

An Assessment of The Effects of Credit Management Practices on The Financial Performance of Micro Financing Institutions (MFIs): Focus Study in Katete District.

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ABSTRACT-*It is worth noting that, Microfinance Institutions (MFIs) emerged as a new approach to provide quality financial services to the poor or to feel the gap that had been made with respect to the provision of financial services to small and medium enterprises, small scale farmers and low-income households or generally the poor. In a nutshell, MFIs came on the scene as a powerful mechanism or tool in the struggle to combat or fight poverty and economic dependence. These institutions (MFIs) were viewed as a crucial engine to accelerate sustained economic growth and development, and to reduce income inequality by promoting social fairness and justice. The study adopted the cross-sectional design. In this type of study design, either the entire population or a subset of the population was selected, and from these individuals, data was collected to help answer research questions of interest. The findings reviewed that credit collection efforts were an important practice in facilitating loan repayment. Collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses increase profitability of the banking institutions.*

Effective management of credit is essential to the long-term success of any microfinance institution.

Deposit taking microfinance institutions should ensure to a very great extent on the adoption of credit standards, credit policy, credit terms and collection polices. Credit standards that a bank uses to determine whether to extend a loan or line of credit to an applicant, the study therefore recommended that there should be optimum credit standards indicating that before giving any loan, client's repaying capacity, status of business and cash flows must be assessed. Credit terms normally stipulate the credit period, interest rate, method of calculating interest and frequency of loan installments. The study concluded that 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. Each company needs to have its own method of credit management and determining quality. Applying credit standards, evaluating client's credit history before giving out credit, objective standards and parameters to be followed by MFI employees responsible for the provision and processing of loans and management.

Key words: *Credit Management, Financial Performance, Micro Financing Institutions (MFIS)*

INTRODUCTION

The microfinance concept started penetrating the Zambian space economy after independence in 1964 when Zambia was liberated from the chains of political slavery. During the UNIP regime, microfinance concept remained largely unexplored and poorly understood by most Zambian stakeholders (MOF, 2017). The majority of industries were state owned, and Zambia was one of the most prosperous countries in the Sub-Saharan Africa thereby making it possible to meet the needs of a small population (Chiara, 2017). Note that Zambian modern microfinance institutions vibrantly came on the scene in the early 1990s due to economic reforms which subsumed the privatization and liberalization of the financial sector (Agri-ProFocus, 2017). Apart from the drastic economic reforms in the financial sector, the failure of state-owned financial institutions also led to the establishment of most of the Microfinance Institutions (MFIs) in Zambia (Maimbo and Mavrotas, 2017). The adoption of liberalization and privatization policies by MMD government and the failure of state-owned financial institutions due to over dependence on subsidies, massive defaults and bad debt management practices paved way for the creation of what can be termed the modern microfinance concept in Zambia.

Reports have revealed that given the current Microfinance Regulations (MFRs), the financial performance of Zambian MFIs remains highly unstable and unfavorable due to high compliance costs, operational costs, high taxes, bad debt management practices and loan defaults (Maimbo and Mavrotas, 2017). However, the financial performance of MFIs has been affected by myriad factors which could be termed as internal and external factors thereby posing a great challenge with respect to the attainment of Sustainable Development Goals (SDGs) and vision 2030.

Factors that could be leading to unhealthy financial performance of MFIs in Zambia may subsume poor credit analysis and credit rating by some MFIs, increased levels of credit risks, inflationary changes, unfavorable monetary policy and exchange rates, costs incurred during publication of prudential reports required by BoZ, costs incurred when preparing for inspections, annual audit and supervision, opening up of new branches and the general disruption caused to business (BoZ, 2017). It is assumed that some Zambian MFIs' financial profitability (Returns on the amount invested, returns on assets and Returns on equity) has been adversely affected by the preceding costs. However, data on the effect of credit management practices on the financial performance of MFIs in Zambia remains largely erratic (sporadic) or non-existent in some instances. There is little evidence or literature on the relationship between credit management (client appraisal and credit risk control) and financial performance or financial profitability (returns on investments, assets and equity).

According to Bank of Zambia there are currently 18 commercial banks, 33 MFIs and 74 other Non-Bank Financial Institutions (NBFIs) operating in Zambia. MFIs offer microfinance services such as, small loans and savings facilities as well as capacity building. Although expansion is much slower in rural areas, growth is evident along the line of rail and peri-urban areas of the country. The provision of financial services has been slow due to unsatisfactory infrastructure and absence of an appropriate regulatory and supervisory framework (BoZ, 2018). Major players that provide services on the rural market and or agricultural packages in terms of outreach and balance sheets include; Agora microfinance Zambia, Christian Enterprise Trust of Zambia, Entrepreneurs Financial Centre, Foundation for International Community Assistance, Micro-Bankers Trust and Vision Fund.

The establishment of microfinance sector or concept led to the proliferation or increase in the number of microfinance institutions currently operating in the Zambian financial sector (Agri-ProFocus, 2017). It is worth noting that, Microfinance Institutions (MFIs) emerged as a new approach to provide quality financial services to the poor or to fill the gap that had been made with respect to the provision of financial services to small and medium enterprises, small scale farmers and low-income households or generally the poor (Maimbo and Mavrotas, 2017). Previous studies have contended that MFIs came into being from the recognition that low-income households and micro-entrepreneurs can be bankable (Muturi, 2018). Proponents of the concept of MFIs argue that such facilities were established from the recognition that poor people or low-income households could also manage to repay back the loan on time with interest and could as well make savings provided financial services are tailored to meet their socio-economic needs (Maimbo and Mavrotas, 2017). In a nutshell, MFIs came on the scene as a powerful mechanism or tool in the struggle to combat or fight poverty and economic dependence. These institutions (MFIs) were viewed as a crucial engine to accelerate sustained economic growth and development, and to reduce income inequality by promoting social fairness and justice (Fan and Zhang, 2017). According to Chiara (2017:7), a microfinance institution is a “person who, as part of their business, advances microcredit facilities or services”. On the other hand, microfinance service refers to the provision of services primarily to small or low-income households or micro enterprises (Ibid). Zambian MFIs are categorized into three types namely: Deposit Taking (DT) MFIs; Non-Deposit Taking (NDT) MFIs with a paid-up capital of greater than K25, 000 and Non-Deposit Taking (NDT) MFIs with a paid-up capital less than K25, 000 (Agri-ProFocus, 2017). Others report that MFIs come

into two (2) main types such as Pay Roll Based Consumer Lenders (PRBCL) and Microenterprise Lenders (ML). As of 2014, it is reported that Zambia had about 25 registered or licensed MFIs by Bank of Zambia (Chiara, 2017). All these MFIs are regulated and supervised by the Bank of Zambia (BoZ) under the Bank of Zambia (BoZ) Act of 1996.

Due to such inefficiencies, MFIs find it so difficult to expand and provide quality financial services to small and medium enterprises, low-income households, small scale farmers and generally to the poor (Chiara, 2017) However, few studies in Zambia have attempted to analyse the effect of credit management practices on financial performance of MFIs. Therefore, it is against this background that the study intended to develop an insight into the influence or effect of credit management practices on financial performance of MFIs in Katete district of Eastern Province of Zambia.

1.2 STATEMENT OF THE PROBLEM

Kondani (2018) carried out a study on sustainability and profitability of microfinance institutions and noted that efficiency and effectiveness were the main challenges facing Zambia on service delivery, Kondani (2018) did a study on the relationship between capital structure and financial performance of microfinance institutions in Zambia, Kondani (2018) did a study on assessment of strategies necessary for sustainable competitive advantage in the microfinance industry in Zambia.

1.3 OBJECTIVES OF THE STUDY

The purpose of the study was to discover the effect of credit management practices on financial performance of MFIs in Katete district.

1.3.1 Specific Objectives

The objectives that the study sought to achieve were;

1. To identify various credit management practices implemented by MFIs.
2. To assess the effect of credit risk control in designing and formulating policy on financial performance.
3. To find out what measures financial institutions put in place regarding employees' capacity to collect debt.

LITERATURE REVIEW

Vatansever & Hepşen (2017) did this empirical study in Turkey and it was published in the Journal of Finance and Investment Analysis. In this study, researchers examined the relationship between the NPLs ratio and several macroeconomic and bank specific factors in Turkey by using ordinary least square estimation approach with integration analysis and the time series from January 2009 to April 2017. They founded from empirical study that debt ratio, loan to asset ratio, confidence index-real sector, consumer price index, EURO/ Turkish lira rate, USD/ Turkish lira rate, money supply change, interest rate, GDP growth, the Euro Zone's GDP growth and volatility of the Standard & Poor's 500 stock market index does not have significant effect to make clear NPL ratio on multivariate perspective. They also founded that industrial production index (IPI), Istanbul Stock Exchange 100 Index (ISE), Inefficiency ratio of all banks (INEF) negatively, and Unemployment rate (UR), return on equity (ROE), capital adequacy ratio (CAR) positively affect NPL ratio.

Poudel (2018) carried out this study in Nepal and it was published in the International Journal of Arts and Commerce. In this study, researcher examined the effect of credit risk management on banks' financial performance. He was used different variables to cover the study which were; default rate, cost per loan assets and capital adequacy ratio called explanatory variable. He collected data from financial report of 31 banks were used to analyze

for eleven years (2001-2011) comparing the profitability ratio to default rate, cost of per loan assets and capital adequacy ratio which was presented in descriptive, correlation and regression was used to analyze the data. The study founded that all these parameters have an inverse impact on banks' financial performance; however, the default rate is the most predictor of bank financial performance. The empirical results showed that credit risk management is an important predictor of bank financial performance thus success of bank performance depends on risk management. He recommended that banks should design and formulate strategies that will not only minimize the exposure of the banks to credit risk but will enhance profitability. He also recommended that banks should put more emphasis on risk management and need to allocate more funds to default rate management and try to maintain just optimum level of capital adequacy.

Mačerinskienė, Ivaškevičiūtė, & Railienė (2018) conducted this study in the Lithuania. Here the researchers' exhibits the influence of recent global financial crisis on credit risk management in the commercial banks and provides summarized challenges faced by banks for credit risk management improvement. They founded that the causes of recent financial crisis reveal not only systemic or structural imbalances, but the necessity to keep and strengthen the principles of credit risk management.

Ahemed & Malik (2018) conducted this empirical study in Pakistan and it was published in the International Journal of Economics and Financial Issues. In this study, the researchers focused that the impact of credit risk management (CRM) practices on loan performance (LP) in microfinance banking sector of Pakistan. In this study, the researchers were gathered data from various managerial levels like: Top level, Middle level, and Lower level. He used different variables

such as: a) Dependent Variable: Loan Performance (LP), actually which represent CRM; and b) four Independent Variables: Credit Terms (CTP), Client Appraisal (LCA), Collection Policy (CP), and Credit Risk Control (CRC).

Lalon (2017) wrote this descriptive research article in Bangladesh and it was published in the International Journal of Economics, Finance and Management Sciences. In this article, researcher remarked about the theoretical framework, importance, process, advantage and challenges of CRM. He also pronounces that the CRM practice and performance. Finally, he tries to find out if there is any relationship between CRM performance and banks profitability. The researcher used secondary data and analyzed the data by using MS Excel and SPSS software. In this study, the researcher founded that Credit risk management encompasses identification, measurement, matching mitigations, monitoring and control of the credit risk spotlights. The research result founded that there is a positive relationship between CRM practices and Banks profitability (ROA). This indicated that effective and efficient Credit Risk Management can contribute on banks profitability. He mentioned in his study the main challenges of CRM practices are additional cost for training and employee motivation. He hoped that a very skillful and technically enhanced Credit Risk Management department can contribute to better practices of Credit Risk Management and that ensures smooth recovery of classified loan and maximize profitability of bank.

Kodithuwakku (2017) conducted this empirical study in Sri Lanka and it was published in the International Journal of Scientific Research and Innovative Technology. In this study, they focused about the impact of credit risk management on the performance of commercial banks. The study was collected panel data from primary and secondary

sources from 2009 to 2013 of selected banks based on superior performance and availability of data. The researcher used ROA (Return on Assets) as dependent variable (performance indicator); and Loan provision to Total (LP/TL), Loan Provision to Non-Performing Loans (LP/NPL), Loan Provision to Total Assets (LP/TA) and Non-Performing Loans/ Total Loans (NPL/TL) were used as independent variables (indicators of credit risk). The empirical result exhibited that non-performing loans and provisions have significantly argumentative impact on the profitability. Therefore, the study recommended the banks to implement an effective tools and techniques to reduce the credit risk management.

Chen and Pan (2018) have examined the credit risk efficiency of 34 Taiwanese commercial banks over the period 2005-2008. Their study used financial ratio to assess the credit risk and was analyzed using Data Envelopment Analysis (DEA). The credit risk parameters were credit risk technical efficiency (CR-TE), credit risk allocative efficiency (CR-AE), and credit risk cost efficiency (CR-CE). The results indicated that only one bank is efficient in all types of efficiencies over the evaluated periods. Overall, the DEA results show relatively low average efficiency levels in CR-TE, CR-AE and CR-CE in 2008. Epure and Lafuente (2012) have assessed bank performance in the presence of risk for Costa-Rican banking industry during 1998-2007. The results showed that performance improvements follow regulatory changes and that risk explains differences in banks and non-performing loans negatively affect efficiency and return on assets while the capital adequacy ratio has a positive impact on the net interest margin.

Alshatti (2017) has examined the effect of credit risk management on financial performance of the Jordanian commercial banks during the period 2005-2013 using capital adequacy ratio, credit

interest/credit facilities ratio, provision for facilities loss/ net facilities ratio, leverage ratio and non-performing loans/gross loans ratio as independent variables. The dependent variables represent the profitability measured by ROA and ROE. The author concludes that all the credit risk management indicators used in the study have significant effect on the financial performance of the Jordanian commercial banks

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 MFIs has been difficult due to both a lack of publicly available financial information and differences in reporting in a mostly non-regulated industry. (Michael and Miles, 2007)

Kariuki (2010) found that for an organization to ensure that credit management is done various policies should be put in place, one of these policies is a collection policy that is needed since all customers do not pay the firms bills in time. Some clients take long to make payments while some do not pay at all. The aim of collection effort should be to accelerate collections from slow payers and reducing bad debt losses.

Ayodele, Thomas, Raphael and Ajayi (2014) carried out a study on the impact of credit policy on the performance of Nigerian Commercial Banks using Zenith Bank as a case study. Primary data was collected through questionnaires served on sixty (60) respondents of the bank. The findings from the study showed that the incidence of bad debts would be minimized if a sound credit policy is put in place.

Byusa and Nkusi (2012) studied effects of credit policy on bank performance in selected Rwandan Commercial banks. The study sought to determine the effects of credit policy on bank performance using data on selected Commercial Banks. The results obtained indicated that the Rwanda's commercial banks increased their accounts, increased customer base, and improved their financial indices, thereby maximizing their profits. Usually, banks have unusually high and increasing average interest rate spreads and interest rate margins showing both highly poor competition and inefficiency.

Wainaina (2011) examined the internal control function. He established that, other than the prevention and detection of fraud; internal controls should portray the overall strength of the accounting environment in an organization as well as the accuracy of its financial and operational records. There is also need to decide the form of contract with your customer. Thirdly to assess each client's creditworthiness this depends on your personal experience and available source of information for its customers. Fourthly establish practical credit terms after determining your customer standing credit. Finally, you must collect; this requires tactic and judgment.

Ali (2013) studied the relationship between internal control and organizational financial performance of people's bank Zanzibar Ltd. The objectives of this study entail; to establish the effectiveness of internal controls used in PBZ, to examine the level of performance in PBZ and to set up a relationship between internal control and financial performance in PBZ. The study found that the internal controls used in PBZ were efficient and satisfactory; the organizational level of performance was considered to be adequate, and there was a significant positive relationship existing between the internal control systems and organizational financial performance to some extent. The study

recommended that; PBZ management should design more efficient internal control systems in all aspects.

Kiplimo and Kalio (2014) Study had sought to find out the Influence of Credit Risk Management Practices on Loan Performance of Microfinance Institutions in Baringo County. The objective of the study was to determine the client appraisal on loan performance of microfinance institutions in Baringo County. The descriptive research design methodology was employed based on a survey of Microfinance institutions in Baringo County. Since all branch managers and credit officers, were directly targeted in the study Census sampling technique was appropriate. Inferential and descriptive statistics was used in data analysis. The study findings indicated that there was a strong relationship between client appraisals and loan performance in Microfinance institutions. The study showed that an increase in client appraisal led to a rise in the performance of loans in MFIs in Baringo County.

Latifee (2006) indicated that while collection procedures may vary from one company to another, they should all be compliant with existing laws. The set Acts must also be adhered to by third party collection agencies, not only in details of collection procedure but also the manner in which the selection takes place. A collection procedure is defined as a comprehensive statement of steps to be taken regarding when and how the past-due amounts of debt are to be collected. Each company has its collection procedure, with information such as grace periods, due dates, date of repossession, penalties, and date of turnover of delinquent account to a collection agency. For any loan arrangement, the collection procedure should be clearly spelled out as part of the loan terms. It's essential for borrowers to be aware of the details of the collection process to avoid penalties, and in the

case of secured loans or collateral, repossession of the collateral.

Robin and Mitten (2000) studied the legal frameworks and performance standards for Microfinance. This study was commissioned jointly by PRET/DAI and the KNFP to compare how various countries are approaching issues about the legal-regulatory framework for microfinance. The study found out that it is also critical to recognize the differences between financial regulation and financial supervision considering legal-regulatory framework reforms. Financial regulation is defined as the body of rules, laws, and compliance procedures that determine the entry, operations, and exit of various actors within the financial system.

According to this theory, the rate of interest is the price that equates the demand for and supply of loanable funds. At the equilibrium level where demand-supply of Loanable funds, savers and investors are the happiest possible. Ngugi (2001) argued that interest equates the demand for loanable funds with the supply of loanable funds as the price. This theory has implication on Microfinance savers and borrowers according to this theory this two groups should be adequately compensated at equilibrium. One party should not feel exploited by Interest rate which is widely spread. The interest rate should be structured in a way every party feel comfortable (Emmanuelle, 2003). Therefore, this theory comes in handy to provide knowledge on the pricing of Loanable funds, by unearthing the determinants of pricing of Loanable funds which have a direct implication on debtors' management.

According to Pandey (1995), the credit manager attempts to ascertain the applicant's willingness to pay and settle his or her obligation. In making an analysis of the client's character, the company should consider some of the aspects of the clients. These aspects include bank references, marital

status, attachment to government agencies, the level of education contact Operation stability and historical background. Collateral is referred to as a form of security for the lender. Majorly banks usually require collateral as a type of insurance in case the borrower cannot repay the loan. They refer to items like land, houses, commercial and residential estates or any other property of value offered as the security of the value of the loan extended to the borrower (Kakuru, 2001). The collateral should be safe, easily marketed and that its value should be able to cover up the debt when sold in case the borrower defaults to pay (Van Horne, 1995).

According to Pandey (1995), one should evaluate the customer's financial position by analyzing ratios and trends in cash and working capital positions. The attributes to consider are how much the owner of the business has put in the business as this determines the stake of the person in the business. Pandey (2008) contends that, in some situations, the applicant may be required to offer securities before credit is advanced. The character refers to the obligation that a borrower feels to repay the loan. The concept seeks to evaluate the key criteria of repayment ability, by analyzing the financial health of the borrower, the stream of cash flows and other qualitative factors and the character of financial discipline (Pride et al., 2008). The 5 C's model is relevant in this study as MFIs use this model to determine the creditworthiness of potential debtors.

Fredrick (2017) wrote this article in Kenya and it was published in the DBA Africa Management Review. The researcher examined the impact of credit risk management on financial performance. He was used in his study a causal research design and multiple regression analysis to analyze secondary data. He used variables as dependent variable i.e., the financial performance of the banks whereas the independent variables were the CAMEL components of Capital adequacy, Asset

quality, Management efficiency, Earnings and Liquidity. In his study he found that there was a strong impact of the CAMEL components on the financial performance of commercial banks. The study also established that capital adequacy, asset quality, management efficiency and liquidity had weak relationship with financial performance (ROE) whereas earnings had a strong relationship with financial performance. The study suggests that CAMEL model can be used as a proxy for credit risk management. In this study he fails to recognize the impact of effective internal control and explanatory variables of financial performance of bank.

Mekasha (2017) investigated the credit risk management and its impact performance on Ethiopian Commercial Banks. The researcher used 10 years panel data from the selected commercial banks for the study to examine the relationship between ROA and loan provision, non-performing loans and total assets. The study revealed that there is a significant relationship between bank performance and credit risk management.

Breth (1999) argued that there are many socio-economic and institutional factors influencing loan repayment rates. The main factors from the lender side are high-frequency of collections, tight controls, a good management of information system, loan officer incentives and good follow ups. In addition, the size and maturity of loan, interest rate charged by the lender and timing of loan disbursement have also an impact on the repayment rates (Okorie al., 2007). The main factors from the borrower side include socio economic characteristics such as, gender, educational level, marital status and household income level and peer pressure in group-based schemes.

METHODOLOGY

3.1 RESEARCH DESIGN

The study adopted the cross-sectional design. In this type of study design, either the entire population or a subset of the population was selected, and from these individuals, data was collected to help answer research questions of interest. In cross-sectional studies, data was collected from the research participants at a defined point in time or relatively brief time period. The data was classically collected from multiple groups.

The study employed a descriptive research design because descriptive research designs are concerned with conditions or relationships that exist, opinions that are held, processes that are going on, effects or trends that are evident as supported by Best and Kahn (2018). A descriptive research design enabled a researcher to collect information or data by administering a questionnaire to selected individuals. This method was chosen to make references to phenomena as they existed in real life and it was relatively economical in terms of time and resources (Odhiambo et al., 2017).

3.3 TARGET POPULATION

The population of the study comprised all employees of the four MFIs in Katete district such as Izwe Loans Zambia, Bayport Financial Services Ltd, Vision Fund and Microfin Zambia Ltd. The institutions comprise of 158 employees.

3.4 SAMPLING TECHNIQUE

The sample size was determined using Taro Yemani's (1964) and from the population, 113 respondents were selected across each categories of the defined population, through the application of simple random sampling with the aid of table of random numbers.

3.5 DATA COLLECTION

The interview schedules were semi-structured and comprised of many close ended questions. This facilitated relaxed administration of the interview schedules. It also aided to avoid irrelevant answers from respondents, and this made data entry in the SPSS easier.

Self-administered questionnaires will be employed in this study because they were flexible and gave the researcher an opportunity to ask as many questions as possible on one particular topic. Questionnaires also provided flexibility in the analysis of responses. In short, processing and analysis of data was usually cheaper (low cost) and simpler when using a questionnaire. Apart from using primary sources of data, reports, journal articles and relevant documents were reviewed as well to gather secondary information regarding the effect of credit management practices on financial performance of MFIs. Any available relevant document on credit management and financial performance of MFIs was collected from these MFIs and analyzed as well.

3.6 DATA ANALYSIS TECHNIQUES

Using Statistical Package for Social Scientists (SPSS 16.00), cross tabulations displayed the summaries of all the items inputted in form of frequencies and percentages. Steps 2 involved in putting into excel the frequencies of the items identified in part C of the questionnaire to calculate the prominence (frequency) and impact (severity) of the delay factors.

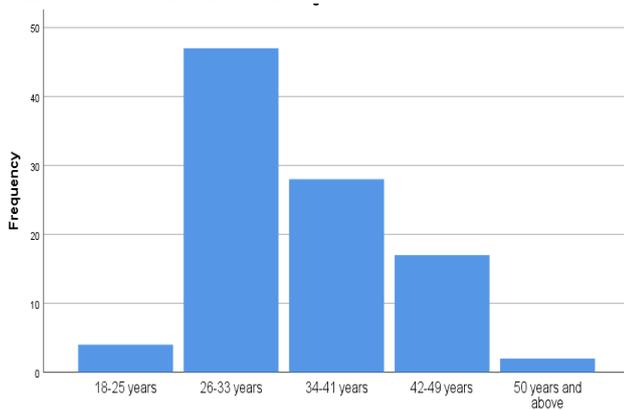
DATA PRESENTATION AND ANALYSIS

4.1 RESPONDENTS PROFILE

The demographics characteristics were analyzed in order to have a clear profile of the characteristics of the respondents that was established to assess the representativeness of the samples to the population being studied had (Lawley and Perry, 1998). The demographic characteristics of the respondents are summarized in the following sections.

According to figure 5.1, 69 (70.4 percent) were male while 29 (29.6 percent) were female. The male respondents had the highest frequency.

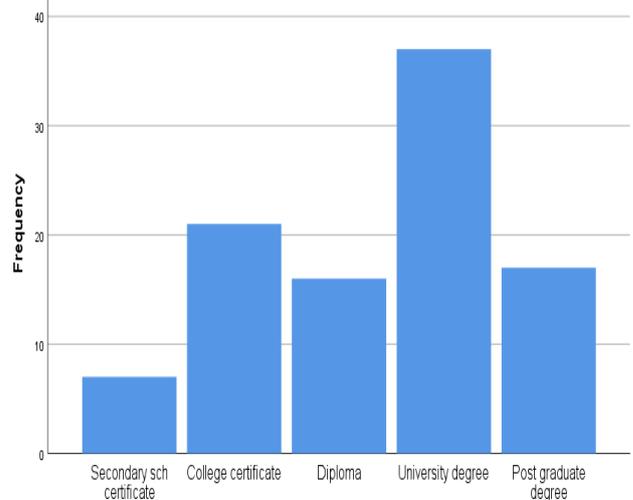
Figure 4.1 Age group



Source: Field data

According to figure 5.2, 4 (4.1 percent) of the respondents were of the age 18-25 years, 47 (48.0 percent) were of the age 26-33 years, 28 (28.6 percent) were of the age 34-41 years, 17 (17.3 percent) were of the age 42-49 years and 2 (2.0 percent) were 50 years and above. The age 26-33 years had the highest frequency.

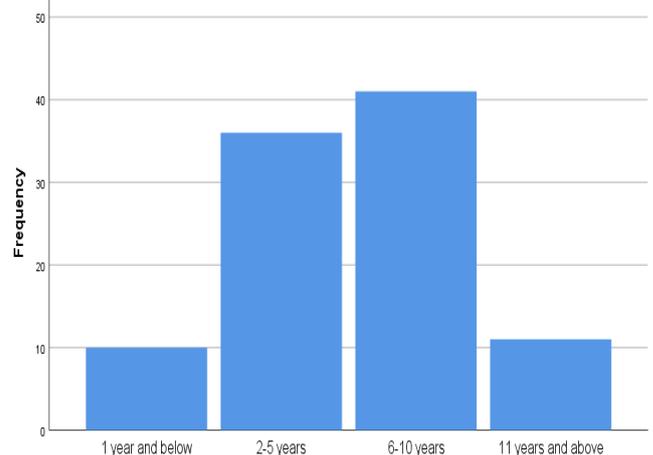
Figure 5.3 Education level



Source: Field data

According to figure 5.3, 7 (7.1 percent) had secondary school certificates, 21 (21.4 percent) had college certificates, 16 (16.3 percent) had college diploma, 37 (37.8 percent) had university degree and 17 (17.3 percent) had post graduate degree. The respondents with university degree had the highest frequency.

Figure 4.4 Work Experience



Source: Field data

According to figure 5.5, 10 (10.2 percent) had worked for 1 year and below, 36 (36.7 percent) had worked for 2-5 years, 41 (41.8 percent) had worked for 6-10 years and 11 (11.2 percent) had worked for 11 years and above.

To what degree is client evaluation a sustainable policy for credit management

		Frequency	Valid Percent	Cumulative Percent
Valid	very high	4	4.1	4.1
	high	7	7.1	11.2
	Not sure	6	6.1	17.3
	low	37	37.8	55.1
	Strongly low	44	44.9	100.0
	Total	98	100.0	

Source: Field data

Table 5.2 illustrates the responses in finding out if client appraisal is a viable strategy for credit management. From the 98 respondents, 4 (4.1 percent) very high, 7 (7.1 percent) high, 6 (6.1 percent) were not sure, 37 (37.8 percent) low and 44 (44.9 percent) strongly low. The respondents who strongly low had the highest frequency. This implies that Client appraisal is a viable strategy for credit management.

Table 5.3 The MFI has competent personnel for carrying out client appraisal

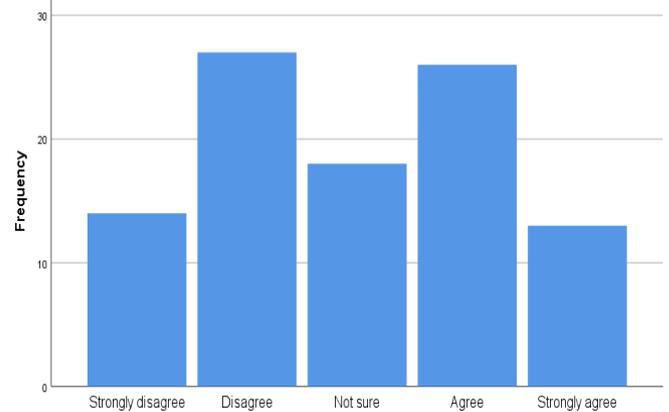
		Frequency	Valid Percent	Cumulative Percent
Valid	high	4	4.1	4.1
	Not sure	10	10.2	14.3
	low	46	46.9	61.2
	Strongly low	38	38.8	100.0
	Total	98	100.0	

Source: Field data

Table 5.3 illustrates the responses in finding out if the MFI has competent personnel for carrying out client appraisal. From the 98 respondents, 4 (4.1 percent) high, 10 (10.2 percent) were not sure, 46 (46.9 percent) low and 38 (38.8 percent) strongly low. The respondents who low had the highest

frequency. This implies that MFIs have competent personnel for carrying out client appraisal.

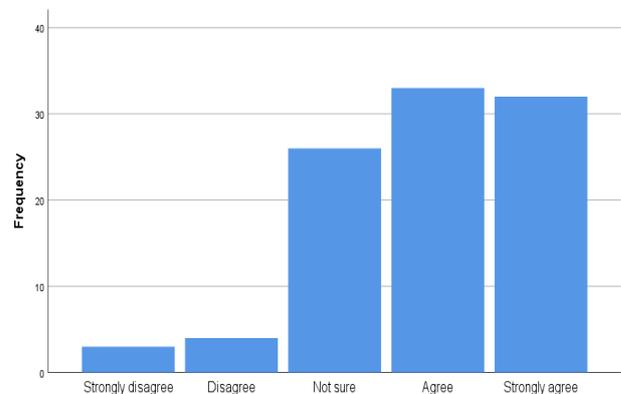
To what level do client review reflects the character of the clients looking for credit facilities?



Source: Field data

Figure 5.5 illustrates the responses in finding out if client appraisal considers the character of the customers seeking credit facilities. From the 98 respondents, 14 (14.3 percent) very high, 27 (27.6 percent) high, 18 (18.4 percent) were not sure, 26 (26.5 percent) low and 13 (13.3 percent) strongly low. The respondents who high had the highest frequency. This implies that to some extent client review does not consider the character of the customers looking for credit facilities.

To what extent does failure to weigh customers' capacity to repay results in loan defaults

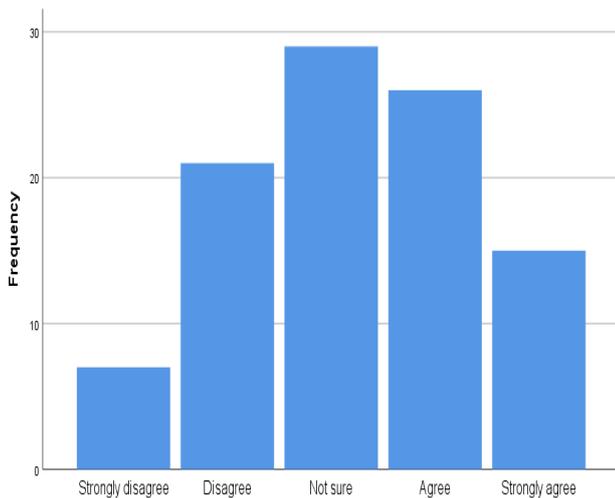


Source: Field data

Figure 5.7 illustrates the responses in finding out if failure to assess customers' capacity to repay results in loan defaults. From the 98 respondents, 3 (3.1 percent) very high, 4 (4.1 percent) high, 26 (26.5 percent) were not sure, 33 (33.7 percent) low and 32 (32.7 percent) strongly low. The respondents who low had the highest frequency. This implies that customers' capacity to repay results in loan defaults.

5.4 Credit risk control

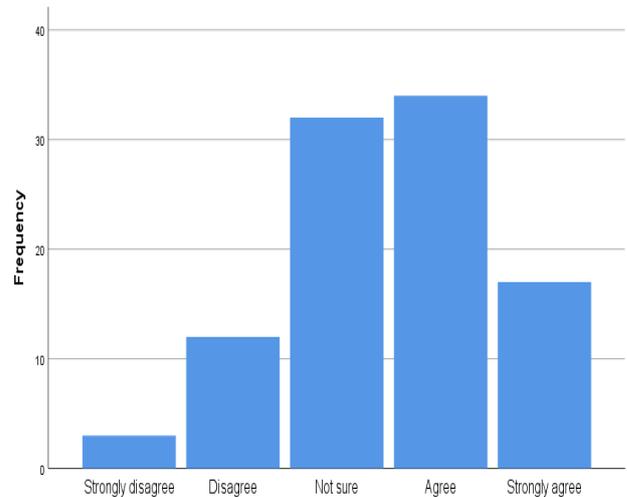
MFI uses credit risk control in Credit Management



Source: Field data

Figure 5.8 illustrates the responses in finding out if MFI uses credit risk control in Credit Management. From the 98 respondents, 7 (7.1 percent) very high, 21 (21.4 percent) high, 29 (29.6 percent) were not sure, 26 (26.5 percent) low and 15 (15.3 percent) very high. The respondents who were not sure had the highest frequency. This implies that it was not clear as to whether MFI uses credit risk control in Credit Management or not.

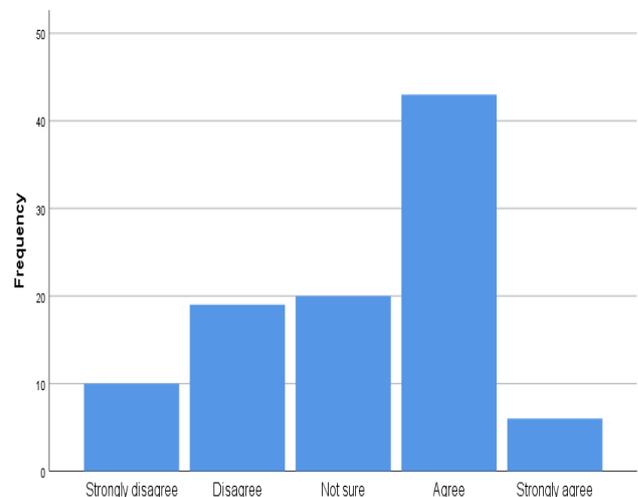
Weigh the imposing loan size limits as a workable approach in credit management



Source: Field data

Figure 5.9 illustrates the responses in finding out if imposing loan size limits is a viable strategy in credit management. From the 98 respondents, 3 (3.1 percent) very high, 12 (12.2 percent) high, 32 (32.7 percent) were not sure, 34 (34.7 percent) low and 17 (17.3 percent) strongly low. The respondents who low had the highest frequency. This implies that imposing loan size limits is a worthwhile strategy in credit management.

Do flexible repayment periods develop loan repayment?



Source: Field data

Figure 5.11 illustrates the responses in finding out if flexible repayment periods improve loan repayment. From the 98 respondents, 10 (10.2 percent) very high, 19 (19.4 percent) high, 20 (20.4 percent) were not sure, 43 (43.9 percent) low and 6 (6.1 percent) strongly low. The respondents who low had the highest frequency. This implies that Flexible repayment periods improve loan repayment.

To what degree do penalty for late payment boosts customers pledge to loan repayment

		Frequency	Valid Percent	Cumulative Percent
Valid	very high	3	3.1	3.1
	high	19	19.4	22.4
	Not sure	7	7.1	29.6
	low	45	45.9	75.5
	Strongly low	24	24.5	100.0
	Total	98	100.0	

Source: Field data

Figure 5.4 illustrates the responses in finding out if penalty for late payment enhances customers' commitment to loan repayment. From the 98 respondents, 3 (3.1 percent) very high, 19 (19.4 percent) high, 7 (7.1 percent) were not sure, 45 (45.9 percent) low and 24 (24.5 percent) strongly low. The respondents who low had the highest frequency. This implies that penalty for late payment enhances customers commitment to loan repayment.

Weigh the use of customer credit application forms in cultivating monitoring and credit management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	high	15	15.3	15.3	15.3
	Not sure	9	9.2	9.2	24.5
	low	54	55.1	55.1	79.6
	Strongly low	20	20.4	20.4	100.0
	Total	98	100.0	100.0	

Source: field data

Table 5.5 illustrates the responses in finding out if the use of customer credit application forms improves monitoring and credit management as well. From the 98 respondents, 15 (15.3 percent) high, 9 (9.2 percent) were not sure, 54 (55.1 percent) low and 20 (20.4 percent) strongly low. The respondents who low had the highest frequency. This implies that the use of customer credit application forms improves monitoring and credit management as well.

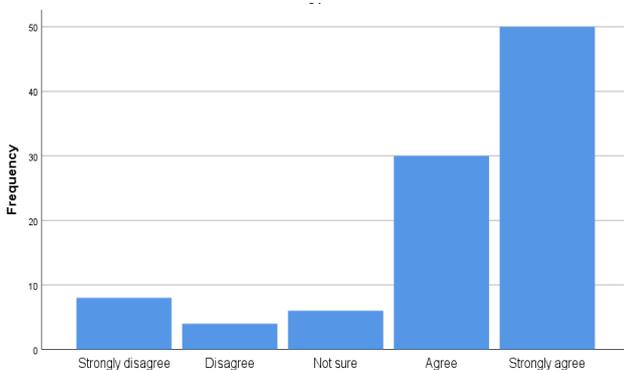
Measure the degree to which credit committee's involvement in making decisions about loans are crucial in reducing default

		Frequency	Valid Percent	Cumulative Percent
Valid	very high	7	7.1	7.1
	high	19	19.4	26.5
	Not sure	25	25.5	52.0
	low	33	33.7	85.7
	Strongly low	14	14.3	100.0
	Total	98	100.0	

Source: Field data

Table 5.6 illustrates the responses in finding out if Credit Committees' involvements in making decisions regarding loans are essential in reducing default/credit risk. From the 98 respondents, 7 (7.1 percent) very high, 19 (19.4 percent) high, 25 (25.5 percent) were not sure, 33 (33.7 percent) low and 14 (14.3 percent) strongly low. This implies that credit committee's involvement in making decisions regarding loans are essential in reducing default.

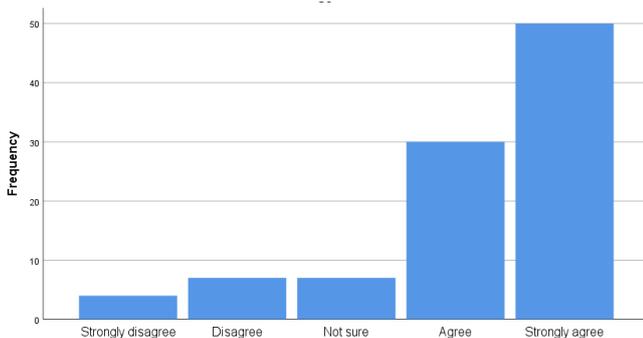
5.5 Collection policy MFI use collection policy in Credit Management



Source: Field data, 2019

Figure 5.12 illustrates the responses in finding out if MFI use collection policy in Credit Management. From the 98 respondents, 8 (8.2 percent) very high, 4 (4.1 percent) high, 6 (6.1 percent) were not sure, 30 (30.6 percent) low and 50 (51.0 percent) strongly low. The respondents who strongly low had the highest frequency. This implies that the MFIs use collection policy in Credit Management.

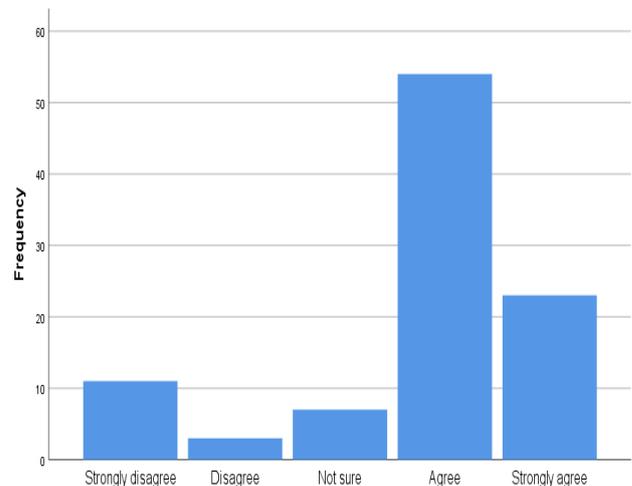
Preparation of collection policies have been a challenge in credit management



Source: Field data

Figure 5.14 illustrates the responses in finding out if formulations of collection policies have been a challenge in credit management. From the 98 respondents, 4 (4.1 percent) very high, 7 (7.1 percent) high, 7 (7.1 percent) were not sure, 30 (30.6 percent) low and 50 (51.0 percent) strongly low. The respondents who strongly low had the highest frequency. This implies that formulation of collection policies has been a challenge in credit management

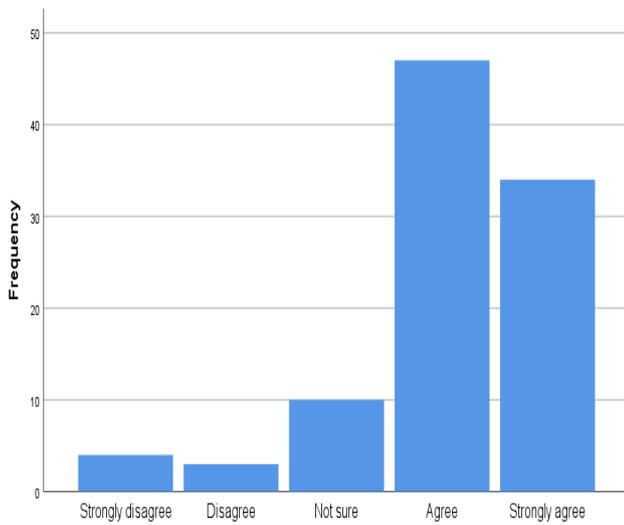
Execution of guarantee policies offers ventures for loan recovery in case of loan defaults



Source: Field data

Figure 5.16 illustrates the responses in finding out if enforcement of guarantee policies provides chances for loan recovery in case of loan defaults. From the 98 respondents, 11 (11.2 percent) very high, 3 (3.1 percent) high, 7 (7.1 percent) were not sure, 54 (55.1 percent) low and 23 (23.5 percent) strongly low. The respondents who low had the highest frequency. This implies that enforcement of guarantee policies provides chances for loan recovery in case of loan defaults.

Workforce enticements are effective in enlightening recovery of offending loans



Source: Field data

Figure 5.16 illustrates the responses in finding out if staff incentives are effective in improving recovery of delinquent loans. From the 98 respondents, 4 (4.1 percent) very high, 3 (3.1 percent) high, 10 (10.2 percent) were not sure, 47 (48.0 percent) low and 34 (34.7 percent) strongly low. The respondents who low had the highest frequency. This implies that tuff incentives are effective in improving recovery of delinquent loans.

To What Extent Does a Harsh Policy a More Effective in Debt Recovery than a Humane Policy

		Frequency	Valid Percent	Cumulative Percent
Valid	High	15	15.3	15.3
	Not Sure	7	7.1	22.4
	Low	43	43.9	66.3
	Strongly Low	33	33.7	100.0
	Total	98	100.0	

Source: Field data

Table 5.9 illustrates the responses in finding out if a stringent policy is more effective in debt recovery than a lenient policy. From the 98 respondents, 15 (15.3 percent) high, 7 (7.1 percent) were not sure, 43 (43.9 percent) low and 33 (33.7 percent) very high. The respondents who low had the highest frequency. This implies that a stringent policy is more effective in debt recovery than a lenient policy.

DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.1 DISCUSSIONS

The data shows that MFIs have developed appropriate credit policies to ensure that credit administration is done effectively and increasing the affect loan repayments and bad debts. This is in line with Batar et al (2008), who stated that credit policy provides the basis of all the credit management, it establishes objective standards and parameters to be followed by bank employees responsible for the provision and processing of loans and management. Client appraisal and collateral were one of the prominent credit management mechanisms. These findings are similar to the findings of Matovu & Okumu (2016). The authors stipulated that the process of managing credit determines which risk factors that pertain to the lending decision within the context of each borrower's situation and the loan product parameters, and then appropriately adjusts the factor weightings to produce the right outcome. The credit risk management practices are of significance in that they help determine the performance of the MFI. This view is support of Ddumba & Sentamu, (2013) who attributed that identifying the sources of the risk were ideal in regulating the performance of MFI.

Also, the data clearly shows that credit control is a critical system of control as it prevents the institution from becoming illiquid due to improper

issuance of credit to customers and therefore appropriate controls and responses must be put in place. This concurred with Weston (1982), who stated that credit policies consider credit limit which the firm will extend at a point in time. He further stated that banks should have been aware of the need to identify, measure, monitor and control credit risks as well as have adequate capital against these risks.

Further, the findings reviewed that credit collection efforts were an important practice in facilitating loan repayment. This is in line with Padilla and Pagano (2000), who stated that collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses increase profitability of the banking institutions.

From the study, it can be said that debt collection policy has an effect on financial performance of the MFIs. The result is consistent with Kariuki (2010), who said that for an organization to ensure that credit management is done various policies effectively should be put in place; one of these policies is a debt collection policy that is needed since all customers do not pay the firms bills in time.

The findings are in line with Van Horne et al. (1997) who contend that credit policies are the major influences on the firm's level of debt management. The study is also consistent with Ayodele, Thomas, Raphael and Ajayi (2014) who carried out a study on the impact of credit policy on the performance of Nigerian Commercial Banks using Zenith Bank as a case study. Primary data was collected through questionnaires served on sixty (60) respondents of the bank. The findings from the study showed that the incidence of bad debts would be minimized if a sound credit policy is put in place.

The study also found that internal control systems and legal framework have a statistically significant effect on financial performance of selected MFIs. The findings are in line with Ali (2013) who

studied the relationship between internal control and organizational financial performance of people's bank Zanzibar Ltd. The study found that the internal controls used in PBZ were efficient and satisfactory; the organizational level of performance was found to be adequate, and there was a significant positive relationship existing between internal controls and organizational financial performance to some extent.

The study is also consistent with the studies of Robin and Mitten (2000) who studied the legal frameworks and performance standards for Microfinance. The study found out that it is also critical to recognize the differences between financial regulation and financial supervision considering legal-regulatory framework reforms.

For the measures financial institutions have put in place concerning employees' capacity to collect debt, the possession of the necessary skill was the most significant. Not every employee can be a debt collector but only those who pose the required skills can fill those positions. This was in order to reduce bad debts from slow payers.

5.2 CONCLUSIONS

The study concluded that 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.

Each company needs to have its own method of credit management and determining quality. Applying credit standards, evaluating client's credit history before giving out credit, objective standards and parameters to be followed by MFI employees responsible for the provision and processing of loans and management.

Favorable credit terms formulated by the deposit taking microfinance institutions including interest rates, collateral, repayment periods, and the cost of loan maturity of loan and credit period affect loan performance.

Credit policy adopted by deposit taking microfinance institutions has 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 efforts are directed at accelerating recovery from slow payers and decreases bad debts losses increase profitability of the banking institutions.

Collection policies adopted by deposit taking microfinance institution had an effect on loan performance, court litigation had a great impact on loan performance, collateral assets and enforce saving had an effect.

Sound credit management is a prerequisite for a financial institution stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. As with any other financial institution, the biggest risk in deposit taking microfinance institution is lending money and not getting it back.

5.3 RECOMMENDATIONS

Effective management of credit is essential to the long-term success of any microfinance institution. Deposit taking microfinance institutions should ensure to a very great extent on the adoption of credit standards, credit policy, credit terms and collection policies.

Credit standards that a bank uses to determine whether to extend a loan or line of credit to an applicant, the study therefore recommended that there should be optimum credit standards indicating that before giving any loan, client's repaying capacity, status of business and cash flows must be assessed. Credit terms normally stipulate the credit period, interest rate, method of calculating interest and frequency of loan installments.

MFIs should develop and maintain a credit administration function that provide guidance to anyone involved in the credit function of the institution and to ensure safeguards are in place to manage the loan portfolio. Credit approval decision is made using a purely judgmental approach by merely inspecting the application form details of the applicant.

MFIs management should assess client capacity to repay the loan helps in taking loan decision whether a client should be a given a loan and about appropriate volume of loan.

MFIs should enhance their collection policy by adapting a more court litigation, collateral assets and enforce saving. The collection policy should ensure prompt and regular collection for fast turnover of working capital keeping collection costs and bad debts within limits and hence maintaining collection efficiency.

MFIs should develop appropriate credit policies to ensure that credit administration is done effectively and increasing the affect loan repayments and bad debts.

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