CREDIT MANAGEMENT PRACTICES OF MICRO FINANCIAL INSTITUTION

(CASE STUDY OF MULTI CREDIT SAVINGS AND LOANS)

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CHAPTER ONE

GENERAL INTRODUCTION

1.0 BACKGROUND TO THE STUDY

Despite the fact that there exist the terms Micro Credit and Micro Finance. Neither of the terms microcredit were used in the academic literature nor by Development Aid Practitioners before the 1980s or 1990s (Robinson, 2001) respectively, the concept of providing financial services to low income people is much older.

In terms of giving credit to customers has become a necessary part of business, as well as managing it. Most businesses, be it trading companies, financial institutions etc, offer credit facilities to their customers. Giving out loans is the dominant assets of most financial institutions and is said to generate the largest share of operating income even though it represent a banks greatest risk exposure. However, poor quality of loan recovery is sometimes due to factors such as adverse selection and moral hazard (Stiglitz and Weiss 1981) or any other external shock that may alter the borrower’s ability to repay the loan (Minsky, 1982 & 1985). Nevertheless, there are cases where the ways banks grant and monitor the loan can be responsible for the bad loan portfolio. In other terms, weak credit risk management system can also be sources of problem loans (Nishimura et al, 2001).
“The microfinance fever is catching on very fast in Ghana. There are Microfinance Institutions (MFIs) on major streets of Accra and other parts of the country. It is now common to see offices that have inscriptions which presuppose that these enterprises are into the provision of microfinance services. These firms mainly provide loans and/or mobile banking, which is commonly known as susu. The increasing number of MFIs—whether a registered susu agent or an on-lending MFI—is an encouraging phenomenon for the Ghanaian microfinance industry. At least the increasing number of these MFIs will provide the end-users (low-income earners and the poor) alternative services and products to choose from when it comes to their financial needs. The increasing number of MFIs will also break the cycle of monopoly and contribute to a more competitive industry that will ensure provision of products and services that will meet the financial and non-financial needs of the poor and low-income earners. The growth in terms of numbers (setting up on new MFIs) is expected to improve the accessibility of financial services to the large non-banked population in Ghana, and thereby lead to an improvement in the services and products being offered to the informal sector or market”. (Roderick O. Ayeh, 2009)

According to the small business development corporation (2007), in a small business brief perceived credit management as “implementing and maintaining a set of policies and procedures to minimize the amount of capital tied up in debtors and to minimize the exposure of the business to bad debts”. The credit management process does not end with the completion of the credit application form by the customer. It is an ongoing process and vigilance will pay off handsomely in terms of protecting your company’s profit cashflow. The credit department is in direct contact with customers, and hence is an excellent position to be the eyes and ears of the finance
department with regards to accounts receivable collection. This collaborative partnership will help these financial institutions stay ahead of the game and not be caught unaware resulting in being saddled with bad debts which could in turn jeopardize the entire survival of the company due to poor profitability, losses and mounting cash problems.

All in all, effective implementation of credit management practices are perceived by many as an effective mechanism of minimizing the amount of capital tied up in debtors and the exposure of a business to bad debts.

1.1 PROBLEM STATEMENT

The major concern of every lender is to ensure the safety of his money. In the business world, loans are placed at a person’s disposal by a bank upon application and usually to be repaid with interest on the stipulated date. There is therefore the risk of financial loss to an institution if a customer or counterparty to a financial instrument fails to meet its contractual obligation. One of the ways by which an institution’s exposure to bad debts could be minimized is the implementation and maintaining a set of credit management practices.

The main problem with some MFIs credit facilities is the problem of loan recovery which depends on the system of credit management. However, the question for research is whether or not the implementation of these set of policies and procedures is really fulfilling its purpose as an effective mechanism to minimize the amount of capital tied up in debtors and the exposure of MFIs to bad debts.
We will be investigating on these questions by consulting the two institutions, analyse the findings and draw our conclusion based on the observations made.

1.2. **OBJECTIVES OF THE STUDY**

- To identify credit management policies and procedures of the selected institution.
- To determine the requirements used in granting credit.
- To find out the problems with loan recovery from clients.
- To recommend some improvements for the retrieval of loans.

1.3. **RESEARCH QUESTION**

i. What credit management policies and procedures are instituted by the selected microfinance institution?

ii. What are the requirements that necessitate the granting of credit?

iii. What problems are encountered by the selected microfinance institutions in the recovery of loans from their clients?

iv. How can retrieval of loans be improved?
1.4. METHODOLOGY

Methodology of the study focuses on the techniques and methods used by the researcher to carry out the study. It comprises the population, sampling procedures and techniques, data collection and data analysis. The population comprises of the bank staff and the MFIs clients. Due to factors such as, budget constraints, time constraints, and quickness of data collection, a sample size of 50 clients were selected. Data for the study will be gathered from two sources namely primary and secondary sources of data. For the primary data collection, research instruments such as questionnaires, interviews, well be deployed. Also information from secondary sources well be used. This includes the internet sources (articles, previewed books, journals, definitions etc). Books and newspapers well be used to collect valuable information. From the data that will be edited, tables and charts will be constructed to provide summarized information.

1.5. SIGNIFICANCE OF THE STUDY

The research work is intended to provide additional information to the field of study and therefore contribute to further research that will be conducted in this area of study.

The study will also come out with recommendations to help the microfinance institution in reducing their risk of giving out credit. Thus help in enhance credit management policies and procedures.
1.6. ORGANIZATION / TIME SCALE

The study will be structured into five (5) chapters outlined as follows:

Chapter 1 presents the general introduction of the study. Chapter 2 deals with the literature review whiles Chapter 3 talks about the methodology and organizational profile. Chapter 4 presents the findings and analysis, and chapter 5 ends the study by providing the summary of findings, recommendations and conclusions of the study.

The research will be conducted within a period of one semester (for months) alongside academic work.

1.7. LIMITATIONS OF THE STUDY

- The study/research was meant to examine most of the branches of Multi Credit Savings and Loans but due to time and resource constraints, only a branch was chosen. Therefore, the researchers work lack the in depth knowledge required of all their operations related to credit management since credit administration such as credit analysis, credit granting, loan disbursement and recovery is undertaken in all branches.

- Other anticipated challenge which posed threat to the exhaustive study of the topic included the fear of disclosing key/relevant information by the institution, due to competition in the lending industry, hence limiting the required information needed for the study.

- Finally, the selected respondents were not willing to give the right information needed to complete the work and these posed threat to the credibility of this thesis.
CHAPTER TWO

LITERATURE REVIEW

2.0 CHAPTER REVIEW

This chapter seeks to review previews studies, in the area of student theories, concepts and framework relating the researchers, topic. The nature of such information is typically secondary and careful examinations of such areas avoid duplication of research work. The research team will therefore use the following sources in reviewing literature, books, journals, articles, electronic

2.1 PERSPECTIVES TO CREDIT

Credit is an amount or sum placed at a person’s disposal by a bank upon application and usually to be repaid with interest in a specified time (Longman Pitman Office Dictionary). A person to whom a debt is to be paid to is a creditor and the one who owes a debt is known as a debtor. Other authors argue that it is borrowed funds with specified terms for repayment. According to Waterfield and Duval (1996) when there are insufficient accumulated savings to finance a business and when the return on borrowed fund exceeds the interest rate charged on the loan, it makes sense to borrow rather than postpone the business activity until sufficient savings can be accumulated assuming the capacity to service the debt exists. Turner and Turner (1994) argued that lending money is perhaps the most important of all banking activities.
Aryeetey et al. (1994) identified three sources of credit. These include formal, informal and semi–formal source. The formal sources of credit included financial institutions regulated by the banking laws. The informal were defined as activities that operated outside the scope of the banking laws and other financial sector regulations by the government. These include mutual assistance groups, money lenders and “Susu” collectors among others. The semi–formal (microfinance) combines some characteristics of the formal and that of the informal. Ghate (1992) found out that the formal source of credit can be distinguished by their officially recognised status and the fact that they are subject to at least some government regulations. The formal source of credit include credit unions, bank credits, co–operatives and donor–funded programmes. Out of these credit sources, donor–funded programmes tend to be most accessible to traders and farmers.

2.2 MICRO-CREDIT VERSUS MICROFINANCE

Micro-credit is the lending side of microfinance (Rallens and Ghazanfar, 2005). It embodies giving small loans to poor people, usually without collateral. Microfinance institutions have stepped in to provide these loans because traditional banks are usually unwilling to serve the market of the poor. One of the arguments made by poverty activists, however, is that lending to the poor can be profitable to both the borrower and the lender. Those who have small amounts of capital are likely to have much higher returns for a marginal unit of capital than a wealthy individual who has already realized the high initial returns and is now functioning in the diminishing returns range of the
production function. Thus, microfinance institutions exist partly to take advantage of this opportunity for high yielding investments.

However, there is much more to microfinance than micro-credit. Other financial services, particularly savings and insurance as well as emergency loans and loans for day-to-day needs, may enable people to protect the poor from regular or unpredictable declines in income (Rogaly et al., 1999). Microfinance can be defined to include the entire spectrum of financial services for broad sectors of the population but particularly for the poor. It refers not only to small and micro-loans, but also to savings products, insurance, leasing and money transfer services. In addition to these financial services, microfinance involves the provision of skills and vocational training, health and other information, which distinguish them from other financial service providers. In short, the word microfinance denotes the provision of financial services as well as business development skills to disadvantaged people.

Microfinance has been defined by various authors in different ways. For instance, Robinson (2001) defines microfinance as small scale financial services for both credits and deposits that is provided to people who farm or fish; provide services; work for wages or commission; gain income from renting out small amounts of land, vehicles, animals or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas. Lidgerwood (1999) also defines microfinance as the provision of financial services to low-income clients, including the self-employed. Financial services generally include savings and credit; however some microfinance institutions also provide insurance and payment services. In addition to financial intermediation, many microfinance institutions 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 microfinance often includes both financial intermediation and social intermediation. Microfinance is not simply banking, it is a development tool. The poverty lending approach claims that the overall goals of microfinance should be poverty reduction and empowerment (Gulli, 1998). According to Yunus (1994), if we are looking for one single action which will enable the poor to overcome their poverty, I will go for credit.

Rogaly et al. (1999) also define microfinance to include the provision of small loans, savings facilities ties with no (or a very low) minimum deposit and other financial services like insurance and money transfer or hill payment designed for people who live on low income or are otherwise excluded from the products of commercial banks. (Joseph Kimos Adjei, 2010).

### 2.3 THE NEED FOR MICROFINANCE

According to Joseph Kimos Adjei, commercial banks often have little interest in offering microfinance services since most poor people have no collateral such as land and buildings, equipment and machinery, or other assets. At first glance, the poor appear to be fundamentally not creditworthy. In addition, the processing of mostly small amounts that are deposited or withdrawn by the poor often ties up considerable (human) resources. These services are comparatively cost-intensive and are, therefore, perceived as significantly less profitable than transactions with large, established corporate clients.
From the perspective of conventional banks, the structural characteristics of poor customer groups do not justify a substantial commitment to the microfinance sector.

He further asserts evidence exists to show that the formal financial system rarely provides access to poor entrepreneurs in developing countries. It is estimated that in most developing countries the formal financial system reaches at most the top 25 per cent of the economically active population, leaving the bottom 75 per cent without access to financial services apart from moneylenders (Women's World Banking, 2003). This is mainly because the methodology used by commercial banks to serve their customers does not enable them to lend to the poor in a cost-effective manner. Until the advent of microfinance programmes in Ghana, especially rural banks in the mid-1970s, loans for micro-entrepreneurs were provided primarily through government and donor-funded programmes including the use of development banks such as the Agricultural Development Bank. These had relaxed collateral requirements but otherwise used commercial banking methodology in credit management. They generally charged subsidized interest rates, based on the view that the poor could not afford to pay market interest rates. They also suffered from politicization and crony lending which resulted in low repayment rates and high arrears. This reflects a combination of high cost structures, low interest revenues as well as low repayment and subsidy dependency.

With the advent of microfinance, however, there has been an emphasis on establishing financial systems able to reach poor clients on a more sustainable basis. A new set of techniques, with the greatest outreach, has been developed and applied by microfinance institutions such as the Grameen Bank, Bank Rakyat of Indonesia, HFC Boafo Microfinance Services Ltd. and Ghana's Sinapi Aba Trust, to attain expansive outreach.
International experience, gained from what by now are several decades of microfinance promotion, paints a more varied picture. Many microfinance programmes have been successful and shown that the poor are indeed bankable if the product is appropriate to their needs.

In recent years, a wide range of efficient and professionally-run microfinance institutions providing financial services at reasonable costs have become established in developing and transitional countries. Cooperatives, rural and community banks, nongovernmental organizations, savings and loans companies and other rural financial institutions operating as microfinance institutions co-exist successfully. This co-existence ranges from small village banks with less than a hundred clients to large microfinance institutions with countrywide branch networks such as Mexico's Comparators Banco and Equity Bank of Kenya. Some lend from funds mobilized through domestic savings and deposits, debt capital and equity while others use funds from the international social and philanthropic investors. Microfinance is now associated with the setting up of appropriate mechanisms by financial institutions and not perceived merely as a tool for the disbursement of funds which have been mobilized from external sources. Furthermore, the distinction between what is still ‘just’ a microfinance institution and what is a 'proper' bank is becoming increasingly blurred.

In recent times, microfinance institutions have moved from the margins of the financial system towards the mainstream. It is now widely accepted that populations traditionally excluded by the formal financial sector can, in fact, be a profitable market niche for innovative banking services. Microfinance has continued to gather momentum. The 1997 Micro-credit Summit launched a global movement to reach 100 million of the world's
poorest families with the aim of offering credit for self-employment and other financial and Business services by the year 2005. In Ghana, microfinance was identified as a key driving factor towards the reduction of poverty under the Ghana Poverty Reduction Strategy and its sequel Growth and Poverty Reduction Strategy.

2.4 PERSPECTIVES TO CREDIT MANAGEMENT

According to the small business development corporation (2007), they perceived credit management as “implementing and maintaining a set of policies and procedures to minimize the amount of capital tied up in debtors and to minimize the exposure of the business to bad debts”. Others argue that credit management is a branch of accountancy, and is a function that falls under the label of “Credit and Collection”. There is the risk of loss due to a debtor's non-payment of a loan or other line of credit (either the principal or interest (coupon) or both). Other authors argue that credit management may involve the policies and practices retailers follow in receiving payments from their customers.

At the point of agreeing a sale on credit, the creditor assumes that he will collect full payment on the due date; this assumption is flawed if no steps have been put in place to try and minimize the granting of a bad debt. It is important that these steps are instituted and followed before the credit is granted. The objective of credit management, from the ongoing discussion, is aimed at reducing bad debts and maximising profits through a set of policies and procedures put in place by financial institutions.
2.4.1. Appraisal Procedures before Granting Loan

Appraisal procedures before granting loan in microfinance institutions has been receiving increasing attention because it minimizes the amount of capital tied up in debtors and the exposure of the business to bad debts.

According to Edward (1990), a manual of credit and collection procedure is not a “bureaucratic nonsense” but rather a sign of a well organized approach to investment in debtors by a profit conscious management. According to Kent (1966) safety is the watchword in commercial lending activities. He further asserted that judgment or the safety of a loan outlet is generally said to be based upon the threefold criteria of character, capacity and capital. Character here refers to the personal integrity of the prospective borrowers of their obligation to the bank without default of any kind. Capacity also measures the managerial ability of the prospective borrowers (ability to use the facility wisely and efficiently to achieve set goal). Capital is the measure of the borrowers own resources to which the loans of the bank will be added. Kent (1966) agrees with Ahead (1996) that to arrive at a judgment of the character, capacity and capital of a loan application, the credit department of a bank should draw upon several sources of information including final account and others.

According to Graham et al (1990) there are four elements of establishing credit policy namely:

i. The Company’s preparedness to offer credit.

ii. The standard to be applied in taking decisions to grant a credit to a customer.

iii. How much credit a customer should receive.
iv. Under what terms will credit be granted?

When credit has been offered and accepted, the bank must then seek to ensure that the promised amount is paid.

2.4.2. Methods of Credit Delivery

Methods of credit delivery can generally be divided into two broad categories of individual and group approaches based on how the MFI delivers and guarantees its loan (Waterfield and Duval, 1996). That is:

- Individual loans are delivered to individuals based on their ability to provide the MFI with assurances of repayment and some level of security.
- Group-based approaches give loans to a group that are, either to individuals who are members of a group and guarantees each other’s loan or to groups that sub loan to their members.

2.4.3. The Credit Process

The credit process also known as the loan acquisition process of most MFIs involves four basic functions (Eric Compton, 2004). These are:

- Business development and credit analyses
Where would a bank be without customers? Under this process the institution seeks to market its services to existing and potential customers. With lending, it identifies new credit customers as well as maintaining relationships with current customers. The normal starting point for any business development effort is marketing research. The purpose is to forecast the demand for banks services.

- **Credit analyses**

Once a customer requests a loan, lending officers analyse all available information to determine whether the loan meets the institution's risk-return objectives. The institution also evaluates a borrower’s ability and willingness to repay. Eric Compton, in 2004, identified three distinct areas of commercial risk analyses related to the following questions.

a. What risk is inherent in the operation of the business?
b. What have managers done or failed to do in mitigating those risks?
c. How can a lender structure and control its own risk in supplying funds.

One of the most important aspects of credit analyses is determining the customers desire to repay the loan.

- **Credit execution and administration**

The formal credit decision can be made individually by an underwriting department, or by committee, depending on a bank’s organizational structure. This structure varies with a bank’s size, number of employee, and the type of loans handled. A bank’s board of directors normally has the final say over which loans are approved. Once the
loan has been approved, the officer notifies the borrower and prepares a loan agreement. This agreement formalises the purpose of the loan, the terms, repayment schedule, collateral required, and any loan covenants. It also states what conditions may be included such as the principal and interest payment, the sale of substantial asset, declaration of bankruptcy, and breaking any restrictive loan covenant. The officer then checks that all documentation is present and in order. The borrower signs the agreement along with other guarantors, turns over the collateral if necessary, and receives the loan proceeds.

- Credit review

The loan review effort is directed at reducing risk as well as handling problem loan and liquidating assets of failed borrowers. Effective credit management separates loan review from credit analyses, execution and administration. The review process can be divided into monitoring the performance of existing loans and handling problem loans. Many banks have a formal loan review committee that reports directly to the chief executive officer and directors to verify that the borrower’s financial condition is acceptable, loan documentation is in order, and pricing meets return objective. If the audit discovers problems, the committee initiates corrective actions.

2.5 **PRINCIPLES OF LENDING**

Elisabeth Rhyne and Sharon L. Holt, in the year 1994, identified four distinct principles of lending and these are:
• **Offer Services that Fit the Preferences of the Customer/Entrepreneurs**

Give short-term loans because they are compatible with enterprise outlay and income patterns.

Full repayment of one loan brings access to another. Repeat lending allows credit to support financial management as a process, not an isolated event so MFIs or banks should give repeat loan.

Money lenders must allow relatively unrestricted use of the money given to customers. While most programs select customers with active enterprises (and thus cashflow for repayment), they recognize that clients may need to use funds for a mix of household or enterprise purposes, while emphasizing the latter.

In order to be customer-friendly, MFIs/banks should locate outlets close to customer/entrepreneurs; use extremely simple applications (often one page), and limit time between application and disbursement to a few days. They should also develop a public image approachable by poor people.

• **Streamline Operations to Reduce Unit Costs**

Money lenders should develop highly streamlined operations, minimizing staff time per loan and standardize the lending process.

Also applications should be very simple and should be approved on the basis of easily verifiable criteria, such as the existence of a going enterprise.
MFIs should maintain inexpensive offices and select staff from local communities, including people with lower levels of education than staff in formal banking institutions.

- Motivate clients to repay loans

MFIs/banks should substitute for pre-loan project analysis and formal collateral by assuming that clients will be able to repay.

They should also concentrate on providing motivation to repay the loan.

Money lenders should use incentives such as guaranteeing access to loans, increasing loan sizes and preferential pricing for all who repay promptly.

Institutions that successfully motivate repayments also develop staff competence and a public image that signal that they are serious about loan collection.

- Charge full-cost interest rates and fees

The small loan sizes necessary to serve the poor still result in costs per loan which require interest rates that may be significantly higher than commercial bank rates (though significantly lower than informal sector rates).

Poor customers/entrepreneurs have shown willingness and ability to pay interest rates, higher than commercial bank rates, for services with attributes that fit their needs.
2.6  BRIEF HISTORY OF MFIs

Although neither of the terms microcredit or microfinance were used in the academic literature nor by development aid practitioners before the 1980s or 1990s (Robinson, 2001) respectively, the concept of providing financial services to low income people is much older. While the emergence of informal financial institutions in Nigeria dates back to the 15th century (Seibel, 2003a), they were first established in Europe during the 18th century as a response to the enormous increase in poverty since the end of the extended European wars (1618 –1648) (Steinwand, 2001).

In 1720 the first loan fund targeting poor people was founded in Ireland by the author Jonathan Swift (Robinson, 2002) even though the revolutionary progress was initiated in 1976 by Muhammad Yunus an economic professor and successful founder of the Grameen Bank of Bangladesh. After a special law was passed in 1823, which allowed charity institutions to become formal financial intermediaries a loan fund board was established in 1836 and a big boom was initiated. Their outreach peaked just before the government introduced a cap on interest rates in 1843. At this time, they provided financial services to almost 20% of Irish households (Seibel, 2003a).

The credit cooperatives created in Germany in 1847 by Friedrich Wilhelm Raiffeisen served 1.4 million people by 1910 (Morduch, 1999a). He stated that the main objectives of these cooperatives “should be to control the use made of money for economic improvements, and to improve the moral and physical values of people and also, their will to act by themselves”, (Raiffeisen, 1966; Richardson, 2000).

In the 1880s the British controlled government of Madras in South India, tried to use the
German experience to address poverty which resulted in more than nine million poor Indians belonging to credit cooperatives by 1946 (Morduch, 1999a). During this same time the Dutch colonial administrators constructed a cooperative rural banking system in Indonesia based on the Raiffeisen model (Robinson, 2002) which eventually became Bank Rakyat Indonesia (BRI), now known as the largest MFI in the world (Seibel, 2003a).

2.6.1. **Brief History of Microfinance in Ghana**

Ghana’s microfinance institutions, most of them licensed deposit taking companies, started operations in the mid-1990s. But before then, the Bank of Ghana had introduced the idea of rural banking in the country in 1976 to serve the special needs of the rural population. Today, under the umbrella body of Ghana Association of Savings and Loans companies there are 14 members and there are over 125 rural banks scattered across the ten regions of Ghana providing financial services to a predominantly agro-based economy. (Business and Financial Times, 18/11/09)

With the entry of microfinance institutions, particularly the deposit-taking ones, into Ghana’s financial service industry, small businesses and individuals that were hitherto considered un-bankable simply on account of being in the informal sector, now have access to finance and credit.

Ghanaian banks have universal license which allow them to do banking with customers regardless of their size but have long considered informal sector operators too small to
bank and for the better part shunned them, because of the perceived risk of high loan defaults and low appetite for savings which can easily be explained by the low income earning capacity (Kwateng, A. 2009).

2.7. PERSPECTIVES TO MICROFINANCE

The most important finding in the last two decades in the world of finance did not come from the world of the rich or the relatively well-off but was the fact that the poor can save, can borrow, and will certainly repay loans. This is the world of microfinance. Grameen Bank in Bangladesh, the first to start banking to the poor, proved that not only is the poor bankable, but microfinance in the informal sector can be quite profitable (Brandsma and Chaouli, 1998). Since then microfinance institutions have sprung up all over the world and reached millions of poor people (Simanowitz and Walter, 2002).

The term Microfinance, defines what “is arguably the most innovative strategy to address the problems of global poverty” (Woodworth and Woller, 1999). This view is shared by the United Nations (UN) which declared that the year 2005 would be the international year of microcredit (United Nations, 1999).

Greenberg (2009) perceived microfinance as the provision of financial services to poor and low-income clients with the basic aim of helping to lift the poor out of poverty. According to Brandsma and Chaouli (1998), the purpose of microfinance is to provide financial loans to the poor that are not made available to them through the traditional banking system.
In the past it was assumed that poor people were unbankable since they were only capable of taking out small loans, and had no collateral (Brandsma and Chaouli, 1998; Simanowitz and Walter, 2002).

Robert Peck Christen, Richard Rosenberg, and Veena Jayadeva’s (2004) adds that microfinance is a movement that envisions “a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers”. Many different types of organizations, called microfinance institutions or MFIs, provide these services using capital from a wide variety of sources.

From the viewpoint of Robinson (2001) “Microfinance refers to small-scale financial services for both credits and deposits - that are provided to people who farm or fish or herd; operate small or microenterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain in- come from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban area”. Hossain (2004) describes microfinance as “the practice of offering small, collateral free loans to members of cooperatives who otherwise would not have access to the capital necessary to begin a small business or other income generating activities”. This view is too narrow, since it not only excludes such services as saving accounts and insurances (Robinson, 2001; Otero, 1999) but also ignores the possibility of collateral demanding MFIs. Although it is true that many MFIs do not take collateral, especially if they are focusing on the poorest that normally do not possess any collateral, several MFIs in fact do require some form of collateral (Robinson, 2002). Most poor people have few assets...
that can be secured by a bank as collateral. As documented extensively by Hernando de Soto, even if they happen to own land in the developing world, they may not have effective title to it. This means that the bank will have little recourse against defaulting borrowers.

Interested economists found soon that not only small credits but also other services connected with lending could improve economic lives of the poorest (Bauer, Chytilova and Morduch, 2008). Roth and Steinwand (2004) give a more general definition. They describe microfinance as “the provision of a wide range of financial services like saving accounts, loans, payment services and insurances for people with no regular access to financial services through traditional financial institutions”

It has being the duty of microfinance to support these rejected people as Nobel laureate Milton Friedman stated that “the poor stay poor, not because they are lazy but because they have no access to capital”. From the ongoing literature, we can conclude that MFIs have come into existence to help expand the capital base of the poor who have inadequate capital to run their small businesses.

According to Greenberg (2009), “The dust will settle; markets will stabilize. Demand for microfinance should continue to grow-hundreds of millions of people need it”. He also argued that microfinance institutions in many parts of the world have established a track record of good financial performance and earnings that will attract increased investment from a growing pool of interested investors.
2.7.1. Some Principles of Microfinance

Microfinance is a global function and there has been some principles supported, promoted and endorsed by the Group of Eight leaders at the G8 Summit and the Consultative Group to Assist the Poor (CGAP) on June 10, 2004 and the World Education Australia to govern its practices. These are summarized below:

- Poor people need not just loans but also savings, insurance and money transfer services.
- Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.
- “Microfinance can pay for itself.” Subsidies from donors and government are scarce and uncertain, and so to reach large numbers of poor people, microfinance must pay for itself.
- Microfinance also means integrating the financial needs of poor people into a country’s mainstream financial system.
- “The job of government is to enable financial services, not to provide them.”
- “Donor funds should complement private capital, not compete with it.”
- “The key bottleneck is the shortage of strong institutions and managers.” Donors should focus on capacity building.
- Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.
- Microfinance institutions should measure and disclose their performance - both financially and socially.
We can therefore deduce the core principles by stating that:

- The poor need access to appropriate financial services.
- The poor have the capability to repay loans, pay the real cost of loans and generate savings.
- Microfinance is an effective tool for poverty alleviation.
- Microfinance institutions must aim to provide financial services to an increasing number of disadvantaged people.
- Microfinance NGOs and programs must develop performance standards that will help define and govern the microfinance industry toward greater reach and sustainability.

From the discussion above, microfinance can be said to be the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance products to the poor and low-income households, for their microenterprises and small businesses, to enable them to raise their income levels and improve their living standards. Microfinance has proven a critical tool in the fight against poverty. Access to a range of microfinance services such as savings, loans, and money transfers enables poor families to invest in enterprises and in better nutrition, improved living conditions, and the health and education of their children.

2.7.2. Microfinance and Development

The provision of microfinance has been of interest in the development field as a potential alternative to the provision of straight cash subsidies (Morduch, 1999). There are those
who assessed that microfinance is the only real solution to the eradication of poverty (Murdoch and Haley, 2002); others deny that it has any effect on poverty and that it may even do more harm than good (Buss, 1999).

Microfinance has also been touted to be a peculiar effective means of enhancing the economic and social status of women (Mahmud, 2003) who have generally been observed to be better microlending risk than men (Barr and Kinsey, 2002). From the economic perspective the interest of microfinance lies in its novel mechanism for adequate risk assessment and effective client service (Townsend, 2003). The development and economic perspectives come together, or rather collide, in a current popular controversy over the actual social effectiveness and long term sustainability of microfinance institutions (Jain & Moore, 2003).

Microfinance is thus one of the critical dimensions of the broad range of financial tools for the poor, and its increasing role in development has emanated from a number of key factors that include:

- The fact that the poor need access to productive resources, with financial services being a key resource, if they are to be able to improve their conditions of life;
- The realization that the poor have the capacity to use loans effectively for income-generation, to save and re-pay loans;
- The observation that the formal financial sector has provided very little or no services to low-income people, creating a high demand for credit and savings services amongst the poor;
• The view that microfinance is viable and can become sustainable and achieve full cost recovery;
• The recognition that microfinance can have significant impact on cross cutting issues such as women's empowerment, reducing the spread of HIV/AIDS and environmental degradation as well as improving social indicators such as education, housing and health.

From the ongoing discussion, we can say that micro-finance plays three broad roles in development of the economy, and these roles are:

• Helping every poor households meet basic needs and protects against risks,
• Associating with improvements in household economic welfare,
• Helping to empower women by supporting women's economic participation and so promotes gender equity.

The literature suggests that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty. By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

The aim of microfinance according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Littlefield and Rosenberg (2004)
argue that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999). More recently, commentators such as (Littlefield, Morduch and Hashemi, 2003); Simanowitz and Brody, 2004; IMF, 2005) have commented on the critical role of micro-credit in achieving the Millennium Development Goals.

According to Simanowitz and Brody (2004), “microcredit is a key strategy in reaching the MDGs and in building global financial systems that meet the needs of the poorest people”. Littlefield, Morduch and Hashemi (2003) state “microcredit is a critical contextual factor with strong impact on the achievements of the MDGs. Microcredit is unique among development interventions: it can deliver social benefits on an ongoing, permanent basis and on a large scale”.

However, some schools of thought remain skeptical about the role of microcredit in development. For example, while acknowledging the role microcredit can play in helping to reduce poverty, Hulme and Mosley (1996) concluded from their research on microcredit that “most contemporary schemes are less effective than they might be”. The authors argued that micro-credit is not a panacea for poverty-alleviation and that in some cases the poorest people have been made worse-off.

This notwithstanding, microfinance has emerged globally as a leading and effective strategy for poverty reduction with the potential for far-reaching impact in transforming
the lives of poor people. It is argued that microfinance can facilitate the achievement of the Millennium Development Goals (MDGs) as well as National Policies that target poverty reduction, empowering women, assisting vulnerable groups, and improving standards of living. As pointed out by the former UN Secretary General Kofi Annan during the launch of the International Year of Micro Credit (2005), sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs. (Kofi Annan, 2003).

Although microfinance is not a panacea to poverty reduction and its related development challenges, when properly harnessed it can make sustainable contributions through financial investment leading to the empowerment of people, which in turn promotes confidence and self-esteem, particularly for women.

2.7.3. Products and Services in Modern Microfinance

Microfinance started as giving loans or financial services to low-income. Those who benefited from this concept were the poor and women. In recent years the poor and the women are not the only client but all the victims of financial exclusion have now been added to the traditional target beneficiaries. The step from microcredit (giving credit to the poor) to microfinance (credit to every one in need of money) requires the integration of business models and the distribution methodology of financial services. It is not by chance that many authors define the current period as the ‘financial services era’ and underline how the recent consideration of the variety of new financial services motivates
the knowledge of an increasing complexity and variety of needs of low income clients (Rutherford, 2003).

The poor, in fact, do not only need productive loans. They need further financial services in order to meet other specific needs. Examples are the demand for credit or savings in order to provide education for their children, the need for insurance services to deal with shock or emergency situations, the requirement for savings and insurance services to meet the costs of old age and funeral services.
CHAPTER THREE

METHODOLOGY

3.0. INTRODUCTION

This chapter focused on the techniques and methods used by the researcher to carry out the study. It covered the research design, sample and sampling techniques, data collection techniques and data analysis.

3.1. RESEARCH DESIGN

The research was an exploratory study which gathered preliminary information that defined problems and suggested improvements in the area of managing credit; sought new insight; asked questions and assessed credit management practices of Multi Credit Savings and Loans Ltd. To achieve these purposes, analytical sample survey was used to collect some amount of data from sampled respondents out a large population. This method was used because in a research study where questionnaires and interviews are deployed, the survey becomes the most appropriate and common instrument for data collection (Gray, 1987). It was conducted using two micro financial institutions as studies.
3.2. SAMPLE AND SAMPLING TECHNIQUE

Due to factors such as, budget constraints, time constraints, and quickness of data collection, a sample size of 50 clients were selected. Convenience non – probability sampling technique was used, thus, the researchers were present at their premises at a particular time and the probability of the respondents being selected was unknown. The sample size was not based on certain characteristics or criteria set by the research such as age, occupation, type of account held etc.

3.3. DATA COLLECTION TECHNIQUES

Data for the study was gathered from two sources namely primary and secondary sources of data. Primary source - questionnaires were administered to both clients and staff of the institution.

Secondary source – some information gathered from the internet and newspapers were used for the study.

3.4. DATA ANALYSIS

The data collected was first edited to ensure consistency. From the data edited, tables and charts were constructed to provide summarized information. The analysis of data comprises the examination of all data with primary and secondary sources to check for relevance and reliability. Conclusions were drawn solely from the data so obtained.
3.5. ORGANIZATIONAL PROFILE – MULTI CREDIT SAVINGS AND LOANS LIMITED

Multi Credit Savings and Loans Limited (MCSEL) was incorporated as a private limited liability company on August, 9, 1999 under the Ghana Companies Code, 1963 (Act 179). MCSEL was incorporated as a non-bank financial institution to operate a savings and loans business in the country. The Institution was granted an operating license by the Bank of Ghana under the Non-Bank Financial Institutions (NBFI) Law (PNDCL 328) of 1993 on November, 20 1999 to accept deposits from the public and provide credit services to businesses and consumers. MCSEL commenced official business on August 9, 1999 after it had received a certificate to commence business on November, 9 1999. MCSEL’s authorized business is to carry on savings and loan services. The Institution was established purposely to engage in micro-financing activities through the mobilization of savings from the retail public – mainly households and small business enterprises – and the provision of credit largely to its target group (micro and small businesses). The target group oriented credits are usually linked to savings. MCSEL started operations on August 9, 1999 at the upper floor of its building at Bantama, the capital city of the Ashanti Kingdom.

3.5.1 Vision Statement

The vision of Multi Credit Savings and Loans Limited is to create an excellent institution and be a leader in the provision of quality financial services to the micro and small enterprise sector in Ghana.
3.5.2 Mission Statement

Multi Credit Savings and Loans Limited commenced operations with the mission “to offer convenient access to efficient, innovative and responsive financial services to the micro and small scale entrepreneur on a sustainable basis for the mutual benefit of all stakeholders”.
CHAPTER 4

PRESENTATION OF FINDINGS AND ANALYSIS

4.0. INTRODUCTION

The chapter presents the analysis of data and findings obtained from the clients of Multi Credit Savings and Loan Limited in Kumasi (Bantama Branch). The institution and their clients were carefully chosen to enable us crosscheck or confirm the information released to us. The analysis captures the results from the questionnaires answered by the institution and their clients.

4.1. CREDIT MANAGEMENT POLICIES AND PROCEDURES OF MULTI CREDIT SAVINGS AND LOANS LIMITED

With respect to credit management policies and procedures, the institution stated that once a customer request for a loan, their lending officers analyse all the available information to determine whether the applications meet the institutions’ risk-return objectives. They also evaluate the borrower’s ability and willingness to pay base upon the threefold criteria of character, capacity and capital. In terms of Character, the institution looks at the personal integrity of the prospective borrowers of their obligation to the institution without default of any kind. With capacity, they measure the managerial
ability of the prospective borrowers (ability to use the facility wisely and efficiently to achieve set goal). Also with capital, they try to measure the borrowers own resources to which the loans will be added.

The institution also performs a loan review process aimed at reducing risk as well as handling problem loan and liquidating assets of failed borrowers. This process seeks to monitor the performance of existing loans. They also have a formal loan review committee that reports directly to the directors to verify that the borrower’s financial condition is acceptable and loan documentation is in order. If the audit discovers problems, the committee initiates corrective actions. Multi Credit Savings and Loans also have a prompt payment policy which seeks to award a portion of the interest charged to clients who repay their loans before the due date.

From the information above, we can conclude that the institution has resorted to some policies and procedures which they perceive will minimize the amount of capital tied up in debtors and to minimize the exposure of the institution to bad debts.

4.2. REQUIREMENTS OF GRANTING LOANS

On the issue of loan requirements, the credit manager of Multi Credit and Savings and loans stated that loans are given to customers with good account operations, permanent place of business and a credit worthy customer. The institution also requires collateral/security which usually depends on the volume or amount of risk they are exposed to. Facilities which are above GH¢10000 requires a security in the form of a
vehicle or land/building together with a guarantor. Other facilities just require a saving/deposit with them for a time period and a guarantor.

The information given shows that clients are systematically appraised by the MFIs before a loan is approved for them. The collaterals/ securities charged make it difficult for clients to default in loan payment thereby reducing the MFIs exposure to bad debt.

However, data obtained from the clients indicate that the institution asks for their personal information, the number of years they have been in operation, collaterals, financial statement of their businesses and previous savings records.

In a case of a start-up business, clients are asked to provide their business plan and if possible, a projected financial statement.

Moreover, with the types of collaterals demanded

Figure 1: Types of Collaterals Demanded
14% of the respondents stated house/land, 16% said business document, 40% said guarantors and 30% of the respondents added that they have to make a compulsory deposit with the institution thereby, serving as collateral for them.

From the above analysis, it is clearly indicated that a considerable number of clients within the sample size are asked to provide guarantors to serve as a security against the loan granted.

Also most government workers whose salaries pass through this institution serve as collaterals when requesting for loans. All these buttress the point that the Multi Credit Savings and Loans, one way or the other, request for collateral/security from their client before a loan is given to them.

4.3. PROBLEMS WITH LOAN RECOVERY

The institution stated that 96% of their clients who take in loan are traders and 4% constitute the other sectors. The loan recovery rate from traders was 82% and that of the other sectors were 59%. Some of the challenges faced by the institution in assessing clients’ ability to pay back loans were inaccurate information provided with respect to their residence, ownership titles to assets and personal details. Moreover, the institution is not able to reclaim the loan because the clients do not use the loans for intended purposes. It was also inferred from them that some clients fail to pay the loan on time. All these constitute problems faced by Multi Credit Savings and Loans in collecting the loans from their clients.
In determining the reasons for loan default, the information obtained from clients is shown in figure below.

**Figure 2: Causes of Loan Defaults by Clients**

Some of the difficulties the clients encounter in an attempt to repay the loans are high interest rate (64%), shorter repayment period (28%), poor business performance (6%) and inflation rate fluctuation (2%). From the above analysis, we infer that the major problems of client loan defaults were high interest rates and shorter repayment period.

In contrast, the institution faced some other challenges in recovering loans such as inability to trace clients’ whereabouts due to inaccurate information, loans not used for intended purposes and loan not paid on time.
4.4. IMPROVEMENTS IN LOAN RETRIEVAL

Some of the improvements recommended by the credit officer of Multi Credit were constant monitoring of loans for intended purposes, regular visits to clients to verify their deposits, and demand for extensive and accurate information. Also, their clients were asked for their views on the issue of loan retrieval improvements and the data obtained from them is analysed in figure below.

Figure 3: Improvements in Loan Retrieval by their Clients

With respect to improvements, as shown in the graph, 72% of the client said the institution should reduce the interest rate, 26% said they should institute flexible way of loan payment and 2% stated that any member in a group should be made to account for his/her liability incase of default in loan payment.
CHAPTER 5

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

5.0. INTRODUCTION

This chapter being the last of the research work deals with the conclusions drawn from the work and some recommendations which when embarked upon will be of immense benefits to the course of the institution’s operations. The research seeks to evaluate the credit management practices of Multi Credit Savings and Loans Ltd. and in the quest to evaluate their practices and policies; questionnaires were administered to clients and their staff. A systematic method of data collection was deployed in order to gather primary data to be used to evaluate these institutions credibly.

The chapter briefly looks at summary of the study from chapter one to chapter five of the study. It then talks about conclusions drawn from the research and lastly ends with recommendations (improvements).

5.1. SUMMARY OF THE FINDINGS

From the evaluation of the credit management practices of Multi Credit Savings and Loans Ltd, the following findings were determined.
• The researchers found that the institution is insistent in recovering their loans from their clients and also almost half of their clients were not satisfied with the terms associated with loan application. Again the interest rates charged by the institution are high. These serve as impediments to proper credit management by this institution.

• It was also determined that the institution in granting loans to clients required that they are credit worthy and they have existing businesses. In order to qualify for loans, collateral in the form of a savings deposit with the institution, guarantor who should save with the institution, vehicle or land need to be provided. Also clients whose salaries are paid them through the institution serve as collateral to secure loans. These buttress the point that the institution, one way or the other, request for collateral/security from their client before loans are granted them.

• The institution also encounters challenges with recovery of their loans from clients. Such challenges from the study are attributed to inaccurate information provided by their clients, loans not used for its intended purposes and business not booming due to slow economic growth.

• Questions (other than those in the questionnaires) asked of them revealed that most small scale businesses operated by the borrowers have no permanent physical address. Worse still many do not have proper title to their assets to afford them the opportunity to use them as collateral for loans.
5.2. CONCLUSIONS

In the course of the research work, the following conclusions were made from the study;

- The institution have debt recovery department or team which follows up clients who have been granted loans by them and also defaulting clients so that they can recover their loan.

- It was also concluded that institution performs other banking or financial services apart from their core operations of savings and loans delivery to the poor. Such services include automated teller machine (ATM), international and local money transfer, outreach service, fixed deposit, savings and current account.

- Apart from collaterals demanded for individual loan application such as guarantor, vehicles, land etc, other collaterals demanded by the institution, in the case group loans, could be described as collateral substitutes and they include group base guarantee, compulsory deposit with the institution.

- The institution grants loans to individuals (individual loan) and to groups of people who apply for loan (group loans). In the case of group lending, the members are required to bear the payment of a defaulting member’s loan.

- Mostly, factors that cause most clients to default on loans are high interest on loans, shorter repayment period, demand for collateral securities and loans not used for the right purposes.

- In determining the credit policies of Multi Credit Saving and Loans, the researchers came to the conclusion that, all the institution used as a case study (personal
observation), have mission statements which guides their operations, therefore the institution is guided by the mission statements in the course of its operations.

5.3. RECOMMENDATIONS

On the basis of the findings and conclusions drawn from the study, the researchers made some recommendations which could improve the credit operations of Multi Credit Saving and Loans Ltd. These are outlined below.

- Since the clients of the institution are mostly low income earners or poor people, interest rates should be adjusted (minimized) slightly below the market rate and also repayment period should be longer enough to enable them pay off the loans in due time.

- In the case of group lending methodology, the institution and the group leaders will have some work to do to ensure that the group pays off the outstanding loans by defaulting members. This has been made difficult for them because most group members do not live in the same community, as in countries like Bangladesh where the groups stay in the same communities. Therefore it makes bolting with the monies easy. The institution should encourage granting loans to group members living within the same communities so that borrowers can be easily traced.

- Since keeping proper books of account is not a common practice (especially among MFIs clients because most of them are illiterate or semi-literate), it was suggested that the institution should educate their clients on basic accounting and management practices to enable them become more effective in managing their businesses and
minimize the risk of default. For example, educating them on basic bookkeeping, cash flow and management skills.

- Most small scale businesses operated by the borrowers have no permanent physical address and worse still many do not have proper title to their assets to afford them the opportunity to use them as collateral for loans. In order to curb loan delinquency, the institution should demand extensive and accurate information about the borrower so that in case of defaults their whereabouts could be traced. Also titles to assets used as collateral evidence should be absolutely and genuinely owned by borrowers with proper checks done on the title papers/deed as to the source authority, date of acquisition, owner’s name, signature, consideration or amount paid for the assets, receipts etc.

- At least, supervisors and managers of the institution should undertake random visits with their field officers to interact with some of its clients and to verify their deposits in the case of loan repayment and Susu clients. This, when done, can reduce internal fraud among field staff who understate the actual deposits or repayments of their clients.

- As a general recommendation, the government should help provide a stable macroeconomic environment wherein clients can take advantage of the economic opportunities with the loans they receive to grow their enterprises, in that sense, clients who secure loans to expand their businesses or establish small scale businesses, can repay the loan as fast as possible as a result of booming businesses and increasing sales.
The presence of MFIs would not be felt: that is their contribution to raising the income levels of the low income earners and the productive poor through the provision of loans and other services will not be felt if the basic requirements needed to grow the microfinance industry are not employed. As more and more MFIs spring up in Ghana, regulatory bodies concerned should act to support the activities of these institutions and also to protect the clients dealing with them so that in the wake of the “microfinance revolution”, authorities and the poor will not be caught unaware.

We therefore recommend suggest that the loan retrieval system of Multi Credit Saving and Loans Ltd should be revisited to include suggestions from their clients since most of their recommendations made were positive.

Recommendation for Further Studies

MFI’s are established mainly to assist the poor and low income earners have better financial backing by providing them with credit facilities. However as to whether these are the customer group served is another question to be considered. The research team recommends that further studies be undertaken to determine the customer groups of Micro financial Institutions.
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USEFUL NEWSPAPERS


USEFUL WEBSITES


APPENDIX A

LIST OF TABLES

THE TABLE BELOW SHOWS THE KIND OF COLLATERALS DEMANDED BY THE INSTITUTION

<table>
<thead>
<tr>
<th>Answers</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>House/land</td>
<td>7</td>
<td>14</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Business document</td>
<td>8</td>
<td>16</td>
<td>16</td>
<td>30</td>
</tr>
<tr>
<td>Guarantor</td>
<td>20</td>
<td>40</td>
<td>40</td>
<td>70</td>
</tr>
<tr>
<td>Savings with the Bank</td>
<td>15</td>
<td>30</td>
<td>30</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

THE TABLE BELOW SHOWS THE CAUSES OF LOAN

<table>
<thead>
<tr>
<th>Answers</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Interest Rate</td>
<td>32</td>
<td>64</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>Inflation Rate Fluctuation</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>66</td>
</tr>
<tr>
<td>Shorter Repayment Period</td>
<td>14</td>
<td>28</td>
<td>28</td>
<td>94</td>
</tr>
<tr>
<td>Poor Business Performances</td>
<td>3</td>
<td>6</td>
<td>6</td>
<td>100</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>
THE TABLE BELOW SHOWS THE SUGGESTIONS MADE BY THE CLIENTS WITH RESPECT TO LOAN RETRIEVAL IMPROVEMENTS.

<table>
<thead>
<tr>
<th>Answers</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reducing interest rate</td>
<td>36</td>
<td>72</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>Flexible payment terms</td>
<td>13</td>
<td>26</td>
<td>26</td>
<td>98</td>
</tr>
<tr>
<td>Members should account for their own liabilities</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX B

SAMPLE QUESTIONNAIRE 1

Credit management practices of MFIs in Ghana: The case study of Multi Credit Savings and Loans Limited.

We are group of five BBA students from Christian Service University College, researching on the aforementioned topic. Any information given to us would be kept very confidential since this is for academic purpose.

(Kindly tick the appropriate category/ fill in the space provided)

Sex: M....... F.......

Rank.................................. Signature ……………………..

Please answer the following questions

1. Which of the following credit facilities does the institution offer?
   a) Over draft
   b) Loan
   c) Both
   d) Others (Specify) …………………

2. Apart from credit granting, do you offer any financial service to your customers?
   ……………………………………………………………………………………………………………………………
   ……………………………………………………………………………………………………………………………
   ……………………………………………………………………………………………………………………………
   ……………………………………………………………………………………………………………………………
3. What percentage of your loan do the following sectors take?
   a) Farmers ( %)
   b) Traders ( %)
   c) Fishers ( %)
   d) Others (specify) .................................................................

4. What qualifies a customer for a loan?
   ...........................................................................................................
   ...........................................................................................................
   ...........................................................................................................
   ...........................................................................................................

5. Before given credit, what type of collateral security does the institution requires.
   a) Land and building
   b) Saving deposit with a bank for a time period
   c) Vehicle(s)
   d) Guarantor(s)
   e) Others (specify) .................................................................

6. How long do you take to process loan application?
   a) Less than a week
   b) A week – A month
   c) One – three months
   d) Others (specify) .................................................................

7. What is the institution’s loan period for the following type of loan granted?
   a) Overdraft ..............................................................................
b) Short term loan……………………………………………………………………………………………..

c) Long term loan……………………………………………………………………………………………..

8. How does the institution monitor the loans given to client(s)?
   a) Paying regular visit to customer
   b) Making telephone calls to customers
   c) Showing interest in what customers/clients use the loans for.
   d) Others (specify)……………………………………………………………………………………………..

9. What mechanism and strategies have been put in place for the effectiveness of regular payment?
   a) Discount for early payment
   b) Award for prompt payment
   c) Others (specify)……………………………………………………………………………………………..

10. What do you do to defaulters of the loan?
    a) Close down their business
    b) Take legal action
    c) Others (specify)……………………………………………………………………………………………..

11. How does the institution assess the client’s ability to pay?
    ……………………………………………………………………………………………………………………..
    ……………………………………………………………………………………………………………………..

12. What is the loan recovering rate for the following sectors
    a) Farmers (  %)
    b) Traders (  %)
    c) Fishers (  %)

57
d) Others (specify)........................................................................................................

13. Are there other options available for the recovery of debts?
...........................................................................................................................................
...........................................................................................................................................

14. What problems do you face in collecting loans from customers?
...........................................................................................................................................
...........................................................................................................................................
...........................................................................................................................................

15. What challenges do you normally face in assessing the client ability to pay the loan?
...........................................................................................................................................
...........................................................................................................................................
...........................................................................................................................................

16. What improvement would you like to recommend in recovering loans from customers?
...........................................................................................................................................
...........................................................................................................................................
...........................................................................................................................................
SAMPLE QUESTIONNAIRE 2

Credit management practices of MFIs in Ghana: The case study of First Allied Savings and Loans Limited.

We are group of five BBA students from Christian Service University College, researching on the aforementioned topic. Any information given to us would be kept very confidential since this is for academic purpose.

(Kindly tick the appropriate category/ fill in the space provided)

Sex: M…….. F……..

Occupation……………………

1. Why do you operate with the institution?
   …………………………………………………………………………………………………………………………………………………
   …………………………………………………………………………………………………………………………………………………
   …………………………………………………………………………………………………………………………………………………
   …………………………………………………………………………………………………………………………………………………

2. How do you apply and receive the loan?
   a) In group
   b) Individual
   c) Others (specify)…………………………………………………………………………………………………………………………
3. What are some of the problem you normally encounter with:
   a) Group loans
   b) Individual loans

   How do you find the terms of contract associated with the application and receiving of loan.
   a) If good, why
   b) If bad, why

4. Are you asked for collateral securities before receiving the loan? (Yes/No). If yes, what kind of collateral securities do the institution normally require?

5. What interest rate are you charged for the following loans?
   a) Overdraft
   b) Short term loan
   c) Long term loan

6. How do you find the interest rate charged?
a) Low
b) Moderate
c) High

7. Do you always receive the amount you demanded?
   A) Yes
   B) No

8. What do you think of the repayment period for the following type of loan?
   a) Overdraft…………………………………………………………………………………………
   b) Short term loan……………………………………………………………………………………
   c) Long term loan……………………………………………………………………………………

9. What makes it difficult sometimes to repay the loan?
   ……………………………………………………………………………………………………………
   ……………………………………………………………………………………………………………
   ……………………………………………………………………………………………………………

10. What do you think the institution should do to improve upon its credit facilities?
    …………………………………………………………………………………………………………
    …………………………………………………………………………………………………………
    …………………………………………………………………………………………………………
CREDIT MANAGEMENT PRACTICES OF MICRO FINANCIAL INSTITUTIONS

(CASE STUDY OF MULTI CREDIT SAVINGS AND LOANS)

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STATEMENT OF AUTHENTICITY

We have read the university regulation relating to plagiarism and certify that this report is all our own and do not contain any unacknowledged work from any other source. We also declare that we have under supervision for this report herein submitted.

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SUPERVISOR’S DECLARATION

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of the dissertation laid down by Christian Service University

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ABSTRACT

This dissertation explores the concept of credit management and its evaluation in the operations of microfinance institutions (MFIs), specifically in recovering loans. Banks in Ghana have universal license which permit them to bank with customers regardless of their size but have long considered informal sector operators too small to bank and for the better part shunned them, because of the perceived risk of high loan defaults and low appetite for savings which can easily be explained by the low income earning capacity.

However, with the entry of microfinance institutions into Ghana’s financial services industry, small businesses and individuals especially low income earners that were hitherto considered unbankable simply on account of being in the informal sector, now have access to finance and credit.

It is for this reason that MFIs in Ghana whose purpose is to serve the low income earners, must safeguard themselves with effective and efficient credit policies and practices in order to minimize their exposure to loan delinquency.

In this work, the issue as to whether the credit management policies and practices of most MFIs in Ghana are effective in minimizing their exposure to bad debt loans has been seriously analyzed. The effectiveness of credit management has been critically considered in the light of the conclusion drawn from the analysis.

This dissertation also contains practical recommendations that are tailored to meet the expectations of various stakeholders in the microfinance industry in Ghana, especially the MFIs who seek to minimize their risks and improve upon their services to the poor.
ACKNOWLEDGEMENT

First and foremost, we acknowledge the eminence of the almighty God for his kind support, guidance and blessing upon us throughout the execution of this academic exercise. We also wish to acknowledge the contribution of our supervisor, Mr. Agyei Mensah, whose active supervision has undoubtedly contributed to the successful production of this work. We are particularly grateful for his scholarly advice and direction as well as the benevolent assistance he offered us in accessing relevant materials to engage in this exercise.

We further acknowledge our parents, for their financial support and prayers throughout this course. Again, we say a big thanks to all those especially the credit officer of the various institutions who provided us with relevant data in assisting us produce a good material. We wish to express our profound gratitude for their views and the recommendations offered us on credit management.

Lastly, we are grateful to all those who have one way or the other contributed in any measure to ensure that we complete this exercise successfully.
DEDICATION

This work is warm heartedly dedicated to our parents and to our respective benefactors.
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