the effect of credit management on the financial performance of MFIs in Ethiopia ,therefore a gap in the empirical evidence available .this study seeks to bridge the gap. This study is different from other studies by the following aspects. First, the study has used most recent data of omo micro finance institution from the year (2015 - 2019). Second, the performance indicators were used both for ROA and ROE. In general, the lack of sufficient research on credit management and financial performance in the context of Ethiopia and the existence of knowledge gap in the area initiate this study.

Based on the above stated objective of this study is conducted to identify the effect of credit management on micro finance institution at Ethiopia ;A case study on OMFI(omo micro finance institution) that have been determine the effect of credit of credit management on the financial performance.

2.2.1 Conceptual frame work variables

The figure below demonstrates how different objectives relation towards achieving the objective of the study

Independent Variable ***Dependent variable***



Source (developed by researcher from reviewed literature) 2020.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Description of the Study area

The selected microfinance institutions used as case studies of omo micro finance Institution (OMFI) in the southern regions of Ethiopia .One of the criteria of selecting these OMFI is to capture the activities of MFI which work in both rural and urban areas. Moreover, the OMFI was established in 1997, as part of the national food security programmed by the regional government. Based on a broad federal food security objective of poverty alleviation through intensification of economic growth, the development of financial markets is one of the strategic interventions that the government has put in place. With this background, the OMFI was established to promote access to finance in the region particularly in rural areas. The shareholders of the institutions are the regional government, (owning 80% of the share); local NGOs (19.5% of the share) and individuals (0.5% of the share). Currently, the Omo micro finance Institution is operates at 15 main District and 165 branches of southern nations, nationalist and people's regional state (OMFI 2019). This research study was conduct to determine the effect of credit management on financial performance in case of omo micro finance institution for the period covering from / 2015 - 2019/. It consists of research design, sampling procedure &sample size, types of data and instruments of data collection, and methods of data analysis.

3.2. Research Design

The study adopted a descriptive survey design. The descriptive research design is used the purpose fact-finding enquires of different kinds. The object of descriptive research is to gain an accurate profile of events, persons or situations. It helps in obtaining information concerning the current status of a situation to describe what exists with respect to variables or conditions in the situation under investigation. This technique was appropriate as it involved a careful and in depth analysis of the effect of credit management on the financial performance of Micro finance Institution; Case study on OMO Micro finance Institution Southern Ethiopia.

3.3. Source of Data

Data was obtained from primary sources through the use of questionnaires and interview guide.

This was to help ascertain views and opinions pertaining to the topic under investigation.

Secondary sources of data were gathered from the financial statement of accounts and from annual report from 2015 to 2019 in order to carry a trend analysis to help provide a more comprehensive effect of credit management and their effect on financial performance over a period of time.

3.4. Types of Data

The primary data; were collected by using both close and open ended questionnaire and semi structured interviews. The closed ended questions were used to test the rating of various attributes and this helped in reducing the number of related responses in order to obtain more varied responses. The open-ended questions provided additional information that may not have been captured in the close-ended questions.

Semi structured interview refers to the use of already prepared questions during the study Interview schedule has been held based on the predefined schedule. Before proceeding to any interview session, interviewees have been made to get additional information on the purpose of the session as well as confidentiality matters.

Secondary Data; At the first stage, the investigator reviewed available secondary data and details, with the official documents in the institution and directly responsible institution's offices, which are helpful in identification of relevant attributes for the purpose of the study. In addition, the researcher exhaustively investigated and used secondary data from the financial statements, annual report and personal ledger (Loan documents). Besides, as reference material OMFI S.C directives, journals working paper as well as different thesis used in the study.

3.5 Target of population

Population means all the elements in a well-designed set of values. The population of this study focuses the staff of OMO Micro finance Institution in Southern Ethiopia.

The population for the study was made up of selected from 165 branches purposively15 branches. The study was done on sample size 90 respondents who were staff drawn from the credit department, branch managers, and the operation departments

3.6 Sampling Design

Currently in OMFI Share company are operating in 165 branches .from the total branches the researcher selected 15 branches based on credit defaults ,size and the amount of loan as well as outstanding and bad debit is higher than others and the selected branches are active in lending and have been in operation for relatively longer period and depending on the availability of five years financial data the researcher purposely selected 15 branches for the quantitative data required and also again selected for an interview question to collect a primary data about their credit management.

3.7 Method of Sampling

The researcher used both probability sampling method for conducting descriptive sample survey and non- probability sampling technique for undertaking qualitative study in order to generate qualitative data using semi-structured interviews. Persons were selected into a sample population by judgmental or purposive sampling from the population of employees due to the specific needs of the topic which required people who were directly involved in the credit administration and procedures of the company and who were also available at the time of carrying out the research work. The target population of the research will be employees of the institution only .The total number of employee is 90. The total number of respondents will be taken as sample by using purposively sampling technique.

This purposive sampling technique used in the study due to the familiarity with the area under investigation and their ability to furnish information readily since the researcher also required specific, accurate and appropriate information.

3.8 Sample size(s) determination.

According to black and Champion (1967), a sample is a portion of elements taken from a population, which was considered as representative of the population. According to the areas of the study, the size was selected from the staff working in credit department, Branch manager and operation department selected from15 branch as follows**:**

Table of sample determination for study

s/n	Population	Sample size
1	Staff (credit department)	60
2	Staff (branch manager)	15

3	Staff (operation department)	15
4	Total	90

3.9 Method of Data Collection

Primary data have been gathered through both questionnaire and interview. The questionnaire includes both close-ended and open-ended questions, and distributed to sample respondents involving branch managers, operation department and credit department working on loan processing were targeted for the data collection where all the issues on the questionnaire were properly addressed.

The closed ended questions were used to test the rating of various attributes and this helped in reducing the number of related responses in order to obtain more varied responses. The open-ended questions provided additional information that may not have been captured in the close-ended questions.

Semi structured interview refers to the use of already prepared questions during the study Interview schedule has been held based on the predefined schedule. Before proceeding to any interview session, interviewees have been made to get additional information on the purpose of the session as well as confidentiality matters.

The secondary data from the financial statements included the after tax profit, total assets, Write off debt, and value of loans outstanding from annual report 2015-2019.

3.10 Data Validity and Reliability

Internal validity in connection to data alludes to the capacity of your survey questions to quantify what you plan it to gauge. It alludes to the concern that what the researcher finds with the survey is a fair representation of what is being measured (Saunders et al, 2012). The survey questions were deliberately composed and tried with a couple of individuals from the population for further upgrades. This was done with a specific end goal to improve the legitimacy and precision of the data that was being gathered for investigation and further analysis as well as ensure validity of data.

Reliability refers to consistency. It measures the level of variance of actual results from expected results from the research tool that has been adopted. The tendency towards consistency found in repeated measurements is referred to as reliability. One method of testing for reliability is the internal consistency method. Internal consistency involves correlating the responses to questions in the questionnaire with each other. (Saunders et al, 2012).

3.11 Method of Data analysis

The primary data that have been collected through questionnaire were edited, codded, tabulated and finally analyzed using the Statistical Package for the Social Sciences (SPSS) software. The main characteristic of Descriptive statistics method is used to analyze data like table and percentages. Furthermore, descriptions were made based on the results of the tables.

3.12 Analytical Model Specifications

Before preparing the data analysis the complete questionnaires were already for columniation and consistency. The information was coded to enable analysis, the finding were displayed utilizing tables, and organizations and rates.

For this study, the researcher was interested in identify the effect of credit management on financial performance; Case study on OMFI (omo micro finance institution) in Southern Ethiopia.

The model used in the study was taking the form below.

$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + ę$

Where: **Y= Financial Performance as measured by ROA**

α= Constant Term

β= Beta Coefficient –This measures how many standard deviations a dependent variable will change, per standard deviation increase in the independent variable**.**

X1= Client Appraisal

X2= Credit risk controls

X3= Collection policy

ę= Error term

3.13. Definition of variables

Dependent variables

Financial performance; is involves measuring the results of a firm's polices and operations in monetary form.

Independent variables

1. **Client appraisal**; is the first step in limiting credit risk involves screening clients to ensure that they have the willingness and ability to repay loans (Coster C. a., (2001)

2. **Credit Risk control**; is a significant portion of default risk by designing loan products that meet client needs.

3. **Client Policy**; is a policies that an organization should put in place to ensure that credit management is done effectively. Also is aim at accelerating collection from slow payers and reducing bad debit losses (kariuk, 2010)

CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field survey on the effect of credit management on the financial performance of Microfinance Institutions in the case of OMO micro finance institution . Descriptive and inferential statistics were used to discuss the findings of the study. The study targeted a population size of 90 respondents from which 90 filled in the questionnaires making a response rate of 100.%. This response rate was satisfactory to make conclusions for the study

4.2 Data Analysis

4.2.1 General Information

Table 4.1 Gender

	Frequency	Percentage
Male	79	87.8
Female	11	12.2
Total	90	100

Source: SPSS Output from Survey Data, 2020

The study sought to determine the gender which the MFI had been in existence in the organization, from the findings 87.8 % of the respondents indicated males and the remaining are 12.2 % of the respondents are females.

Table 4.2: The Respondents level of responsibility in the MFI

	Frequency	Percentage
Branch manager	15	16.7
Operation department	15	16.7
Credit department	60	66.6

Total	90	100

Source: SPSS Output from Survey Data, 2020

The study sought to determine the level of respondents responsibly which the MFIs had been in existence in the organization, from the findings 66.6 % of the respondents indicated credit department ,16.7 % of respondents are indicated branch manager and the remaining are 16.7 % of the respondents are operation department.

Table 4.3: The respondents experience in the MFI

	Frequency	Percentage
Less than 5 years	16	17.8
b/n 5 to 10 years	46	51.1
b/n 10 to 15 years	21	23.3
Above 15 years	7	7.8
Total	90	100

Source: SPSS Output from Survey Data, 2020

The study sought to found the length of time which the MFI employer had been in existence in the organization, from the findings 51.1 % of the respondents indicated 5 to 10 years 23.3 % of the respondents indicated 10 to 15 years 17.8% of the respondents indicated less than 5 years whereas 7.8% of the respondents indicated for more than 15 years this implies that most of the MFI employers had been in existence for b/n 5 to 10 years.

Table 4.4 Adoption of Credit Management Practices

	Frequency	Percentage
Yes	82	91.1
No	8	8.9
Total	90	100

Source: SPSS Output from Survey Data, 2020

The study sought to determine the organizations that had adopted Credit Management practices. From the findings 91.1% of the respondents indicated that their organizations had adopted Credit Management practices, where as 8.9 % indicated that their organizations had not, this implies that a significant number of organizations had adopted the use of Credit Management practices is a factor of credit management.

4.2.2 Client Appraisal

Table 4.5: Extent to which OMFI use client appraisal in Credit Management

Extent to which OMFI use client appraisal in credit management

	Frequency	Percentage
Very great extent	32	35.5
Great extent	41	45.5
Moderate extent	17	19
Total	90	100

Source: SPSS Output from Survey Data, 2020

The study required to determine the extent to which MFIs used client appraisal in Credit Management, from the findings 45.5% of the respondents indicated to a great extent, 35.5% of the respondents indicated to a very great extent whereas 19 % of the respondents indicated to a moderate extent, this implies that most MFIs used client appraisal in Credit Management to a great extent.

Table 4.6: Level of agreement on client appraisal in MFI

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Std. deviation
Client appraisal is a viable strategy for credit management	41	49	0	0	0	4.4556	0.50081
The MFI has competent personnel for carrying out client appraisal	30	58	2	0	0	4.3111	0.51154
Client appraisal considers the character of the customers seeking credit facilities	25	63	2	0	0	4.2556	0.48716
Aspects of collateral are considered while appraising clients.	30	59	1	0	0	4.3222	0.49328
Failure to assess customers capacity to	28	61	1	0	0	4.3000	0.48459

repay results in loan defaults							

Source: SPSS Output from Survey Data, 2020

As can be seen from table 4.6 item 1 to 5 respondents were asked to indicate their level of agreement \disagreement on the importance of the practice listed as (strongly agree (5) , Agree(4),Neutral(3), Disagree (2) and Strongly Disagree (1). accordingly overall then great majority of the respondents agreed on the importance of the items listed as far as clear appraisal is concerned . from the finding majority of them respondents agreed that client appraisal is a viable strategy for credit management as shown by mean 4.45,Aspects of collateral are considered while appraising clients as shown by a mean of 4.32.Failure to assess customer capacity to repay results in loan defaults as shown by a mean of 4.30, Client appraisal considers the character of the customers seeking credit facilities as shown of 4.25 and also the MFI have competent personnel for carrying out client appraisal as shown by a mean of 4.31 .

Overall, the respondent's importance of considering the five Cs i.e. capacity, character, collateral, condition and competence of personnel while client appraisal.

4.2.3 Credit Risk Controls

Table 4.7: Extent to which MFI use credit risk control in Credit Management

	Frequency	Percentage
Very great extent	26	28.9
Great extent	51	56.7
Moderate extent	13	14.4
Total	90	100

Source: SPSS Output from Survey Data, 2020

The study sought to determine the extent to which OMFI used credit risk control in Credit Management, from the findings 28.9 % of the respondents indicated to a very great extent, 56.7% of the respondents indicated to a great extent where as 14.4% of the respondents indicated to a moderate extent, this implies that OMFI used credit risk control in Credit Management to a great extent.

Table 4.8: Level of agreement on credit risk control in OMFI

	Strongly agree	Agree	Neutral	Strongly disagree	Disagree	Mean	Std. deviation
Imposing loan size limits is a viable strategy in credit management	39	49	2	0	0	4.4111	0.53830
The use of credit checks on regular basis enhances credit management	33	51	6	0	0	4.3000	0.58923
Flexible repayment periods improve loan repayment	9	80	1	0	0	4.0889	0.32306
Penalty for late payment enhances customers commitment to loan repayment	30	60	0	0	0	4.3333	0.47405
The use of customer credit application forms improves monitoring and credit management as well	28	62	0	0	0	4.3111	0.46554
Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk	66	23	1	0	0	4.7222	0.47470
Interest rates charged affect performance of loans in the MFI	62	28	0	0	0	4.6889	0.46554

Source: SPSS Output from Survey Data, 2020

As can be seen from table 4.8 item 1 to 5 respondents were asked to indicate their level of agreement \disagreement on the importance of the practice listed as strongly agree (5) , Agree(4),Neutral(3), Disagree (2) and Strongly Disagree (1). Accordingly overall then great majority of the respondents agreed on the importance of the items listed as far as credit risk control is concerned. Specifically speaking respondents showed their agreements on the methods to use credit risk control in Credit Management. likewise Item 1, shows that majority of the respondents agreed on the fact that Imposing loan size limits is a viable strategy in credit management in the MFI as shown by mean of 4.41. Item 2, shows that the majority of the respondents agreed on the importance of credit checks on regular basis enhances Credit management as a key to carry out credit risk control in the MFI as shown by mean of 4.3.

Item 3, also shows that research finding majority of the respondents agreed on Flexible repayment periods improve loan repayment as a key for consideration in credit risk control in the MFI as shown by mean of 4.08.

Item 4, Penalty for late payment enhances customers commitment to loan repayment majority of respondents agreed in the MFI as shown by mean of 4.3 .Item 5, also shows that from research finding majority of the respondents agreed on the use of customer credit application forms improves monitoring and credit management as well in credit risk control as shown by mean of 4.31. Item 6 shows majority of respondents strongly agreed Credit committee's involvement in making decisions regarding loans are essential in reducing default in the MFI as shown by mean of 4.72. Finally Item 7 also majority of respondents strongly agreed Interest rates charged on performance of loans in the MFI as shown by mean of 4.68 a key for MFIs**.**

4.2.4 Collection Policy

Table 4.9: Extent to which MFI use collection policy in Credit Management

	Frequency	Percentage
Very great extent	27	30
Great extent	51	56.7
Moderate extent	12	13.3
Total	90	100

Source: SPSS Output from Survey Data, 2020

The study sought to determine the extent to which MFI use collection policy in Credit Management, from the findings 56.7 % of the respondents indicated to a great extent, 30% of the respondents indicated to a very great extent whereas 13.3 % of the respondents indicated to a moderate extent, this implies that MFI use collection policy in Credit Management to a great extent.

Table 4.10: Level of agreement on collection policy of MFI

	Strongly Agree	Agree	Neutral	Strongly disagree	Disagree	mean	Std. deviation
Available collection policies have assisted towards effective credit management	25	62	3	0	0	4.2444	0.50416
Formulation of collection policies have been a challenge in credit management	71	17	2	0	0	4.7667	0.47523
Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults	73	14	3	0	0	4.7778	0.49214
Staff incentives are effective in improving recovery of delinquent loans	40	50	0	0	0	4.4444	0.49969
Regular reviews have been done on collection policies to improve state of credit management	30	58	2	0	0	4.31111	0.51154
A stringent policy is more effective in debt recovery than a lenient policy	32	58	0	0	0	4.3556	0.48136

Source: SPSS Output from Survey Data, 2020

The study sought to establish the level at which respondents agreed or disagreed on the above statements relating to collection policy of MFI , with the above items relating to collection policy of MFI. From the findings majority of the respondents strongly agreed that Available collection policies, Enforcement of guarantee policies , Regular reviews on collection policies and using A stringent policy than a lenient policy have assisted MFIs collection policy towards effective credit management.

Additionally Item 2 also shows that the finding majority of the respondents strongly agreed that Formulation of collection policies have been a challenge in credit management repayment as collection policies for the institution as shows by a mean of 4.76 and also others Item 3 shows that the finding majority of the respondents strongly agreed that enforcement of guarantee policies provides chances for loan recovery in case of loan defaults as shown by mean of 4.77 ,Item 4 shows that the finding majority of the respondents agreed that staff incentives are effective in improving recovery of delinquent loans this also a key indicator on collection policy of MFI as shown by a mean of 4.44. Item 4 shows that the finding majority of the respondents agreed that a stringent policy is more effective in debt recovery than a lenient policy as shown by a mean 4.35.

Regular reviews have been done on collection policies to improve state of credit management shows that the finding majority of the respondents agreed as shown by a mean of 4.31 and the other available collection policies have assisted towards effective credit management as shown by a mean of 4.24.

Generally answers from the respondents finding agreed that well organized collection policy is a key factor for credit management.

4.2.5 Relationship between credit management and financial performance of OMFI-perceptions of respondents

This sub section focuses on the relationship between variables under study, such as credit management and profitability of MFI based on the results presented in the table 4.11.This relationship has been obtained through views and opinions of OMFI employees according to the research objectives. Concerning the views of respondents, as illustrated by the table below, for the statement that credit management help to minimize losses of MFI, majority of respondents strongly agree to the statement as shown by the mean 4.75. The credit management has no implication to the financial performance of MFI, majority of respondents strongly disagree and disagree as shown by the mean of 1.27, for the statement that credit management is an ongoing process rather than a onetime event ,majority of respondents strongly agree to the statement as shown by the mean of 4.72, for the statement that there is any relationship between the credit management and the financial performance of MFI, majority of respondent strongly agree as shown by the mean of 4.71.

Finally the extent of credit management processes had on the quality of loan portfolio on the MFI, majority of respondents strongly agree as shown by the mean 4.74.

Table 4.11 Influence of credit management on financial performance of OMFI

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean
Credit management helps to minimize losses to MFI	0	0	3	71	16	4.75
Credit management has no implication to the financial performance of MFI	66	23	1	0	0	1.27
Credit management is an ongoing process rather than a onetime event	0	0	3	19	68	4.72
Do you agree there is any relationship between the credit management and the financial performance of your institution	0	0	1	24	65	4.71
Do you agree the extent of credit management processes had on the quality of loan portfolio of the MFI	0	0	0	23	67	4.74

Source: SPSS Output from Survey Data, 2020

4.2.6 The OMFI financial performance

In the table 4.12 the section focuses on the ratio of financial performance measured by the profitability indicators as well as the credit management indicator .The profitability of the OMFI is in this study, measured by the return on Asset (ROA), the return on equity (ROE), ROA is calculated by taking total income after taxes /total average assets and ROE is calculated by taking net income after taxes /total average equity.

Table 4.12 Indicators of OMFI performance of profitability since 2015-2019 in terms of return on asset and return on equity

Performance indicators\year	2015	2016	2017	2018	2019
Return on Asset	0.0316	0.0249	0.0213	0.0172	0.0355
Return on Equity	0.2169	0.2157	0.2748	0.1661	0.0403

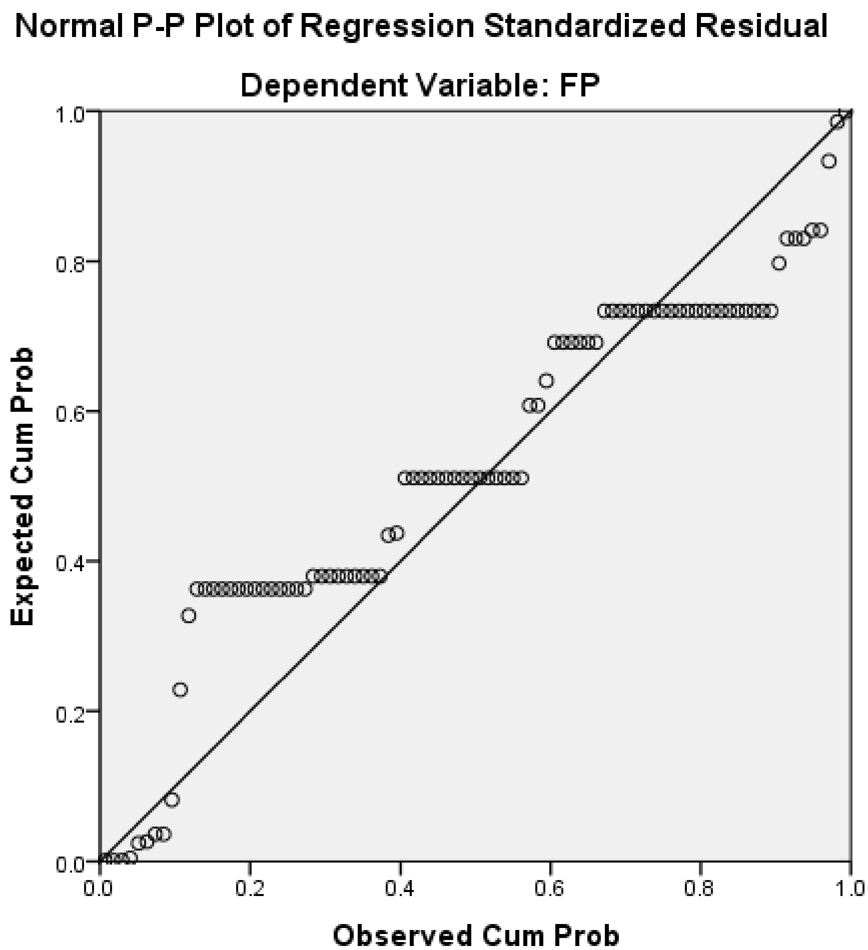
Source: Secondary data from annual report

This performance implies the return on asset and return on equity since the period of 2015-2019 in OMFI decreases performance in cause of credit management problem.

4.3. Linearity

Linearity has to with the residuals should having a straight-line relationship with predicted dependent variable scores. It describes the dependent variable as a linear function of the predictor variables. Multiple regressions can accurately estimate the relationship between dependent and independent variables when the relationship is linear in nature. If the relationship between the dependent and independent variables is not linear, the results of the regression analysis will under- or over- estimate the true relationship of the variables (Osborne & Waters, 2002). According to Stevens (2009), linearity can be best cheeked by normal p-plot residual. As shown in the figure below, the relationship between the dependent and independent variables is linear.

Figure 4.13 indicates normality of linearity



Source: SPSS Output from Survey Data, 2020

4.4 Pearson Correlation Analysis

This research is investigating the strength of relationships between the studied variables. The study Employ the Pearson correlation which "measures the linear association between two metric variables" (Hair et. al., 2008). The Pearson correlations were calculated as measures of relationships between the independent variables and dependent variables. This test gives an indication of both directions, positive (when one variable increases and so does the other one), or negative (when one variable increases and the other one decreases. The test also indicates the strength of a relationship between variables by a value that can range from -1.00 to 1.00; when 0 indicates no relationship,-1.00 indicates a negative correlation, and 1.00 indicates a perfect positive correlation. The Pearson correlations between independent variables Client appraisal, Credit risk control, collection policy and the dependent variable financial performance are depicted in table below.

Table 4.14 figures shows correlation of dependent and independent variables

Correlations

		CA	CR	CP	FP
CA	Pearson Correlation	1	.914**	.912**	.429**
	Sig. (2-tailed)		.000	.000	.000
	N	90	90	90	90
CR	Pearson Correlation	.914**	1	.943**	.631**
	Sig. (2-tailed)	.000		.000	.000
	N	90	90	90	90
CP	Pearson Correlation	.912**	.943**	1	.697**
	Sig. (2-tailed)	.000	.000		.000
	N	90	90	90	90
FP	Pearson Correlation	.429**	.631**	.697**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	90	90	90	90

**. Correlation is significant at the 0.01 level (2-tailed).

Multi colinearity test results

Model	Colinearity statistic		
	tolerance	VIF	
Client appraisal	.142	7.05	
Credit risk control	.093	7.76	
Collection policy	.095	9.745	

Source: SPSS Output from Survey Data, 2020

The above figure show the multicollinearity statistics which is associated with the extent of correlation between independent variables. The problem is checked by Tolerance and Variance Inflation Factor (VIF). Thus, the result implies that the regression model is not too much affected by higher correlation between two independent variables

Correlation Analysis between financial performance and credit management variables

For these variables, Pearson correlation test was conducted and the results are shown in table 4.14 above. As it shown in the table, there is significant correlation between financial performance and credit management variables. In other words, client appraisal and financial performance have strong relationship (r=.429 with p 0.000). This indicated that financial performances are correlated with client appraisal in the study area.

- Correlation Analysis between credit risk control and financial performance

Pearson correlation test was conducted to see the degree of relationship between the independent variable i.e. credit risk control and financial performance. The results of the correlation between these variables are shown in the table above; there is significant correlation between credit risk control and financial performance. In other hand, credit risk control and financial performance have strong relationship (r=0.914 with p 0.00).

- Correlation Analysis between collection policy and financial performance

Pearson correlation test was conducted to see the degree of relationship between the independent variable i.e. collection policy and financial performance. The results of the correlation between these variables are shown in the table above; there is significant correlation between collection policy and financial performance. In other hand, collection policy and financial performance have strong relationship (r=0.697 with p 0.00).

4.5 Regression Analysis

Table 4.15: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.870(a)	.757	.748	.6913

a. Predictors: (Constant), CP, CA, CR

b. Dependent Variable: FP

Source: SPSS Output from Survey Data, 2020

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variables, from the finding in the above table the value of adjusted R squared was 0.748 an indication that there was variation of 74.8% on financial performance of MFI in Ethiopia ;case study on OMFI due to changes in client appraisal, credit risk control and collection policy at 95 % confidence interval .This shows 74.8% changes in financial performance of MFI could be accounted for by client appraisal, credit risk control and collection policy . R is the correlation coefficient which shows the relationship between the study variables, from the finding shown in the table above there was a strong positive relationship between the study variables as shown by .870.

Table 4.16: ANOVA

Model		Sum of Squares	D/f	Mean Square	F	Sig.
	Regression	127.889	3	42.630	89.201	.000(b)
	Residual	41.100	86	.478		
	Total	168.989	89			

Source: SPSS Output from Survey Data, 2020

a. Dependent Variable: FP

b. Predictors: (Constant), CP, CA, CR

From the ANOVA statistics in the table above , the processed data, which is the population parameters , had a significance level of 0.000 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. That client appraisal, credit risk control and collection policy significantly influence financial performance of MFI in Ethiopia; case study on OMFI. The significance value was less than 0.05 and indication that the model was statistically significant.

Table 4.17: Coefficients of Regression of the dependent variables

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	Constant	6.366	.931		6.835	.000
	Client Appraisal	.848	.088	1.367	9.676	.000
	Credit risk controls	.230	.093	.431	2.468	.016
	Collection policy	.933	.105	1.537	8.920	.000

Source: SPSS Output from Survey Data, 2020

From the above data in the above table the determined regression equation was

Y=6.366+.848X1 +.230X2+.933X3

From the above regression equation it was revealed that holding client appraisal, credit risk control and collection policy to a constant zero, financial performance of MFIs would be

6.366, a unit increase in client appraisal would lead to increase in performance of OMFIs in

Ethiopia by a factor of 0.848, a unit increase in credit risk control would lead to increase in performance of OMFIs in Ethiopia by a factor of 0.23 and also unit increase in collection policy would lead to increase in performance of MFI by a factor of 0.933

The study also found that an indication of variables was statically significant in influencing financial performance and p-value is less than 0.05.

4.6 Interpretation of Finding

From the finding as shown in Table 4.16, the value of adjusted R squared was 0.748 and indication that there was variation of 74.8% on financial performance of MFI in Ethiopia; Case study on OMFI due to changes in client appraisal, credit risk control and collection policy at 95% confidence interval. R is the correlation coefficient which shows the relationship between the study variables as shown by 0.870.

From the finding as shown in Table 4.14, the Pearson Correlations were calculated as measure of relationships between independent variables client appraisal, credit risk control, collection policy and the dependent variable financial performance are strong relationship and significant correlation.

From the above research finding as shown on Table 4.16, an indication that client appraisal, credit risk and collection policy significantly influence financial performance of MFI in Ethiopia; Case study on OMFI .The significance value was less than 0.05 and indication that the model was statistically significant.

Results of Interview Questions

The following section summarized and presented the result of interview sessions with 15 branches . Since the responses of the respondents of the interview session was more or less alike, the researcher has preferred to summarize and present the result of the session in one set.

Model or technique to manage credit management

Responding to this question the interviewees have come up with various factors that affect loan repayment. Among the factors raised are; give training to the staff, Designed or implemented clear policy, Use different measurement technique like PAR, Arrears rate and write off policy etc.

Reason of NPLs ratio were increasing

Answering to this question the respondents said that there are different reasons are happened in the case micro finance of NPL were increasing poor screening of borrowers, weak appraisal of loans, lack of immediate follow up, corruption at field staff level such as taking bribe for loans or frauds that can result in delinquencies and De motivated employees

Do you think the current credit procedures; reviewing and approval culture is helping the MFI to achieve its objectives?

When answering to this question, the respondents said yes , it has not a doubt that poor analysis of the borrowers' project feasibility contributes its effect to the loan repayment. Because the borrowers invested the loan on this project, so that if this project is not profitable the borrowers will fail his business and the loan repayment of the MFIs. So to achieve the goal of MFIs the primary message is procedures like recruitment/selection/ of the customers and approval of the business.

Reasons for violating covenants of loan by customers

Responding to this question the respondents said in the case of group loan problems are happened between the members of the group regarding to duties and responsibly in their work place, unexpected happening is occurred in the business from internally or externally and control.

Some comment or suggest regarding the credit management system of the MFI.

Regarding to this question the respondents supposed, that Establishing an Appropriate Credit management The board of directors should have responsibility for approving periodically (at least annually), Operating under a Sound Credit Granting Process the institution must operate within sound and well-defined credit granting criteria, Maintaining an Appropriate Credit Administration, Measurement and Monitoring Process.

4.7 Summary of the main finding

The study revealed that MFI use client appraisal in Credit Management to a great extent. Further it established that client appraisal is a viable strategy for 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 Southern Ethiopia OMFI in have competent personnel for carrying out client appraisal.

The study established that Southern Ethiopia OMFI use credit risk control in Credit Management to a great extent. The study further established that interest rates charged affects performance of loans in the OMFI, Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk, the use of credit checks on regular basis enhances credit management, Penalty for late payment enhances customers commitment to loan repayment, the use of customer credit application forms improves monitoring and credit management, flexible repayment periods improve loan repayment and finally that the use of credit checks On regular basis enhances credit management.

The study revealed that OMFI 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 incentives are effective in improving recovery of delinquent loans, a stringent policy is more effective in improving 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

In debt recovery than lenient policy, regular reviews have been done on collection policies to improve state of credit of credit management, and finally that available collection policies have assisted towards effective credit management.

The finding was supported by (Yebabie, 2017). . Studies research on micro finance institutions financial performance and credit risk management on Addis credit and saving institutions. Study found that there is strong relationship between credit risk management of MFIs and client appraisal, credit risk control and collection policy by adapting a more stringent policy to a lenient policy for effective debit recovery.

The finding also supported by (Alia Kagoye and Jaya Shukira , 2016)Studies research on Commercial bank Credit management and financial performance. The independent variable client appraisal, credit risk control and collection policy significantly influence financial performance and significance value was less than 0.05 and indication that the model was statically significant.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion of key data findings, conclusion drawn from the findings Highlighted and recommendations made there-to. The conclusions and recommendations Drawn were focused on addressing the objective of the study. The researcher had intended to determine the effect of credit management on the financial performance of Microfinance in Ethiopia case study in OMFI in southern Ethiopia.

5.2 Conclusion

From the finding, the study found that client appraisal; credit risk control and collection policy had effect on financial performance of OMFI in southern Ethiopia. The study recognized that there was strong relationship between credit management and client appraisal, credit risk control and collection policy.

The study revealed that OMFI 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 incentives are effective in improving recovery of delinquent loans, a stringent policy is more effective in improving 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

In debt recovery than lenient policy, regular reviews have been done on collection policies to improve state of credit of credit management, and finally that available collection policies have assisted towards effective credit management.

An increase in credit risk control would lead to increase in credit management of Southern Ethiopia OMFI , which shows that there was positive relationship between credit management of OMFI and credit risk control and a unit increase in collection policy would lead to increase in credit management this is an indication that there was a positive relationship between credit management of OMFI and collection policy.

Client appraisal, credit risk control and collection policy significantly influence credit management of Southern Ethiopia OMFI .

5.3 Recommendation

The study recommends that OMFI should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery.

The research expected to fill a gap in the previous studies of determines effect of credit management on financial performance on Microfinance institutions; Case study on OMFI Southern Ethiopia. And the result of the study provides managers further understanding by how the measures of profitability are affected by the measures of credit management. All of these contribute valuable information for MFI managers, financial analysts, investors and supervisors when they make relevant decisions.

The study also recommends that there is need for MFI to enhance their client appraisal techniques so as to improve their financial performance. Through client appraisal techniques, the MFI will be able to know credit worth clients and thus reduce their non-performing loans. This will help in improving their financial performance.

There is also need for OMFI to enhance their credit risk control this will help in decreasing default levels as well as their non-performing loans. This will help in improving their financial performance. Increase the number of employee in the operation department where there is a need for credit management so that the case will be minimized and that will give opportunity for every credit officer to do the job efficiently.

Improve the collateral registration process and obtain cash equal collateral for each loan made to the customers. Developing and maintaining credit approval authority structure and granting approval authority to qualified and experienced individuals.

Limitation of study

The study focused on the effect of credit management on financial performance; case study on OMO Micro finance institution in Southern Ethiopia.

It focuses on effect of credit management on financial performance used to maximize its level of profitability and how the loaning criteria influence the loan recovery and the relationship between credit management and financial performance of OMFI.

5.4 Areas for further research

The study sought to determine the effect credit management on financial performance microfinance institution; the case study of OMFI in Ethiopia. Further research should also be done on the relationship between credit management and non-performing loans on Microfinance Institutions in Ethiopia and on the reasons for loan default in microfinance organizations from the clients‟ perspective.

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Appendix

QUESTIONER

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Part one: - Introduction

Deer respondents

I am a Masters student from Jimma University College Business and Economics. Now I am conducting a study on "Effect of credit management on financial performance in micro finance institution case study on OMO micro finance institution southern Ethiopia". The purpose of this questionnaire is to collect information on effect of credit management on financial performance on micro finance institution case study on OMO micro finance in southern Ethiopia. It is purely for academic purpose and the information obtained shall not be used for any other purpose other than for its intended use and will be treated with utmost confidentiality. So, your genuine, honest and timely response is vital for accomplishment of this study on time. Therefore, I kindly ask you to give your response to each question honestly. Thanks in advance for cooperation!

Sincerely,

Wubishet Shitaye.

Instruction

No need to write your and organization name.

Put a tick mark (√) under the choices below in the appropriate place.

Appendix 2:

Questionnaires'

Part A: General Information

1. Gender

- Male [ ] Female [ ]

2 The respondents level of responsibility in the MFI

- Branch manager
- Operation department
- Credit department
- Not at all

3 .The respondents experience in your organization have?

- Less than 5 years [ ]
- Between 5 to 10 years [ ]
- Between 10 to 15 years [ ]
- Above 15 years [ ]

4. Has your organization adopted Credit Management Practices?

- Yes [ ] No [ ]

Part B: Credit Risk Management Practices

CLIENT APPRAISAL

4. To what degree does the MFI use client appraisal in Credit Management?

- Very great extent [ ]
- Great extent [ ]
- Moderate extent [ ]
- Low extent [ ]

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Client appraisal is a viable strategy for credit management					
The MFI has competent personnel for carrying out client appraisal.					
Client appraisal considers the character of the customers seeking credit facilities					
Aspects of collateral are considered while appraising clients.					
Failure to assess customers capacity to repay results in loan defaults MFIs?					

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

CREDIT RISK CONTROL

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

- Very great extent [ ]
- Great extent [ ]
- Moderate extent [ ]
- Low extent [ ]
- Not at all [ ]

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

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Imposing loan size limits is a viable strategy in credit management					
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					
Interest rates charged affect performance of loans in the MFI					

COLLECTION POLICY

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

- Very great extent [ ]
- Great extent [ ]
- Moderate extent [ ]
- Low extent [ ]
- Not at all [ ]

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

Statement	Strongly agree	Agree	Neutral	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					
A stringent policy is more effective in debt recovery than a lenient policy					
Interest rates charged affect performance of loans in the mfi than a lenient policy					

Influence of credit management on financial performance of MFI

Statement	Strongly agree	agree	Neutral	Disagree	Strongly disagree
Credit management helps to minimize losses to micro finance institution					
Credit management has no implication to the financial performance of micro finance					
Credit management is an ongoing process rather than a one time event					

Do you agree there is any relationship between the Credit Management and the Financial Performance of your micro finance institution					
extent of the credit management processes had on the quality of loan portfolio of the MFI institution					
How far reaching has been the effect of credit management policy on the loan recovery rates					

Interview Questions

1. When the Omo micro finance Institution S.C MFI as the institution start Work?

2. How you organize the clients?

3. How you control the loan repayment?

4. How you control loan default?

5. How to evaluate the operational efficiencies and other related activities related to credit and its impact?

S/n	List of sample branch
1	Decha
2	Gimbo
3	Chena
4	Gewata
5	Adiyo
6	Semen bench
7	Debub bench
8	Guraferda
9	Sheko
10	Shewa bench
11	Sodo

12	Cheha
13	Gumer
14	Idigeny
15	Meskan
	Total

Secondary data

Table 4.12 Indicators of OMFI performance of profitability since 2015-2019 annual report

Performance indicators\year	2015	2016	2017	2018	2019
Return on Asset	0.0316	0.0249	0.0213	0.0172	0.0355
Return on Equity	0.2169	0.2157	0.2748	0.1661	0.0403

OMFI secondary data from 2015-2019

Year	out standing	total asset	profit b/tax	bad debit	LLR	
2015	2724167365	3581254111	113451964	312697860	-130911879	
2016	3242499462	4296043815	107247350	432860911	-238978719	
2017	4115224123	5794756900	123682893	593797850	-390745828	
2018	6016665059	8829472332	152534862	791983670	-413648909.9	
2019	6748614357	9341833901	33215026	1243387110	633024350.4	

Thank you !

Data regression out put

Descriptive Statistics

	Mean	Std. Deviation	N
FP	20.2111	1.37795	90
CA	21.6444	2.21999	90
CR	30.8556	2.58153	90
CP	26.9000	2.26874	90

Correlations

		FP	CA	CR	CP
Pearson Correlation	FP	1.000	.429	.631	.697
	CA	.429	1.000	.914	.912
	CR	.631	.914	1.000	.943
	CP	.697	.912	.943	1.000
Sig. (1-tailed)	FP	.	.000	.000	.000
	CA	.000	.	.000	.000
	CR	.000	.000	.	.000
	CP	.000	.000	.000	.
N	FP	90	90	90	90
	CA	90	90	90	90
	CR	90	90	90	90
	CP	90	90	90	90

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	CP, CA, CR[b]	.	Enter

a. Dependent Variable: FP

b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					R Square Change	F Change	df1	df2
1	.870[a]	.757	.748	.69131	.757	89.201	3	

a. Predictors: (Constant), CP, CA, CR

b. Dependent Variable: FP

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	127.889	3	42.630	89.201	.000[b]
	Residual	41.100	86	.478		
	Total	168.989	89			

a. Dependent Variable: FP

b. Predictors: (Constant), CP, CA, CR

Coefficients[a]

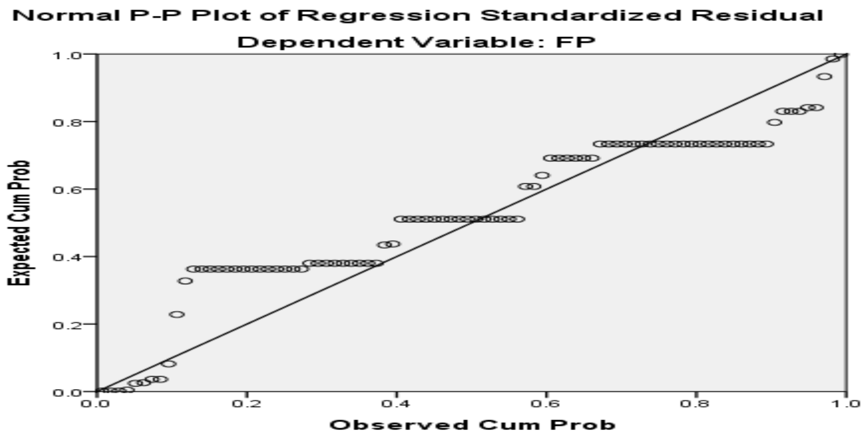
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	6.366	.931		6.835	.000		
	CA	.848	.088	1.367	9.676	.000	.142	7.056
	CR	.230	.093	.431	2.468	.016	.093	7.76
	CP	.933	.105	1.537	8.920	.000	.095	9.747

a. Dependent Variable: FP

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	17.3089	22.8111	20.2111	1.19873	90
Residual	-2.10931	2.12069	.00000	.67955	90
Std. Predicted Value	-2.421	2.169	.000	1.000	90
Std. Residual	-3.051	3.068	.000	.983	90

a. Dependent Variable: FP



Correlations

Descriptive Statistics

	Mean	Std. Deviation	N
CA	21.6444	2.21999	90
CR	30.8556	2.58153	90
CP	26.9000	2.26874	90
FP	20.2111	1.37795	90

Correlations

		CA	CR	CP	FP
CA	Pearson Correlation	1	.914**	.912**	.429**
	Sig. (2-tailed)		.000	.000	.000
	N	90	90	90	90
CR	Pearson Correlation	.914**	1	.943**	.631**
	Sig. (2-tailed)	.000		.000	.000
	N	90	90	90	90
CP	Pearson Correlation	.912**	.943**	1	.697**
	Sig. (2-tailed)	.000	.000		.000
	N	90	90	90	90
FP	Pearson Correlation	.429**	.631**	.697**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	90	90	90	90

**. Correlation is significant at the 0.01 level (2-tailed).