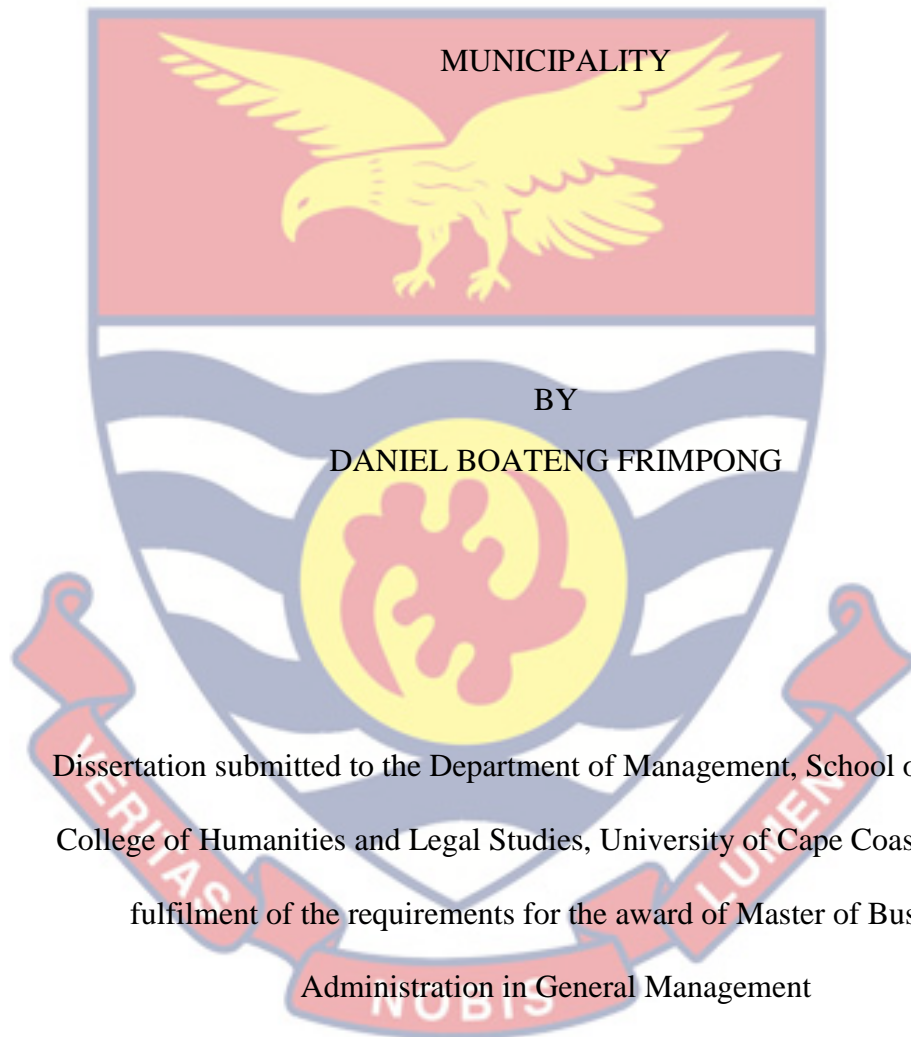


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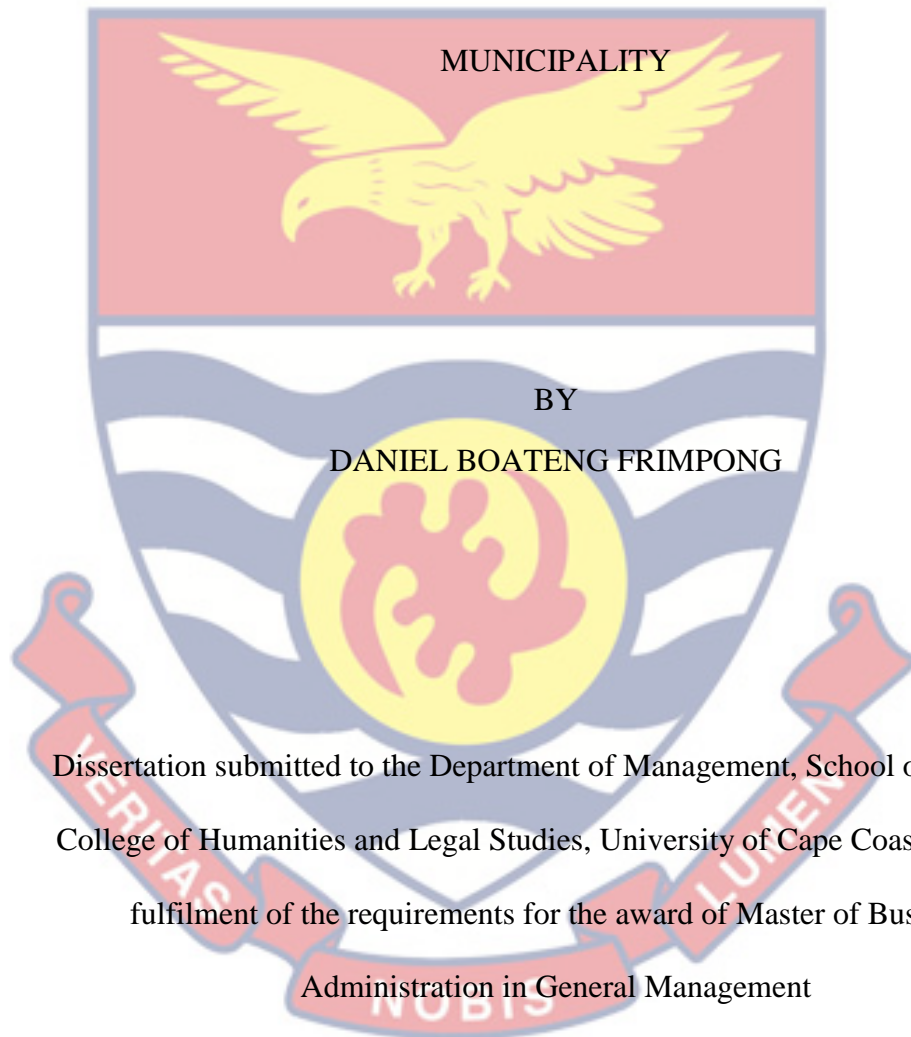
THE MANAGEMENT OF MICRO CREDIT AND POVERTY
REDUCTION IN GHANA: A CASE OF BIRIM CENTRAL



2022

UNIVERSITY OF CAPE COAST

THE MANAGEMENT OF MICRO CREDIT AND POVERTY
REDUCTION IN GHANA: A CASE OF BIRIM CENTRAL



APRIL, 2022

DECLARATION

Candidate's Declaration

I hereby declare that this thesis is the result of my own original research and that no part of it has been presented for another degree at this university or elsewhere.

Candidate's Signature..... Date.....

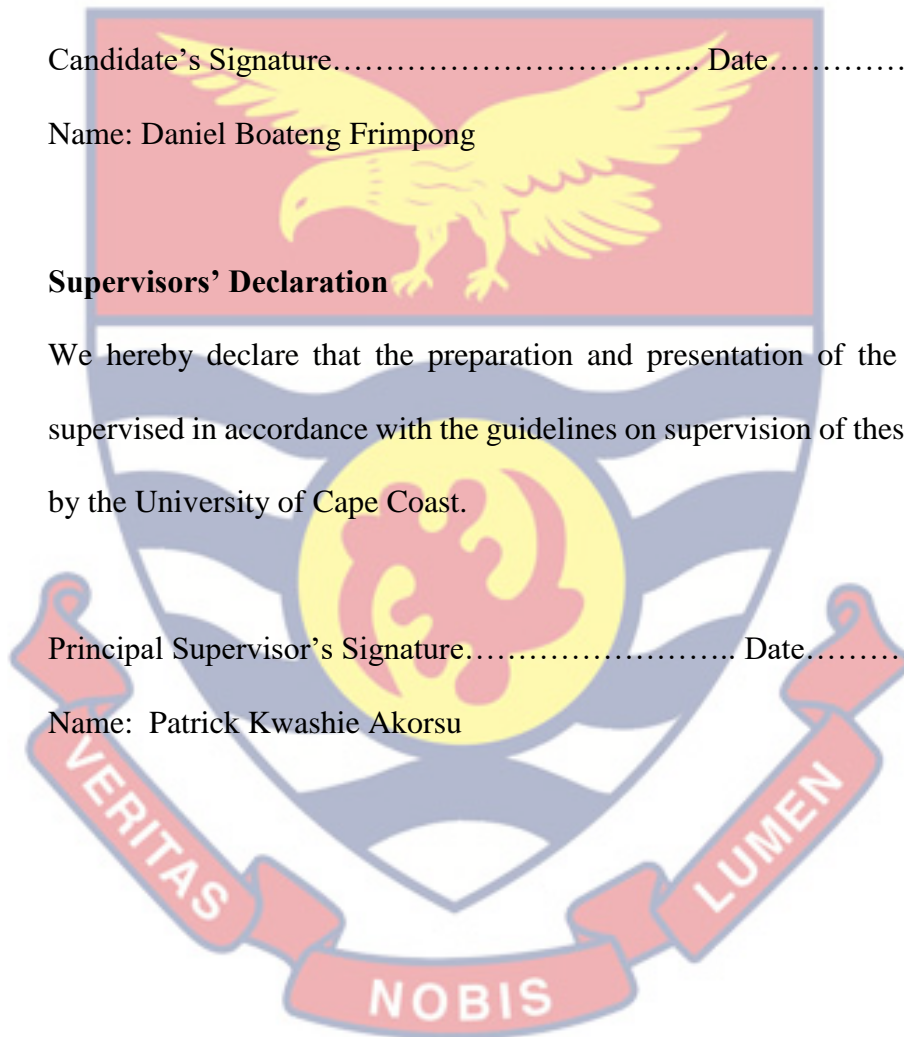
Name: Daniel Boateng Frimpong

Supervisors' Declaration

We hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

Principal Supervisor's Signature..... Date.....

Name: Patrick Kwashie Akorsu



ABSTRACT

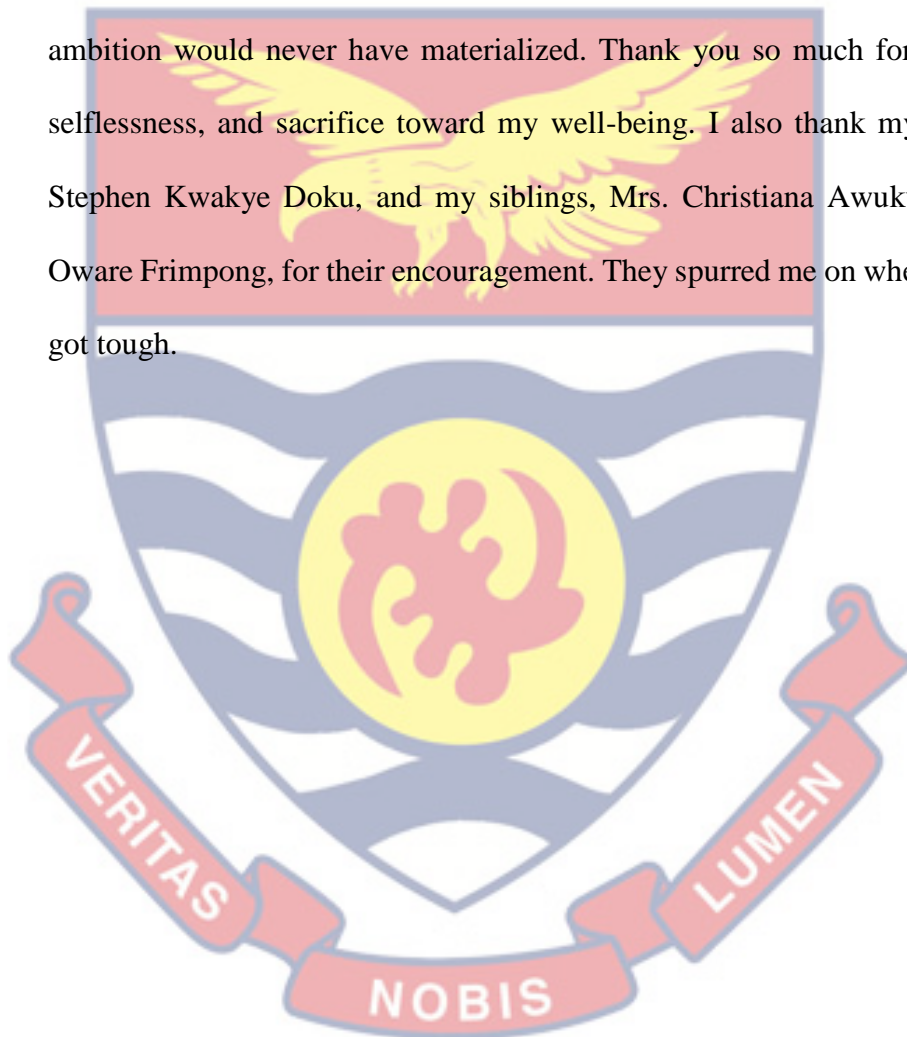
Most development policies and programmes, including microfinance, have prioritised poverty reduction. As a result, it is critical in development practice to aim such policies and programs at the poor. The causes for these microfinance enterprises' failure have sparked the researcher's curiosity, pushing him to do advanced research into credit management in microfinance institutions in the Birim Central Municipality of Ghana's Eastern Region. As a result, the study looked into the effect of credit management and poverty reduction in Ghana's Eastern Region's Birim Central Municipality. The effect of credit management, practices, causes and challenges were also explored.

The study revealed that holding microcredit management in terms of client appraisal, credit risk control, and collection policy to a constant zero, poverty reduction would be 4.798, and a unit increase in microcredit management would lead to an increase in poverty reduction by a factor of 0.494. The study's results showed a positive effect of microcredit management of the MFIs on the poverty reduction of beneficiaries of the institution. The study further revealed that issues of the board and staff influencing approval, disbursements, and recovery, customer business failure due to mismanagement, lack of appropriate security on the part of loan applicants, the problem of liquidity on the part of customers, inadequate information about the customers' business, delay in the approval of loans and high overdue rate used by the bank were the common and major challenges faced by these MFIs. The study suggests that more research be done into all of the variables related to microfinance credit management and their effects on beneficiaries' poverty reduction and the institution's success.

ACKNOWLEDGEMENT

Mr. Patrick Kwashie Akorsu, my supervisor, deserves my gratitude for his time, patience, and inspection of this job. Much thanks to Mr. Francis Baidoo of Hetgor Consult for his encouragement, patience, tolerance, and scrutiny of this dissertation. Mr Baidoo, thank you so much.

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DEDICATION

To my mother, late Madam Mercy Yaa Asieduaah Doku.



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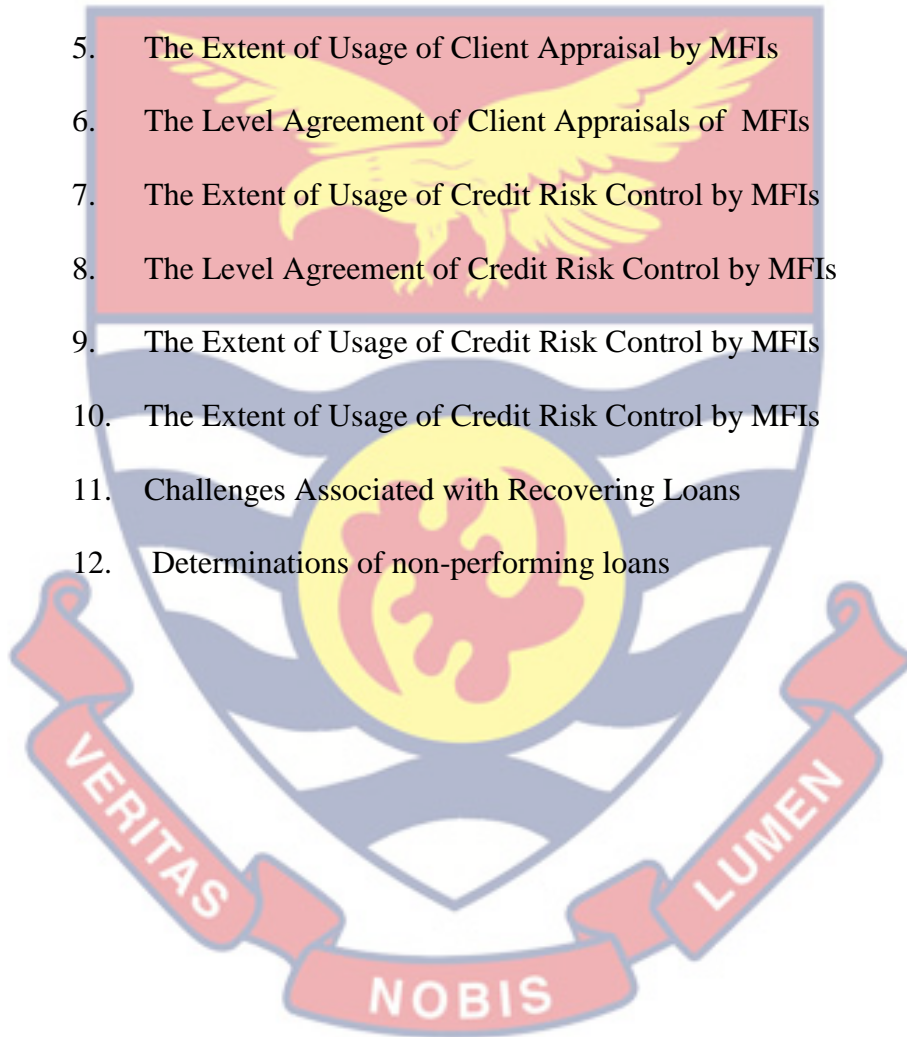
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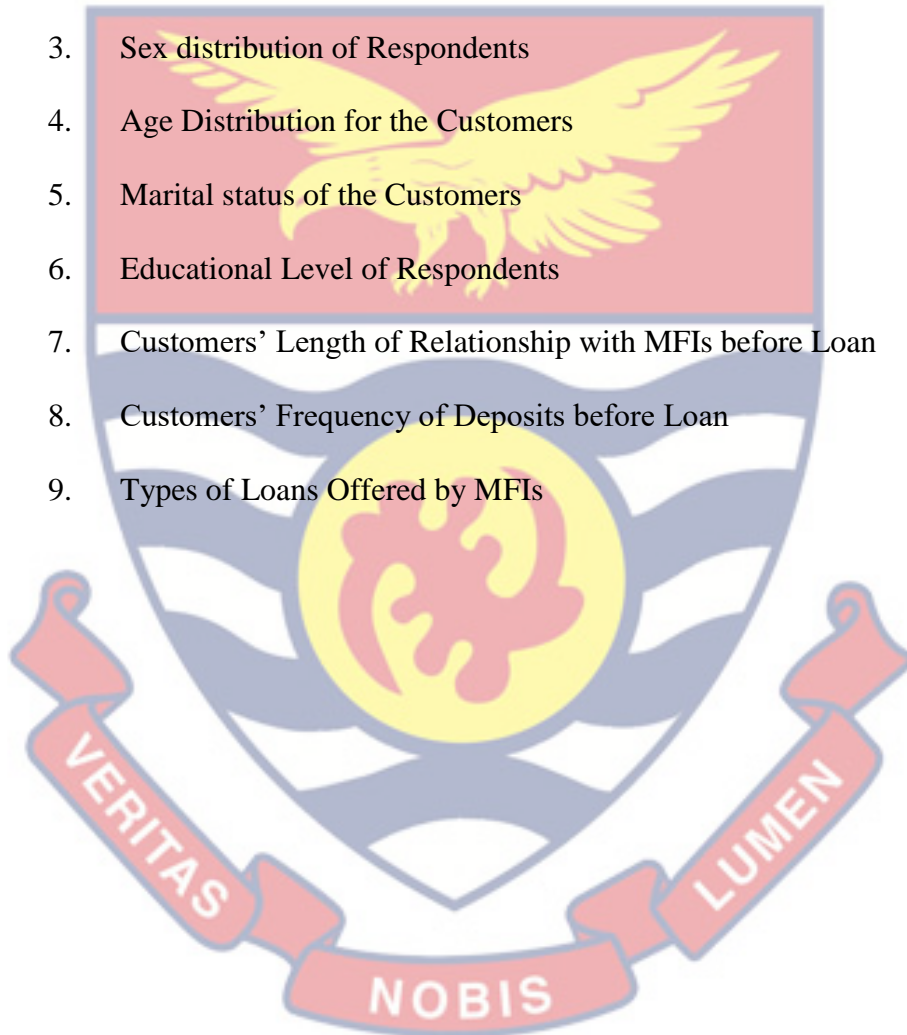
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CHAPTER ONE

INTRODUCTION

Background to the Study

Most development policies and programmes, including microfinance programmes, have had poverty reduction as a primary goal (Hulme & Mosley, 1996; United Nations, 1997; Copestake, Dawson, Fanning, McKay & WrightRevolledo, 2005; Arun, Iyer, Qusailah & Sathyaprakash, 2006; Adjei & Arun, 2009). As a result, it is critical to aim such policies and programmes at the poor (Zeller, Sharma, Henry & Lapenu, 2002). Most commercial banks in most developing nations do not serve many groups; these groups are typically more positively associated and include impoverished people, women, rural dwellers, and ignorant individuals. A dividing line between official and informal financial markets is described by Von Pischke (1995). Those living on the fringes of the frontier have limited access to formal financial services; they are a diverse community in their respective countries, with varying degrees of financial isolation and poverty (Hulme & Mosley, 1996). Poverty in rising countries has shifted to South Asia and Sub-Saharan Africa, according to the World Bank (2010), as described in Addae-Korankye (2012). One of the fundamental causes of poverty in emerging countries is limited access to productive capital, with government financial institutions excluding the poor from most lending activities (Chirwa, 2002). Microfinance initiatives have been implemented in several developing nations to offer credit to the needy. Microfinance has been explicitly established as one of the solutions to alleviate poverty in various developing nations, including Ghana, as evidenced by certain effect studies. As proven by the success stories of Bangladesh and Bolivia,

microfinance programs help achieve numerous components of the Millennium Development Goals (MDGs), including poverty reduction.

Microfinance lending is known as microcredit (Rallens & Ghazenfa, 2005). Making small loans to the poor without demanding collateral is what it entails. Microfinance refers to various financial services supplied to diverse people, notably the poor. Savings products such as insurance, leasing, other money transfer services, and small and microloans are included (Adjei, 2010). Microfinance (technically, microcredit) provides small loans to the poor to assist them in starting or expanding a source of income and thereby escape poverty (Bateman & Snell, 2011).

Microcredit is Ghana's most valuable asset and rural banks' major source of revenue. On the other hand, microcredit is the rural banks' worst nightmare: it is risky and expensive to handle. Credit management, according to Asiedu-Mante (2011), encompasses developing formal lawful policies and procedures to ensure that greater authorities grant credit, credit is permitted to the appropriate people, credit is awarded for economically and technically viable productive activities or businesses, credit is awarded in the appropriate dimensions, credit is recoverable, and management information is properly transitioned within the organization.

Microfinance institutions and other non-financial institutions, in the vies of Idama, Asongo, and Nyor (2014), provide small sums of credit to individuals and SMEs who may lack the appropriate documentation to obtain loans from commercial banks. As a result, microfinance appears to fill the gap by catering to a market group where traditional banks have completely failed to meet their financial requirements. However, how microfinance institutions will effectively

manage the concentration risk associated with these divisions while complying with regulatory standards and serving the interests of their shareholders is a substantial roadblock to this market segment's development. Agene (2011) defines credit risk as a drop in credit advances units that lead to credit losses, high non-performing loans, and high management expenses. These circumstances, according to Agene, are becoming more typical among non-traditional banks, such as microfinance firms (2011).

As Ditcher (2003) correctly points out, a financial institution's tools and procedures to assess its credit lines will significantly impact its credit administration success. As a result, lending choices should be based on a thorough examination of the borrower's risk characteristics and any other economic indicators that may affect the obligee's capacity to meet his or her obligations. Excessive scrutiny of a borrower's ability to meet his obligations may make it more difficult to attract new customers, as the ability to recruit customers is sometimes dependent on a bank's ability to quickly and efficiently inform credit decisions. The study focuses on selected Microfinance institutions in the Birim Central Municipality in Ghana to determine their microcredit management practices, their effectiveness in poverty reduction, and associated challenges.

Statement of the Problem

Credits and advances continue to be one of the most important sources of revenue for both financial and non-financial organisations. Even while there may be other possible channels of credit risk within their business activities, such as the banking book and the trading book, loans and advances make up a

large component of the credit risk for most microfinance institutions in Ghana (Boampong, 2014; Boakye, 2015).

The Millennium Development Goals (MDGs) have been acknowledged as a vital component in accomplishing them (Littlefield & Rosenberg, 2004; World Bank, 2010). By giving more credit to economically engaged poor people (self-employed people living on less than \$2 per day), poverty will be eradicated. Customer credit lines must be managed sensibly and creatively, which is necessary for effective credit management. To minimise bad debt, over-reserving, and bankruptcy, businesses must better understand their consumers' financial status, credit score history, and changing payment behaviours. Credit management's objectives are to protect the company's debtor investments while also optimizing operational cash flows. Credit must be extended to clients, payments must be collected, and the risk of nonpayment must be minimised (Shukla & Kagoyire, 2016; Abuba, Wokoma & Nwadike, 2017).

The Central Bank recently revoked the licenses of nearly 300 microfinance institutions and 39 microcredit or money lending businesses. In two comments, the Central Bank deemed 192 microfinance companies insolvent, with another 155 abandoning operations before the regulator interfered (Ashiadey, 2019). These actions were taken, according to the regulator, in accordance with section 123 (1) of the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930), which requires the Bank of Ghana to revoke a bank or Specialized Deposit-Taking Institution (SDI license) if the Bank of Ghana determines that the institution is insolvent or likely to

become insolvent within the next 60 days, primarily due to their credit management practices.

The goal of revoking these banks' licenses is to eliminate bankrupt and dormant institutions that have denied depositors access to their funds and constitute a threat to the financial system's stability. This will also have an impact on the goal of poverty reduction in Ghana, given a large number of failed microfinance institutions. The demise of these microfinance organisations will significantly impact the financial sector and the economy.

The collapse of these microfinance firms has piqued the researcher's interest, prompting him to pursue advanced research into credit management in microfinance institutions in the Birim Central Municipality in Ghana's Eastern Region. It is necessary to inquire whether credit evaluation, credit risk management, and collection strategy impact poverty reduction in the Birim Central Municipality in Ghana's Eastern Region. In light of the preceding, this study investigates the influence of credit management on poverty reduction in the Birim Central Municipality of the Eastern Region of Ghana.

Purpose of the Study

The study's main purpose is to examine the impact of credit management on poverty reduction in the Birim Central Municipality in the Eastern Region of Ghana.

Research Objectives

The study specifically tends to:

1. examine the effect of credit management on poverty reduction in the Birim Central Municipality

2. determine the microcredit management practices of selected microfinance institutions in the Birim Central Municipality
3. assess the challenges associated in recovering loans of selected microfinance institutions in the Birim Central Municipality
4. establish the causes of non-performing loans of selected microfinance institutions in the Birim Central Municipality

Research Questions

1. What is the impact of credit management on poverty reduction in the Birim Central Municipality in the Eastern Region of Ghana?
2. What are the microcredit management practices of selected microfinance institutions in the Birim Central Municipality?
3. What are the challenges associated in recovering loans of selected microfinance institutions in the Birim Central Municipality?
4. What are the causes of non-performing loans of selected microfinance institutions in the Birim Central Municipality?

Significance of the Study

A wide spectrum of stakeholders will be interested in the study's findings. Academics will use the findings to evaluate if more research can be done in areas where the evaluation revealed something new. Researchers will also apply the current study's empirical findings in their research. The current study will contribute to the body of knowledge in the finance discipline and fill a research gap in credit management by identifying issues and available information in financial performance and credit knowledge.

From a theoretical approach, the study provides a detailed framework for examining trends in credit management and poverty alleviation. The

research will also help legislators develop more effective industrial policies. The study's results will be extremely valuable to the companies under scrutiny and others in the financial industry. The research findings will help firms in all sectors rearrange their credit management policies and critically evaluate their operations to develop better credit management procedures; consequently, other industries may benefit tremendously.

Scope of the Study

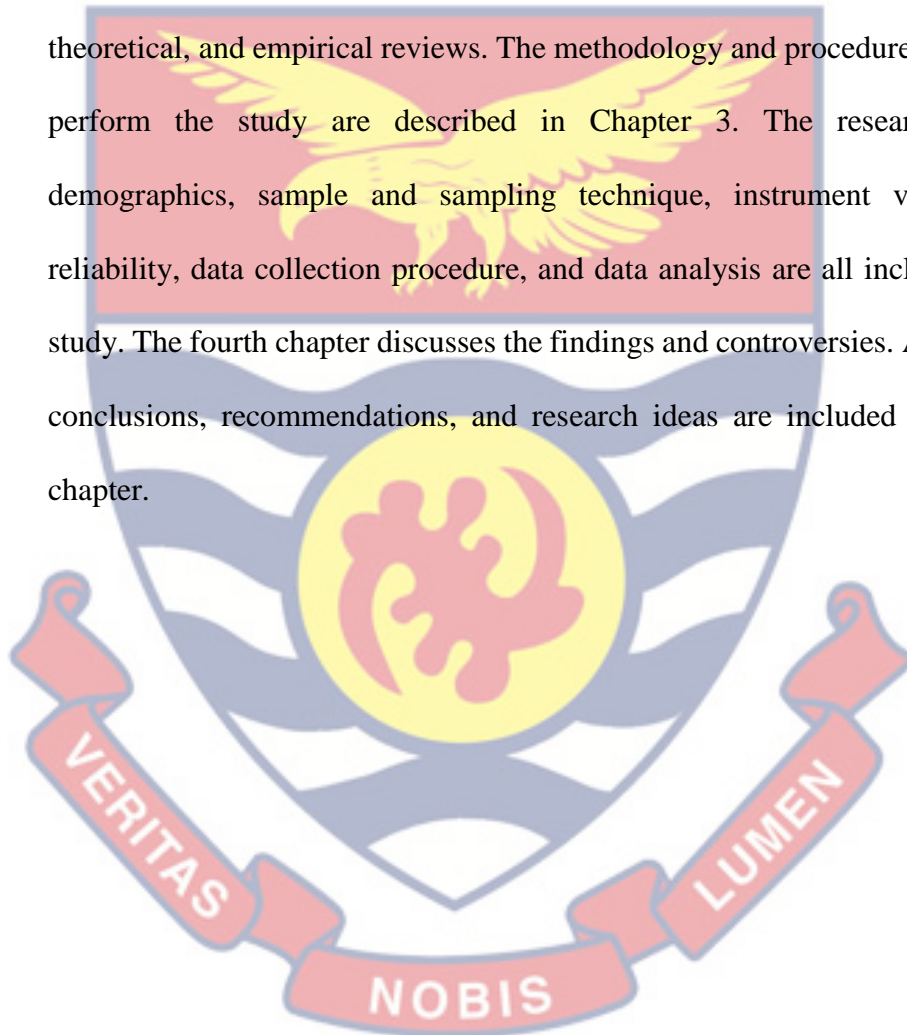
The study will focus on microfinance institutions and microcredit recipients in the Birim Central Municipality in Ghana's Eastern Region, where various microfinance operations are taking place. Officers of the selected microfinance institutions and their beneficiaries will be interviewed with the assistance of a structured questionnaire. The questionnaire will centre on respondents social and economic activities and the credit management policies and practices of the MFIs. By comparing all variables within the established objectives, the researcher will answer the above study questions.

Limitations of the Study

The study will not consider data from all the constituents of the population but rather microfinance institutions and beneficiaries of microcredit facilities in the Birim Central Municipality in the Eastern Region of Ghana. Moreover, a study would have required a considerable amount of time and resources to combine documentary evidence and review with a panel discussion. However, being an academic worker, the researcher is limited by time and funds. This notwithstanding, the researcher will put inadequate plans to ensure the quality and reliability of the outcomes.

Organisation of the Study

This research was divided into five pieces. The study's background, problem statement, research objective, research questions, and significance are all presented in the first chapter. It also contains the study's boundaries, restrictions, term definitions, and organization. The second chapter looks at relevant literature on the subject at hand. It contains the study's conceptual, theoretical, and empirical reviews. The methodology and procedures utilised to perform the study are described in Chapter 3. The research design, demographics, sample and sampling technique, instrument validity and reliability, data collection procedure, and data analysis are all included in the study. The fourth chapter discusses the findings and controversies. A summary, conclusions, recommendations, and research ideas are included in the fifth chapter.



CHAPTER TWO

LITERATURE REVIEW

Introduction

Chapter two of this study reviews the literature related to credit management and poverty reduction. This section will review the theories related to the study and the empirical studies, and the concepts of microfinance, microcredit, credit management, and the impact of credit management on poverty reduction.

Theoretical Review

The research is based on four theories that are discussed in this part. Examples include asymmetric information theory, transaction cost theory, portfolio theory, and loanable money theory. The leading theory utilized was the transaction cost theory.

Loanable Funds Theory

The loanable money idea was created by Knut Wicksell, a Swedish economist (1851-1926). According to the basic premise, credit interest rates are determined by the demand for loans and credit supply. In theory, interest rates and loanable money are also negatively connected. The interest rate will be determined by the movement of the demand and supply curves if credit supply and demand fluctuate. According to the dissertation, credit demands are set by consumers, domestic borrowers, and the government. Domestic savings, money created through international funding, and the banking industry are all sources of supply. These are the long-term factors that influence interest rates; nevertheless, the economy's monetary and financial conditions determine interest rates in the short term (Gorder, 2009). This hypothesis will explain how

microfinance firms' credit management techniques affect their clients' poverty alleviation.

The loanable funds hypothesis links liquidity preferences, money quantity, savings, and investment. The loanable funds hypothesis considers the role of bank credit as a primary source of loanable funds. Rather than the gap between money demand and supply, price levels in a pure credit economy are determined by the price of money, defined as the interest rate paid to obtain money (Bertocco, 2013). Nonetheless, it is predicted that the theory's foundation would enhance the study's investigation into what other elements, aside from interest rates, cause issues as MFIs collect their loans.

Information Asymmetry Theory

Information asymmetry occurs when business owners or managers have a better awareness of their company's prospects and hazards than lenders (Maina, Kinyariro & Muturi, 2016, cited in Eppy, 2005). It describes a situation in which all project partners are oblivious of essential information. When a borrower takes out a loan, there is information asymmetry since the borrower better knows the risks and rewards involved with the investment projects for which the funds are intended. On the other hand, the lender lacks sufficient information about the creditor (Edwards & Turnbull, 1994).

One of the information asymmetry theory's shortcomings is that in microcredit management regarding MFIs, officers usually feel they have all the knowledge they need about their clients until they are in the process of collecting their loans. In terms of the investigation, the hypothesis will assist the researchers in identifying whether a lack of knowledge is a problem.

Transaction Cost Theory

Suppliers may have the edge over traditional lenders in judging their clients' true financial situation or credit eligibility, according to Schwartz's (1974) transaction cost theory. Suppliers are also better at keeping track of and ensuring loan repayment. Suppliers may be able to save money by taking advantage of these benefits (Nduta, 2013). According to Petersen and Rajan (1997), there are three sources of cost advantage: acquiring knowledge, influencing the buyer, and salvaging value from existing assets. The first source of cost advantage can be explained by the fact that retailers can access consumer information faster and at a lower cost because it is collected in the normal course of business. In other words, a buyer's order frequency and size provide information to suppliers about the client's financial situation; a buyer's rejection of discounts for early payment may provide an early warning to the supplier of a weakening in the buyer's creditworthiness; sellers attend customers more regularly than financial institutions.

One of the theory's flaws is the veracity of vendors' information from their customers. How do MFIs verify the information they collect from their clients regarding microcredit management? Transaction control and, as a result, expenses may be affected by the structure of MFIs. It is in management's best interest to internalize operations as much as possible to reduce these costs and the risks and uncertainties that come with them in terms of pricing and quality (Langfield-Smith & Smith 2003).

Conceptual Review

The topics connected to the subject are reviewed and explained in this section of Chapter two. Specifically, the study reviewed the concept of

microfinance, microcredit, poverty, dimensions of poverty, credit management, and the policies and practices of credit management.

Microfinance

Microfinance refers to a wide range of banking services provided to the poor who do not have access to traditional banks, such as loans, savings accounts, insurance, and money transfers. Microcredit is the most widely used microfinance product. It has evolved into a multinational corporation with many service providers. To assist the poor, you must provide various services and pay close attention to each client's individual needs (The Consultative Group to Assist the Poorest, 2002).

Since the 1970s, when the first microfinance revolution began, the role of microfinance organizations has changed. MFIs began as non-profit organizations that lent money to those in need in exchange for a small deposit to cover the interest on the loan. The long-term viability of the program was dependent on outreach and debt repayment. A group financing technique was used instead of collateral, with social responsibility as a guarantee. Rather than investigating new buyers for current products, the emphasis is on paying closer attention to clients and tailoring financial services to their unique needs (Milana & Ashta, 2012).

Poor and low-income people who do not have access to traditional banking are microfinance clients. They are usually self-employed and operate their enterprises from home. In 2013 (Tavanti), Exorbitant interest rates were chastised in microcredit schemes. However, even in the official financial sector, the emergence of profit-making MFIs has boosted market competition and lowered interest rates. Campbell's group (Campbell et al., 2010). Microcredit

does not assist people in escaping poverty; rather, it provides them with financial resources. According to the Consultative Group to Assist the Poor, microcredit should only be used for continuous economic activities (2002). The lender must have a long-term strategy, and the borrower must accept responsibility for the loan terms. Poor people also want liquid funds that are both secure and accessible. Microinsurance is a fantastic risk management tool since it allows customers to avoid large, unexpected expenses in the future. (Poor People's Consultative Group)

The Concept of Microcredit

Microcredit is the basic giving of modest loans to microbusinesses, whereas Microfinance goes beyond that, as previously stated. Microcredit is a type of credit that allows low-income people to get modest loans for microbusinesses and other income-generating ventures. The term "microcredit" is commonly associated with the poor's lack of savings. Most microcredit schemes demand savings services, which entails collecting mandated deposit amounts meant primarily to secure such loans. Customers' access to their coerced savings would be constrained if more voluntary contributions were gathered. Savings become the principal source of capital in financial institutions (Bakhtiari, 2006).

The phrases microcredit and microfinance are commonly interchanged in the literature, but it is critical to understand the nuances between the two concepts, which are occasionally misunderstood. "Microcredit refers to tiny loans," notes Sinha (1998, p.2), "whereas microfinance is appropriate when NGOs and MFIs¹ augment the loans with other financial services (savings, insurance, and so on." Microcredit is a subset of microfinance because it gives

credit to the poor; however, microfinance also covers non-loan financial services like savings, insurance, pensions, and payment services" (Asongo & Idama, 2014).

The Concept of Poverty

The word "pauper," which implies "poor," is derived from the Latin word "pauper." As numerous experts have contended, the phrase does not lend itself to a single definition. According to Alkire, Roche, Santos, and Seth, the phenomena are "complex" (2011). In a 2006 study on the subject, the Ghana Statistical Service acknowledged the difficulties of defining poverty. According to the Ghana Statistical Service (GSS), poverty is a fuzzy notion, and subjectivity is inescapable when defining it (GSS, 2014). When people do not achieve a degree of well-being that society judges to be a fair minimum, they are considered poor (Hemmer, 1992; Asenso-Okyere, 1993).

According to Alkire, Roche, Santos, and Seth (2011), poverty can impair the mind, body, and spirit. They believe that man can be deficient in all elements of life, including politics, spirituality, intellect, physical appearance, and economy. This means that our finances, intellect, politics, and spirituality can all be impoverished. Other types of poverty exist in addition to income and non-income poverty, which is the focus of this study. According to the World Bank, a person is poor if they live on less than one dollar a day.

According to Sarshar (2010), the concept of poverty can be described in three ways. Poverty is described as "a scenario in which essential services are scarce due to a lack of income." This is the most effective and original definition. A set of socially acceptable living standards exists in every society. Poverty is described as a way of life that is less than the basic minimum. The

second definition of poverty is based on a lack of resources or the inability to meet or obtain fundamental human necessities. Food, clothing, and shelter are not the only basic human requirements; health and education are essential. The third aspect of defining poverty is the lack of opportunities.

Dimensions of Poverty

The literature review examined various standard living criteria to determine respondents' relative poverty levels, illustrating poverty's multi-dimensional nature. The research used an approach established by Henry, Sharma, Lapenu, and Zeller (2003), which allows microfinance institutions worldwide to quantify the scope of their poverty outreach. The method developed a household-level poverty index using basic household survey data.

Because poverty is multi-faceted, focusing solely on one aspect of it, such as food security, residential, or education, is insufficient. Alternatively, various indicators, including those established by Henry, Sharma, Lapenu, and Zeller (2003) and those utilized by the Ghana Statistical Service for data gathering for the Ghana Living Standard Survey, were used to capture various dimensions of poverty (GSS, 2014). Human resources, food security and vulnerability, housing and related variables, and household asset ownership were used as indices in this study. The variables were chosen for various reasons, including the simplicity with which they could be elicited in the household survey and the relevance of the indicator's link with per capita expenditure on clothes and footwear, which acted as the study's poverty comparative criterion. The indicators' relevance and consistency in Ghana and their ability to suit data analysis needs were important considerations (Zeller & Meyer, 2002). The metrics used to assess the relative poverty levels of

microfinance institution consumers are based on the four fundamental aspects of poverty stated below.

Human resources: First, six elements linked to the household's human resource base were assessed. Aspects to examine include the number of children, the size of the household, the respondent's age, marital status, and level of education. The size of the family and the number of children living in the home were discovered to have a significant impact on per capita clothes and footwear spending. Because of the strong relationship between the two measures, the household size indicator was utilized for the final data analysis (Henry et al., 2003).

Food security and vulnerability: The investigation began with six indicators in this case. The majority of these variables, which relate to hunger and the frequency with which luxury and staple meals are consumed, played a significant impact in explaining differences in poverty levels between the two groups of respondents. Meat intake, the number of meals consumed in the previous two days, and the frequency of not having enough food to eat in the preceding 30 days have all been linked to poverty and were utilized to evaluate the data (Henry et al., 2003).

Dwelling and related indicators: Clients and non-clients in the survey locations reported similar home indicators. This is hardly surprising, given that respondents work in the same operational areas of microfinance institutions. The only characteristic significantly associated with the poverty threshold was the type of material used for the respondent's home's outer walls. House ownership and the type of dental care product were two other connected factors substantially correlated with the poverty threshold (Henry et al., 2003).

Household assets: These factors are critical in determining the poverty levels of Ghanaians. The frequency of sewing machines, radios, and beds and mattresses was chosen for data analysis because they strongly correlate with poverty (Henry et al., 2003).

Credit Management

From the standpoint of a debtor, credit management is the process of managing one's finances, particularly debts, to avoid a trail of creditors trailing behind one's back (Ohene, 2016). Both the debtor and the creditor have an important role in credit management. When done correctly, credit management is an excellent instrument for maintaining financial health (Nsiah, 2014).

Credit management, according to Asiedu-Mante (2011), requires the formulation of legal and formal systems and policies that guarantee that appropriately designated staff is well-positioned to grant credit, that the facility goes to people with the right credit history, that the loan is granted out for productive uses or businesses with strong financial and technical viability, that the correct amount of credit is distributed, that the credit can be obtained, and that the credit is properly managed. As a result, he viewed it as putting checks in place from the time credit is given to when it is collected.

Credit management is a well-balanced combination of four primary credit approach criteria that enables clients to easily collect advances while increasing their trust and loyalty to the financial institution (Van Horne, 2007). The most important component in defining the nature of a client's record-keeping activities in a firm is the nature of the client's records. This necessitates a detailed examination of the clients' ability to make timely payments on their debts. The second approach variable is to choose an adequate credit period.

The bank should give loyal customers adequate time to fully benefit from the credit in this way. The time should not be extremely extended to avoid jeopardizing the bank. The third parameter is the reward or sweetener that customers pay off their credit cards on time. Before the goal is achieved, such sweeteners must be substantially enticing. The last variable considers the maximum amount of debt collection costs incurred. The inference is that if the cost of recovering the debt will almost certainly exceed the value of the obligation, the bank should not offer credit. Van Horne (2007) advises meticulously designing, administering, and coordinating all available human and material resources to integrate these pieces into a functional framework.

Credit Management Policies and Practices

This study's credit management policies and practices are client appraisal, credit risks control, and credit terms.

Client Appraisal

The first step in lowering the risk of offering a lending facility is to screen consumers to verify that they are ready and able to repay the advance. The 5Cs approach, often known as credit criteria, is used by many financial organizations (Abedi, 2000). As financial institutions better understand their customers, they can use the 5Cs as a guide to optimise their lending portfolio. The 5Cs are character, capacity, collateral, capital, and condition.

The character evaluates the features of a potential client in order to determine whether or not the client is willing to meet credit commitments. When examining an applicant's character, Kakuru (2000) emphasised the accompanying factors to consider. This is performed by looking at the client's savings history and level of education, mental health, occupational

dependability, contact information, government links, and previous bank dealings, all of which can be found in bank records. The borrower must be trustworthy and keep their word to obtain a loan from the bank's depositors. Thanks to recent technological breakthroughs, credit investigations are now available, allowing for the discovery of past brilliant and horrible behaviour in advance payback and debt management and the amount of a person's credit limit acquisition. As a person's credit profile develops, he or she becomes more susceptible to changes in interest rates or personal circumstances (Asante, 2016).

When an obligation is supplied inside the agreed-upon time limit, the capacity indicates the client's ability to pay it. The company must determine whether or not to provide improvements. This is determined by assessing the client's capital and resources as loan collateral. In any case, the borrower must be informed about their industry, if not a specialist, and give persuasive evidence of the company's viability. This refers to the company's overall state. "This is determined by assessing the customer's company working capital balances and scrutinizing financial records with a special focus on risks and debt-equity ratios," Fabozzi and Markowitz write (2011). The budgetary supervisor can also look at the accounting report to see how much money the firm owner has put into it personally. According to a good rule of thumb, a bank will not spend more money than the borrower.

Collateral includes lands, dwellings, businesses, private bequests, and any other high-quality property used as security for determining the amount of credit extended to the borrower (Kakuru, 2001). It allows the bank recourse if the borrower defaults on the loan terms. A lender acquires it as a claim against

the borrower and the secured asset. The collateral must be secure, conveniently merchantable, and of adequate quality to satisfy the obligation when sold if the borrower defaults on payment (Van Horne, 2007).

The current monetary and economic climate, which may affect or impair the borrower's ability to repay the debt and may be adverse to the creditor, is called "conditions." Inflationary tendencies, for example, make lending hazardous because if the lessee does not get reduced returns, the leased money will almost certainly be forfeited. In such cases, the credit officer must decide the likelihood of default and the potential for losses (Singh & Pandey, 2008).

Credit Risk Controls

Loan product design, credit committees, and delinquent management are all examples of credit controls (Churchill & Coster, 2001). Financial institutions can lower the risk of default by giving credit items that assist clients in resolving their issues. A credit product includes the loan amount, interest rate and fees, repayment plan, guarantee criteria, and other unique elements. Loans should be customized to the exact cause requested (Churchill & Coster, 2001).

Creating a committee to review advances is an important measure for reducing the risk of credit (and misrepresentation). This authority can be easily misused and hidden when a person can pick who will be loan receivers, whose advances will be cancelled or rescheduled, and the status of the loans. Although advance officers can serve on the credit board, at least one other person with greater responsibility should be present. When debtors begin to show indicators of non-payment, the credit advisory group is responsible for endorsing credit facilities and monitoring their progress. They should also get involved in delinquency management (Asante, 2016).

Financial institutions can build organizational principles that are completely intolerant of defaults and allow defaulting clients to be tracked for repayment to reduce delinquency. Creating a performance-based incentive system should be used to encourage personnel to be deeply involved in the loan management process. Staff could be compensated with commissions for their efforts in recovering bad debts, boosting the company's output and financial status. Given how unpredictable the target market can be at times, it is not uncommon to run across clients willing to pay but unable to do so due to changing market conditions. This can result in catastrophic losses; therefore, a loan rescheduling, which comprises extending the loan's tenure while reducing the number of instalment payments, can be considered an alternative to repayment in these circumstances (Dobos, Barry & Pogge, 2011).

Various policies are frequently adopted by organizations to ensure the viability of their credit administration. A debt collection policy is one of the most important tools used by management to achieve success. Because not all loan consumers are equally dedicated, this method is critical; some pay their bills on time, while others do not. Some customers pay late, while others never pay. The purpose of such a tool should be to promptly track non-committed customers or late payments while minimizing bad debt losses (Kariuki, 2010).

Credit Terms

The circumstances under which a firm or a bank may lend money to a potential consumer are known as credit terms. Pandey is a well-known politician in India (2008). They are the conditions under which a financial organization extends credit to its clients. If a financial institution grants a loan to a customer, the credit terms will detail the loan's length and interest rate. This will influence

credit execution since it establishes a platform for prompt reimbursements, lowering the default rate by defining the season for advance reimbursements.

The credit terms, according to Pandey, are as follows: the credit period is the calendar of the interest instalment and the last principal payment. The time between credit expansion and the client's ability to repay the loan is known as the grace period. A cash discount is a percentage reduction in the needed obligation of the borrower. This serves as a motivator for the client to repay the credit obligation within the terms of the loan facility. A cash discount is used to assist clients in making timely instalment payments while also allowing the firm to keep track of receivables and associated costs (Reigner & Hill, 1997). According to Manasseh (1997), "once a credit decision has been made, the financial institution must decide on the credit period, the amount and period of any cash discount, and the credit instrument to be employed."

Empirical Review

Amoako, Yeboah, and Yeboah investigated the impact of microcredit on poverty reduction among economically active poor in Kumasi (2017). According to the study, microcredit boosted earnings, access to education, and healthcare, but not savings or the purchase of durable consumer goods such as a stove or refrigerator. Although emergency credit to economically engaged impoverished individuals had minimal impact, individual credit had a greater impact on poverty reduction than group credit. According to the report, microcredit is recommended to decrease poverty in the Kumasi Metropolis.

Obeng (2011) investigated whether microfinance had a positive or negative effect on poverty alleviation. According to the study, people, notably the most vulnerable and disadvantaged, acquired access to credit, which

influenced the receivers' poverty levels. Finally, most rural poor people turn to microfinance institutions for credit. Fortunately, many institutions are geared toward the poor in rural areas. To maintain poverty reduction, it was advised that actions and policies be adopted to boost the poor's productivity and human capital. If policy initiatives benefit the poor, they must be successfully targeted. Second, to meet the needs of the poor, official institutions should be pushed to make small loans with no collateral.

Boateng, Boateng, and Bampoe investigated the impact of microfinance on poverty reduction in Ghana (2015). Individual income, household growth, educational access, housing, and engagement in social and religious activities were utilized as benchmarks in the study to understand the influence. Customers and beneficiaries of Opportunity International Savings and Loans Limited and Sinapi Aba Savings and Loans Company Ltd's microfinance programs in Ghana were asked to complete surveys. The study discovered a link between microfinance and the benchmark features, emphasizing the need for user education in money management and the establishment of stable political and economic environments in which microbusinesses can thrive.

Abaluk (2012) studied the effects of microfinance as a poverty alleviation strategy using the Masara N'arziki program. According to the results, everyone responded that doing business with Masara was a good decision. 40% claimed their yield has grown, 30% said they now have a consistent income, 20% said their financial situation has improved, and 10% said they now have access to high-quality seeds. Finally, over 70% of respondents believed that the program could be replicated in other countries, but it would be modified.

Muturi and Rotich (2016) evaluated the impact of credit management techniques on loan performance in Kenyan deposit-taking microfinance banks. This research aimed to find out how credit management influenced loan repayment. The research approach used was descriptive research. The raw data was evaluated using standard deviation and mean. In addition, the researcher used inferential statistics and linear regression models. According to the model, credit risk management has an impact on loan payback. According to the research, credit terms, credit criteria, collection policy, and credit policy all have an impact on a company's success. According to the study's findings, a robust credit management system is a key component of any firm and cannot be disregarded by any credit services company. Credit management is critical to a company's long-term profitability and stability.

Asante (2016) investigated the credit management strategies used by First Allied Savings and Loans Ltd and how they affected performance. According to the study, one of FASL's credit management processes was the institution's customer appraisal, which allowed for a thorough evaluation of clients and identifying any inherent risks. The institution also has a credit management strategy, which effectively manages credit risk associated with credit-giving operations. When followed to the letter, it helped to reduce non-performing loans and improve the loan portfolio's quality.

The loan recovery performance of the Ethiopian Development Bank was reviewed by Kiflu (2015). The key results of the obstacles experienced in recovering loans supplied to clients include insufficient credit rules and procedures manuals, unrealistic loan repayment durations, ineffective

evaluations of customers' financial records, and the lack of a well-designed project follow-up system.

Impact evaluation of microfinance programs is required, according to Simanowitz (2001), to persuade donors that their interventions have a beneficial impact and to aid MFIs in learning and to enhance their services and project impact. Poverty is described as being unable to support oneself due to a lack of financial resources. According to Okpara (2010), using increased income as the sole indicator of microfinance's impact on poverty has limits. It was claimed that raising income and reducing poverty are not the same (Wright, 2009). He asserted that MFIs do not always relieve poverty by increasing poor people's income. It all depends on how the poor use their money, which is frequently squandered or spent on drinks (Obamuyi, 2009). As a result, concentrating exclusively on generating revenue is insufficient. The emphasis should be on assisting the poor in maintaining a certain level of well-being by providing various financial services suited to their specific needs to boost their net wealth and income security (Wright, 1999).

It is often assumed that microfinance institutions (MFIs) do not reach the lowest members of society. Despite the misgivings of some detractors about microfinance's potential to reduce poverty, research has shown its usefulness in various settings. Various studies suggest that microfinance customers have greater income and assets and are less vulnerable, according to Littlefield and Rosenberg (2004). Microfinance projects in Indonesia, India, Bangladesh, Zimbabwe, and Uganda have been mentioned as examples of how microfinance can help people get out of poverty.

Three-quarters of clients observed major changes in their financial circumstances, and half of the clients graduated from poverty, according to a report on a collaborative project in India (Hossain, 2012). Dichter (1999) provided a quandary concerning the influence of MFIs, in contradiction to Hossain's opinion. While microfinance is a tool for decreasing poverty, its track record is generally bad. He does admit, however, that there are some positive benefits.

Mahmood (2011) contends that well-designed microfinance programs can boost poor people's incomes and help them transcend poverty in a systematic analysis of the use of microfinance to eradicate poverty. He says that the impact of a loan on a borrower's income is proportional to their income level because those with higher earnings have more investment possibilities; as a result, credit programs are more likely to help the middle and upper classes (Shirazi & Khan, 2009). They also demonstrated that when microfinance institutions such as the Grameen Bank provided loans to severely low-income families, their earnings and assets increased (Hulme & Mosley, 1996).

According to Hulme and Mosley, borrowers are incentivized to participate in low-risk income-generating businesses when loans are connected to asset growth, and the severely poor are driven to save, their vulnerability is decreased, and their poverty status improves when loans are related to asset growth. Johnson and Rogaly (1997) provide examples of how poor people's needs have been met through savings and credit programmes. According to microfinance experts, economic security, rather than income enhancement, is the initial step in poverty reduction because it minimizes the beneficiary's overall susceptibility.

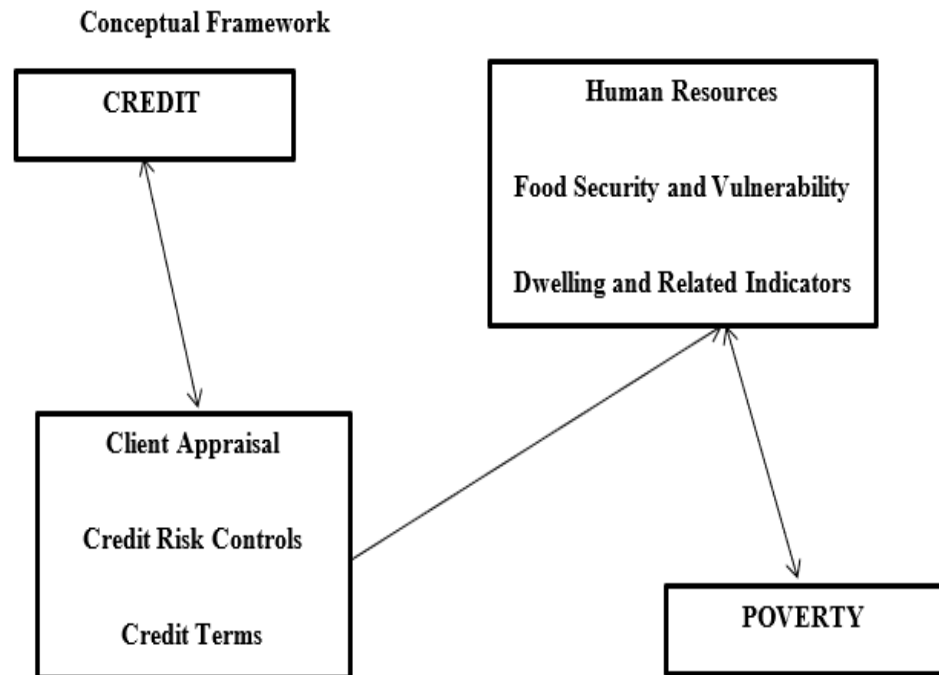


Figure 1: Conceptual Framework of the study (Frimpong, 2022)

Figure 1 depicts the study's conceptual structure. The figure depicts credit management in client appraisal, credit risk controls, credit conditions, and how they affect poverty reduction. Poverty reduction indicators include human resources, food security and vulnerability, and housing and related variables.



CHAPTER THREE

RESEARCH METHODS

Introduction

The methodological approaches used in this investigation are described in this chapter. The research design, the population, the data collection approach, the sampling technique, the analytical framework and procedures, and the research site are all examples. The chapter ends with a review of validity, dependability, ethics, and obstacles found during data collecting and analysis and how they were addressed.

Research Design

In a study, a research design is a conceptual framework that serves as a template for data collecting, evaluation, and analysis (Kothari, 2004). The research design advantage is that it organizes and guides the study. The study took a case study approach, with various microfinance institutions serving as case studies. This research approach was chosen because it enables more in-depth inquiry and knowledge specification and more precise and extensive analysis. The case study technique provides a great degree of detail and description of a single case. This establishes the groundwork for future studies. Another advantage is that it gives researchers access to resources they might not otherwise have.

Research Approach

In addition, the study was conducted quantitatively. To analyse data in numerical terms, a quantitative research approach was applied. To triangulate the data, the researchers employed both descriptive and inferential statistics.

The descriptive statistics of the study include percentages and counts, while the inferential statistics use a Pearson chi-square analysis to look at the statistical significance of resource variance across the three fields. The hypothesis examined is usually confirmed or disproved at the end of a quantitative investigation. Researchers who utilise the quantitative technique pick one or a few variables they plan to employ in their research and begin collecting data.

Research Paradigm

The pragmatism research paradigm was employed in this study. This philosophy is founded on the premise that deciding between one viewpoint (epistemology, ontology or axiology) and the other is impossible in practice and that the study topics are the most relevant predictor of which stance to choose (Saunders et al., 2009; Creswell & Plano Clark, 2011). This is especially true when the study issue does not indicate whether a positivist or interpretive philosophy should be used in an investigation, such as from an epistemological standpoint. As a result, in this philosophical debate, the application of quantitative approaches to solve a real-world problem is praised.

This philosophy was chosen because it is seen as a midway between positivist and interpretive. Hence, it allowed the researcher to mix different research methods to find key issues through theories and frameworks.

Research Area

Birim Central Municipal is one of Ghana's 260 Metropolitan, Municipal, and District Assemblies and one of the Eastern Region's 33 Municipalities and Districts (MMDAs). It was formed in 2007 using Legislative Instrument (L.I) 1863 to replace the existing Birim South District Assembly. It

has a total land area of 1,090 km and is located in the southwestern region of the Eastern Region. Akim Oda is the Municipality's Administrative Capital (Ghana. Statistical Service. 2014).

The municipality is bordered on the north by Akyemansa District and Kwaebibirem Municipal, on the west by Birim South District, and the south by Asikuma-Odoben-Brakwa, and on the west by West Akim Municipal (to the East). According to the 2010 population and housing census, the municipality has 144,869 people, with 69,304 men and 75,565 women (Ghana. Statistical Service. 2014).

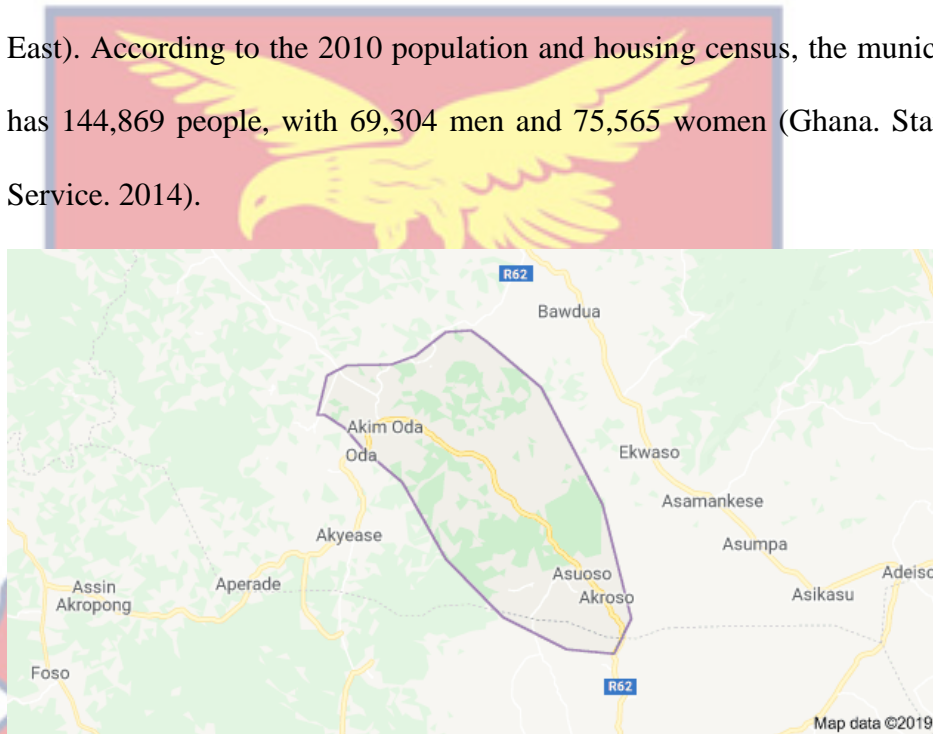


Figure 2: Geographical Map of Birim Central Municipality (Google Map, 2022)

Population

The term “population” refers to the complete range of goals being studied. A population, such as a group of consumers, is a collection of people, objects, or things from which a sample is taken for measurement. The participants in this study were loan officers and customers from chosen MFIs. The study's population represented the number of units to be investigated. The

study focused on the people who worked for the selected MFIs' branches in the Birim Central Municipality and their clients. The total population was 346

Sample Size

A sample is a subset of a statistical population whose characteristics are studied to learn more about the entire population (Patel, 2019). A sample usually has all of the key aspects of the population in order to make conclusions about the entire population. Sample size determination determines how many observations or repetitions should be included in a statistical sample. The sample size must be considered in every empirical study which involves a sample to conclude a population.

In practice, the sample size is determined by the cost of data collection and the necessity for statistical power. The study employed a convenience sample to select 150 people in total. This sample was picked for this project depending on the time and money available. The sample size's ability to provide a more accurate picture of the current situation was the most important aspect. The desired result is thought to have been reached based on this sample size.

Sampling Procedures

Sampling is a researcher's approach to gathering individuals, locations, or objects to analyse. As a result, sampling was used to collect specific demographic elements and form conclusions about the total population for this study. The loan officers and consumers, or respondents inside specific MFI branches, were chosen through key informants sampling.

Data Collection Instrument

The data for the study was gathered via a questionnaire. This is a set of questions designed to collect information. A questionnaire is just a collection of

well-organized questions used to collect information. Questionnaires were given to the participants to complete. The composition of the questionnaire was based on certain variables for which data was needed for the investigation. The questionnaire was chosen as the most effective, direct, and real method of obtaining raw data. Respondents were in charge of filling them out while the researcher was administering them and ensuring they were properly filled out.

The information gathered is examined by a researcher. As a research tool, the questionnaire was tested in a pilot study with six MFI branches. The pilot study's goal was to identify common difficulties with the generated questionnaire and include comments from respondents to improve the questionnaire's quality and guarantee that it met the study's objectives.

Validity and Reliability of the Instruments

Validity of the Instruments

The extent to which a study's findings accurately address the question for which it was designed (Loewen & Plonsky, 2016) or to which a study's results accurately answer the issue that it was designed to answer is defined as validity (Révész, 2012; Gravetter & Forzano, 2018). Validity refers to the appropriateness, significance, accuracy, and convenience of an investigator's interpretations based on collected data (Sileyew, 2019). The questionnaire were taken through the face and content validity procedures.

A questionnaire was first given to colleague students pursuing the same programme at the University of Cape Coast to comment on it. Colleague students scrutinised the instruments to find out whether the statements were ambiguity-free. Next, the supervisor checked the content validity. The research supervisor also examined the research questions alongside each instrument's

item to determine whether they measured what they were supposed to have measured.

Reliability of the Instruments

Reliability is the consistency or dependability of the measurement or the level to which a device measures equally used with the same subject under the same conditions (William, 2006). The data was evaluated, and the instrument's reliability co-efficient was determined using Cronbach alpha, which was estimated to be $\alpha = 0.898$. Cronbach's Alpha reliability coefficient values of 0.70 and higher, according to Creswell (2007), are considered reliable.

Data Analysis Techniques

Data analysis is data analysis by examining, cleaning, transforming, and modelling data to identify relevant information, conclude, and assist decision-making (Xia, & Gong, 2015). Data analysis is a broad word that refers to various techniques and methods. The collected data will be analysed and compared to the research objectives and questions to ensure relevance and dependability. Inferential analysis and (SPSS Version 27) were utilised by the researcher (a one-way ANOVA). Tables, graphs, and a pie chart were used to show the data.

Ethical Consideration

This section covers the rules, principles, and standards that should be followed when conducting research. It involves a series of steps the researcher follows to protect the study's participants' rights (Creswell, 2008). It confirms that the study will be conducted more rationally (Kumar, 2010).

The researcher would request permission from the institution's management to conduct the study there. They would be informed about the study's topic, goal, and benefits. Respondents would also be guaranteed that

their responses would be kept completely private and that all of their data would be utilised solely for academic purposes.



CHAPTER FOUR

ANALYSIS AND DISCUSSION OF FINDINGS

Introduction

The study's main purpose is to examine the impact of credit management on poverty reduction in the Birim Central Municipality in the Eastern Region of Ghana. This chapter makes presentations on the findings of the study. The data analyses are presented as the findings, and discussions are done compared to the reviewed literature to make conclusions and recommendations.

Data Presentation

A total of 150 clients and 50 officials from the specified Microfinance institutions were conveniently sampled for the study, yielding 150 responses and 150 questionnaires. A total of 147 questionnaires were received, with every one completed. This yielded a response rate of 99 percent, as indicated in Table 1 below:

Table 1: Questionnaire Return Rate

| Respondent category | Number out | Number returned | Percentage |
|----------------------------|-------------------|------------------------|-------------------|
| Customers | 100 | 97 | 65% |
| MFI's Officials | 50 | 50 | 34% |
| Total | 150 | 147 | 99% |

Source (Field Survey, 2022)

The response rate was deemed reasonable because more than half of the intended respondents participated in the survey. As a result, the researcher feels that the survey results reflect the views of the target demographic.

Demographic Information on Respondents

This section contains information on the respondents’ backgrounds and demographics. These characteristics include age and educational level, as shown in Table 4.2. This data was deemed necessary since it allows the researcher to assess the microcredit target audience, the characteristics of microfinance institution administrators, and other relevant data.

Sex Distribution of Respondents

To identify which gender group uses microcredit the most, gender was used as the respondent’s information. In terms of consumers, 21.6 percent were men, and 78.4 percent were women, whereas 68 percent of MFI officials were men and 32 percent were women. The results are shown in greater detail in Figure3.

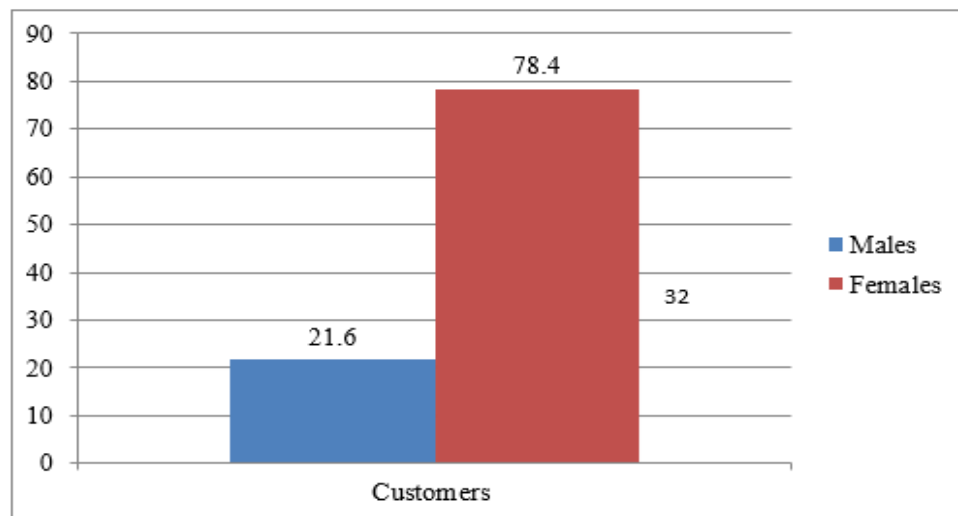


Figure 3: Sex Distribution of Respondents

Source: Field Survey, 2022]

Age Distribution of Respondents

The respondent’s age was used to identify which age group is most likely to use microcredit. Customers ranged in age from 36 to 55 years old, with 37.1 percent between the ages of 36 and 45, 33 % between the ages of 46 and

55, 11.3% between the ages of 26 and 35, 7.2% between the ages of 16 and 25, and 11.3 % between the ages of 56 and 55.

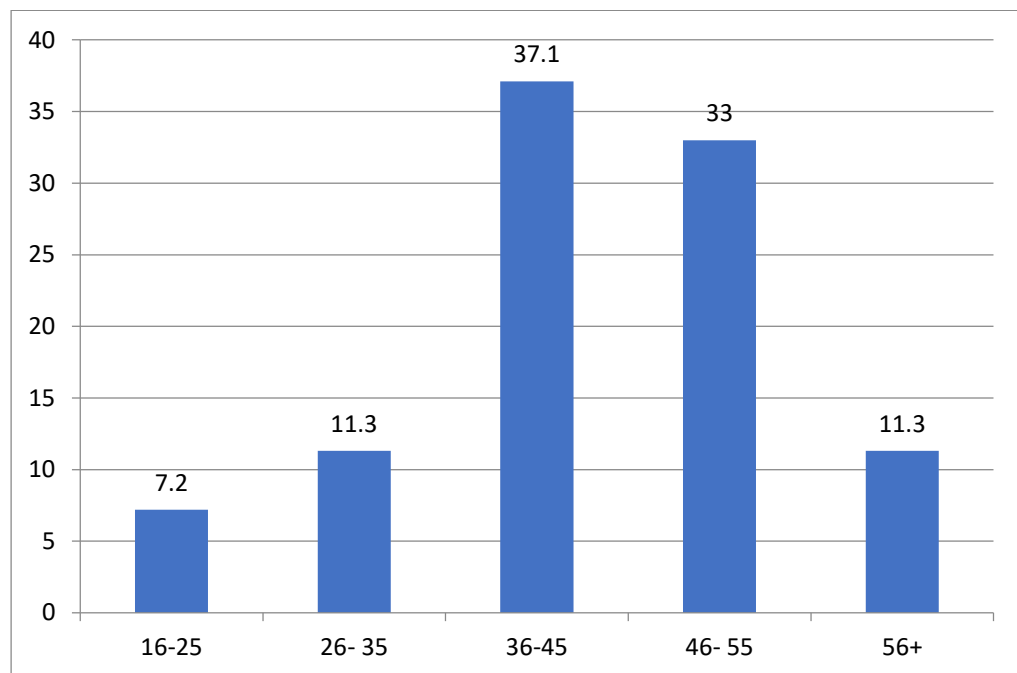


Figure 4: Age Distribution for the Customers

Source: Field Survey, 2022

The majority of the MFIs officials were between the ages of 36 and 45 years, as shown by 34%, 30% of them were between the ages of 26 and 35 years, 14% were 46 and 55 years, 12% were between 56 and 65 years and the rest of the 10% were between the ages of 16 and 25 years. Figures 4 and 5 further display the results.

Marital Status of Respondents

Members' marital status reflects the familial responsibilities with their parents or husbands. There is a statistically significant and favourable association between marital status and repayment behaviour. This research supports Bailout's (2013) findings that single borrowers are less responsible and have poor repayment behaviour than married borrowers. As a result, the respondents' marital status was inquired about. Most of the customers were

married, as shown by 57.7%, 18.6% were single, 10.3% had separated from their spouses, 7.2% were widowed, and 6.2% were divorced. The results are demonstrated in Figure 5.

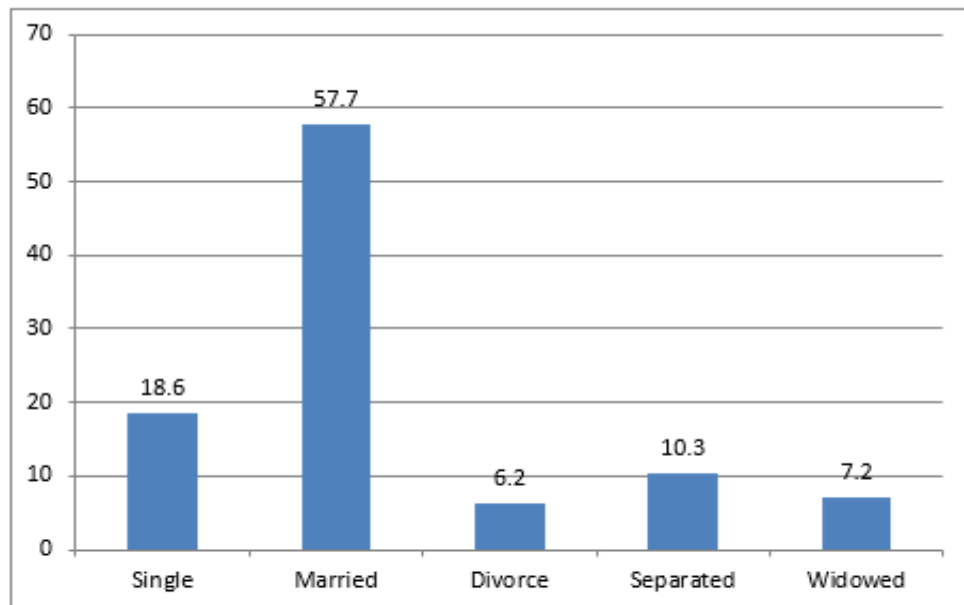


Figure 5: Marital Status of the Customers

Source: Field Survey, 2022

With regards to the microfinance institutions officials, 38% of them were married, 32% were widowed, 20% of them were single, and 10% of the officials were divorced. Figure 5 shows the results.

Educational Level of Respondents

The participants were also requested to provide information about their educational backgrounds. To combat poverty, there are compelling reasons to combine education and microcredit. This may explain why educated people have an easier time obtaining credit services, as they are necessary (Hadi, Wahyudin, Ardiwinata. and Abdu, 2015).

According to the data obtained, 46.45% of customers had a basic level of education, 23.7 percent had a secondary level of education, 20.6 percent had never attended school, and only 9.3 percent had a higher degree of education.

The study’s findings are shown in Figure 8. Regarding the MFIs officials, the majority of them, as shown by 72%, had their level of education up to the tertiary level, and the rest of the 38% had their educational level up to the Secondary level.

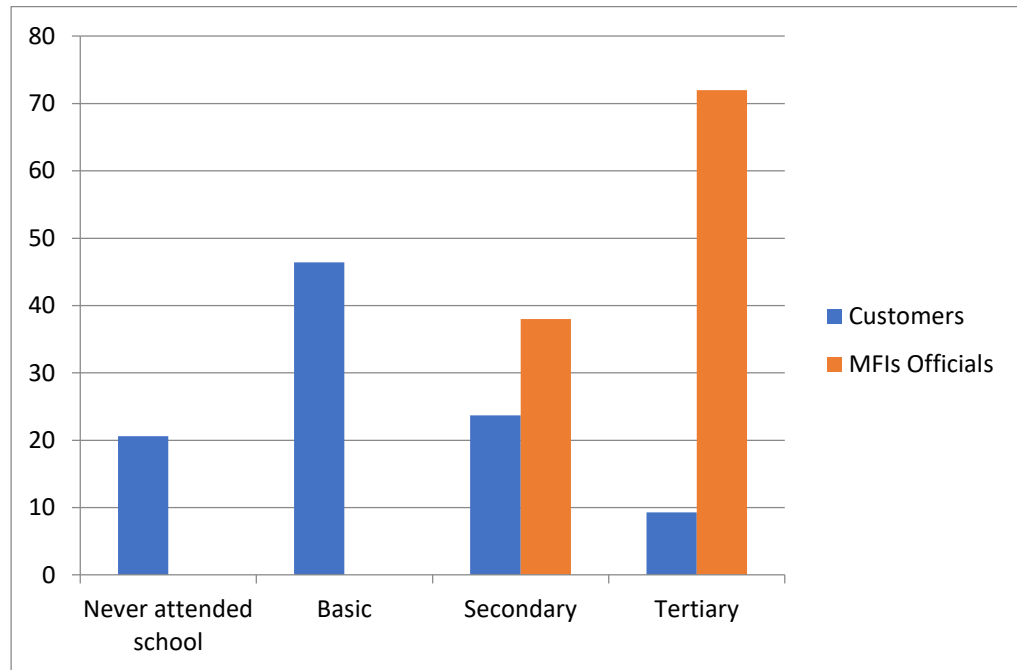


Figure 6: Educational Level of Respondents

Source: Field Survey, 2022

Customers’ Length of Relationship with MFIs before Loan

As part of the demographic data, customers were asked how long they had worked with the MFIs before contracting the loan. As a result, most respondents (76.3%) had to work with MFIs for more than six months before contracting the loan, while 23.7 percent had to work with MFIs for less than six

months before contracting the loan. The results are shown in Figure 7.

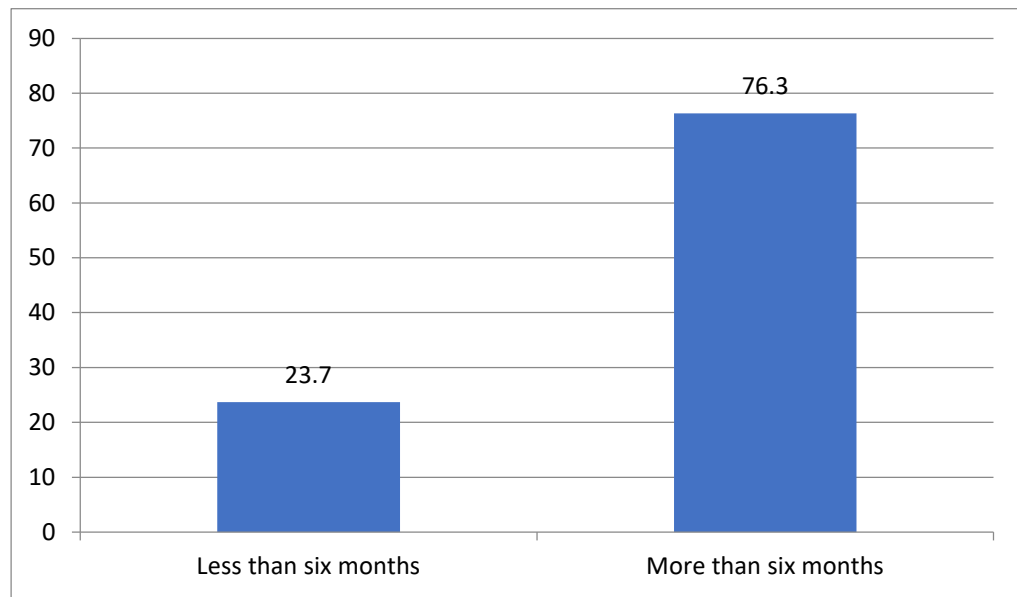


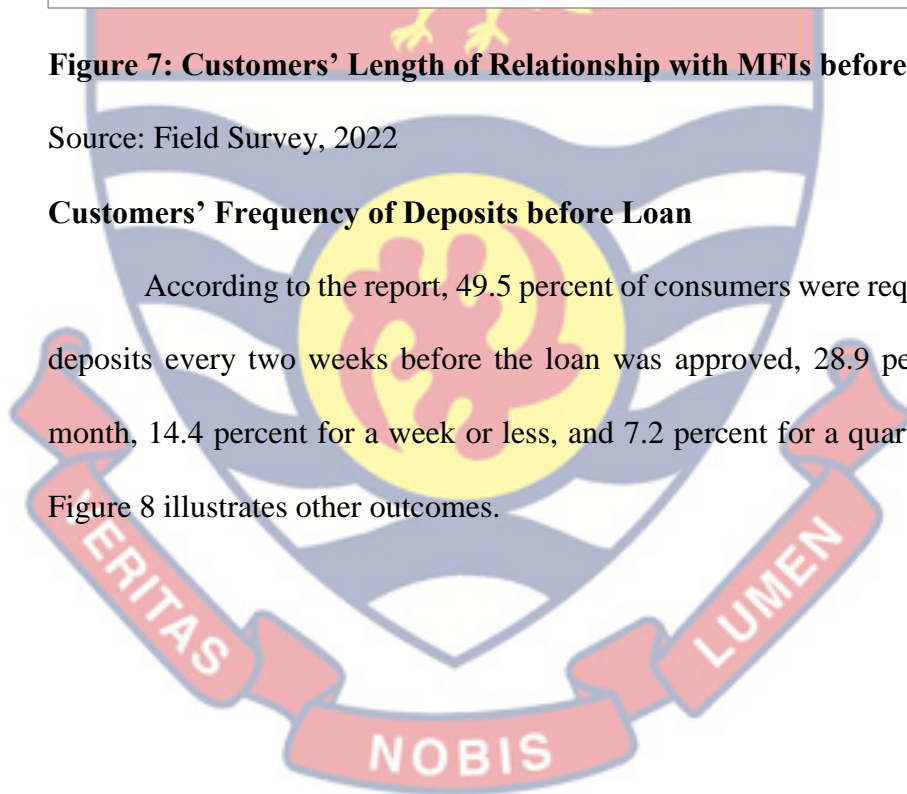
Figure 7: Customers' Length of Relationship with MFIs before Loan

Source: Field Survey, 2022

Customers' Frequency of Deposits before Loan

According to the report, 49.5 percent of consumers were required to pay deposits every two weeks before the loan was approved, 28.9 percent every month, 14.4 percent for a week or less, and 7.2 percent for a quarter or more.

Figure 8 illustrates other outcomes.



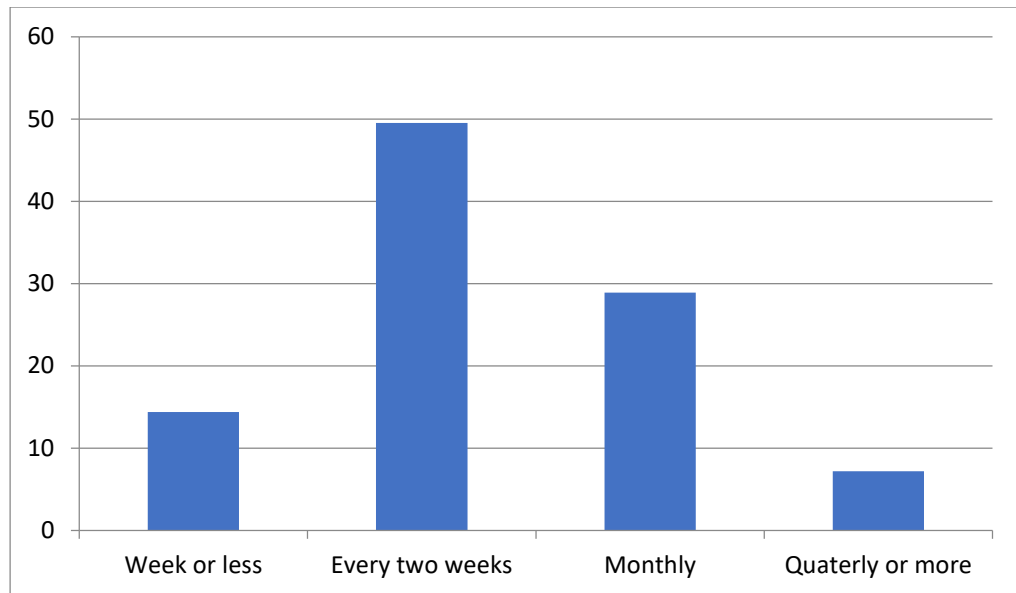


Figure 8: Customers' Frequency of Deposits before Loan

Source: Field Survey, 2022

Types of Loans Offered by MFIs

The MFIs officials were asked to provide feedback on the types of loans they offer to their customers. According to the findings, 78% offer microloans, 20% offer salary loans, and 52% offer commercial loans. The majority of the MFIs understudy offer microloans, which is the basis of the study. Figure 9 demonstrates the results.



Figure 9: Types of Loans Offered by MFIs

Source: Field Survey, 2022

Effect of Credit Management on Poverty Reduction in the Birim Central Municipality (1st Objective)

Impact evaluation of microfinance projects is required, according to Simanowitz (2001), to persuade donors that their approaches have a good impact. The main goal of this research was to find out how microfinance institutions in Birim Central Municipality administer microcredit and how that affects their clients' poverty reduction. The study's findings are presented in this section.

The inferential analysis aided the research, which revealed the relationship between the independent and dependent variables. The researchers used a variety of regression analyses and coefficients of determination. As indicated in Table 2, the main purpose of a coefficient of determination is to determine the measures utilised to develop a statistical model to predict future outcomes. It describes the proportion of change in the dependent variable, poverty reduction, that the independent variable by definition explains. The coefficient of determination (or percentage change in the dependent variable (poverty reduction) as represented by the independent variable) shows how well changes in the dependent variable (poverty reduction) can be explained by changes in the independent variables (credit management).

Table 2: Coefficient of Determination

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .757 ^a | .574 | .565 | .139 |

Source: Field Survey, 2022

The adjusted R squared coefficient of determination indicates the variation in the dependent variable due to changes in the independent variable at the 95 percent confidence interval; in Table 2, the value of the adjusted R squared was 0.565, indicating a variation of 56.5 percent in poverty reduction due to changes in microcredit management (client appraisal, credit risk control, and collection policy). Microcredit management could be responsible for 56.5 percent of the reduction in poverty (client appraisal, credit risk control, and collection policy). R is the correlation coefficient, which displays the relationship between the research variables; 0.757 implies a high positive relationship..

Table 3: ANOVA

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|--------|-------------------|
| 1 | Regression | 1.249 | 1 | 1.249 | 64.556 | .000 ^b |
| | Residual | .929 | 48 | .019 | | |
| | Total | 2.178 | 49 | | | |

Source: Field Survey, 2022

The processed data, which is the population parameters, had a significance level of 0.000, suggesting that the data is ideal for concluding the population’s parameter because the value of significance (p-value) is less than 5%, according to the ANOVA statistics in Table 3. The computed value (1.644 64.556) was higher than the crucial value, indicating that microcredit management (client appraisal, credit risk control, and collection method) significantly influenced poverty reduction in the Birim Central Municipality.

The model was statistically significant because its value was less than 0.05. Obeng (2011) opined that people, mainly the poor and marginalised, were getting credit, positively impacting the beneficiaries’ poverty levels.

Table 4: Coefficients

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|------------------------------------|-----------------------------|------------|---------------------------|--------|------|
| | B | Std. Error | | | |
| (Constant) | 4.798 | .195 | | 24.668 | .000 |
| 1 Microcredit Management Practices | .494 | .061 | .757 | 8.035 | .000 |

Constant (Poverty Reduction)

Source: Field Survey, 2022

If microcredit management (client appraisal, credit risk control, and collection policy) were set to zero, poverty reduction would be 4.798, and a unit increase in microcredit management would result in a 0.494 increase in poverty reduction, according to the following regression equation.

This find corresponds to Amoako, Yeboah, and Yeboah (2017). According to their findings, microcredit improved salaries, access to education, and healthcare, but not savings or the purchase of durable consumer goods like a stove or refrigerator. Individual credit had a greater impact on poverty reduction than group credit, despite the fact that emergency loans to economically engaged poor had no substantial influence on poverty reduction. The influence of microfinance on poverty reduction in Ghana was researched by Boateng, Boateng, and Bampoe (2015). The findings revealed a link between microfinance and the benchmark variables, emphasizing that recipients should

be provided with the knowledge necessary to ensure efficient money management and to build stable political and economic contexts in which microbusinesses can thrive. Another study conducted by Abaluk (2012) looked into the effects of microfinance as a poverty alleviation tool. Doing business with Masara was deemed extremely beneficial and profitable by all respondents.

Microcredit Management Practices of Selected Microfinance Institutions in the Birim Central Municipality (2nd Specific Objective)

From the standpoint of a debtor, credit management is the process of managing one's finances, particularly debts, to avoid a trail of creditors trailing behind one's back (Ohene, 2016). Both the debtor and the creditor have an important role in credit management. When done correctly, credit management is an excellent instrument for maintaining financial health (Nsiah, R. 2014). The study's initial goal is to examine the microcredit management procedures of the Birim Central Municipality's selected microfinance organizations. Client evaluation, credit risk management, and credit collection policy were all factors considered.

The Extent of Usage of Client Appraisal by MFIs

The respondents (MFI officials) were asked to comment on employing customer appraisal in their institutions' microcredit management. According to the report, 38 percent of MFI officials used client appraisal as part of their microcredit management methods practically every time, 40 percent said they used it almost every time, and 22 percent said they used it sometimes or infrequently. Table 5 demonstrates the results.

Table 5: The Extent of Usage of Client Appraisal by MFIs

| Extent | Frequency | Percent |
|-------------------|-----------|---------|
| Sometimes | 11 | 22.0 |
| Almost Every time | 20 | 40.0 |
| Every time | 19 | 38.0 |
| Total | 50 | 100.0 |

Source: Field Survey, 2022

The Level Agreement of Client Appraisals of MFIs

Officials from microfinance institutions were also asked to comment on whether they agreed or disagreed with the following variables regarding client appraisal. The findings of the factors are shown in Table 6.

According to the majority of respondents, client appraisal is a valid credit management strategy, with 48 percent agreeing or strongly agreeing, 12 percent neither agreeing nor disagreeing, and 44 percent disagreeing or strongly disagreeing. Table 4.3 also shows that 62% agreed or strongly agreed that MFIs had competent employees to conduct client appraisals, while just 12% disagreed or severely disagreed, and 26% disagreed or strongly disagreed.

Client appraisal evaluates the character of consumers seeking loan facilities; according to 56% of MFIs, 12% neither agreed nor disapproved, and 32% disagreed or strongly disagreed. When it comes to whether or not collateral is considered when evaluating clients, 62 percent of MFIs agreed or strongly agreed, 14 percent neither agreed nor disagreed, and 24 percent opposed or strongly disagreed with the statement. Failure to appraise customers’ ability to repay results in loan defaults, according to 72% of MFIs, whereas 18% disagree or strongly disagree, and 10% neither agree nor disagree.

Table 6: The Level Agreement of Client Appraisals of MFIs

| Attributes /Opinions | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|---|----------------|-------|---------|----------|-------------------|
| Client appraisal is a viable strategy for credit management. | 14 | 32 | 10 | 20 | 24 |
| The MFI has competent personnel for carrying out client appraisals. | 24 | 38 | 12 | 10 | 16 |
| Client appraisal considers the character of the customers seeking credit facilities | 22 | 34 | 12 | 16 | 16 |
| Aspects of collateral are considered while appraising clients | 26 | 36 | 14 | 12 | 12 |
| Failure to assess customers capacity to repay results in loan defaults | 42 | 30 | 10 | 12 | 6 |

Source: Field Survey, 2022

The Extent of Usage of Credit Risks Control by MFIs

The respondents were asked to comment on how much credit risk control is used in managing microcredit in their organizations. According to the survey, 44 percent of MFI officials used credit risk control as a component of microcredit management techniques virtually every time, 40 percent said they used it almost every time, and 16 percent said they used it sometimes or infrequently. Table 7 demonstrates the results.

Table 7: The Extent of Usage of Credit Risks Control by MFIs

| Extent | Frequency | Percent |
|-------------------|-----------|---------|
| Sometimes | 8 | 16.0 |
| Almost Every time | 20 | 40.0 |
| Every time | 22 | 44.0 |
| Total | 50 | 100.0 |

Source: Field Survey, 2022

The Level Agreement of Credit Risks Control of MFIs

Officials from microfinance institutions were also asked to report their level of agreement on the following credit risk control factors as survey responders. Table 8 demonstrates the study results in relation to the level of agreement of credit risks control of the MFIs.

When asked if imposing loan size limitations is a reasonable credit management strategy, most respondents (52%) objected or strongly disagreed, while just 32% agreed or strongly agreed, and 16% did not agree or disagree. 50 percent agreed or strongly agreed that conducting frequent credit checks enhances credit management, 28 percent opposed or strongly disagreed, and 22 percent were undecided. 52% of respondents agreed or strongly agreed that variable payback terms improve loan repayment, 16% neither agreed nor disapproved, and 32% objected or strongly disagreed.

Only 16% agreed, with 8% unsure. Only 16 percent of customers believe that a late payment penalty makes them more committed to loan repayment. Client credit application forms help with credit monitoring and administration, according to 58 percent of respondents who agreed or strongly agreed. Only 12% of respondents indicated they did not agree or strongly disagree, while 30% said they disagreed or strongly disagreed. Furthermore, 58% of respondents

agreed or strongly agreed that having a credit committee involved in loan decision-making is crucial in reducing default/credit risk, whereas 34% disagreed or strongly disagreed, and 8% did not agree or disagree. When asked if interest rates charged by MFIs affect loan performance, 56% agreed or strongly agreed, 38% disagreed or strongly disagreed, and 6% did not agree or strongly disagree.

Table 8: The Level Agreement of Credit Risks Control of MFIs

| Attributes /Opinions | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|--|----------------|-------|---------|----------|-------------------|
| Imposing loan size limits is a viable strategy in credit management | 18 | 14 | 16 | 20 | 32 |
| The use of credit checks on regular basis enhances credit management. | 28 | 22 | 28 | 16 | 6 |
| Flexible repayment periods improve loan repayment. | 32 | 20 | 16 | 14 | 18 |
| Penalty for late payment enhances customers commitment to loan repayment | 0 | 16 | 8 | 34 | 42 |
| The use of customer credit application forms improves monitoring and credit management as well | 26 | 32 | 12 | 14 | 16 |
| Credit committees involvement in | 22 | 36 | 8 | 28 | 6 |

making decisions
 regarding loans are
 essential in reducing
 default/credit risk
 Interest rates charged 26 30 6 10 28
 affect the performance
 of loans in the MFI

Source: Field Survey, 2022

The Extent of Usage of Collection Policy by MFIs

A selection policy is a set of procedures that a company follows to ensure that its receivables are received. The respondents were asked to comment on how often they employ collection policies at their institutions to handle microcredit. The study found that 48% of the MFIs officials used the collection policy as a component of microcredit management practices, 46% asserted that they made use of it almost every time, and 6% said they made use of it sometimes or occasionally. Table 9 demonstrates the results.

Table 9: The Extent of Usage of Credit Risks Control by MFIs

| Extent | Frequency | Percent |
|-------------------|-----------|---------|
| Sometimes | 3 | 6.0 |
| Almost Every time | 23 | 46.0 |
| Every time | 24 | 48.0 |
| Total | 50 | 100.0 |

Source: Field Survey, 2022

The Level Agreement of Collection Policy of MFIs

As research responders, officials from microfinance institutions were also requested to report on their level of agreement on the following collection

policy components. Table 10 shows the study's findings in regard to the MFIs' level of cooperation on collection policies.

When asked if available collection strategies had benefited from inadequate credit management, most respondents agreed or strongly agreed, with only 32% disagreeing or severely disagreeing and 8% saying they did not know. Creating collection policies was a challenge for 58 percent of respondents in credit management, while 12 percent were neither agreeing nor disapproving, and 30 percent disagreed or strongly objected. When asked if enforcing guarantee regulations increases the likelihood of loan recovery in the case of default, 60% agreed or strongly agreed, 8% disagreed, and 32% severely disagreed.

Most respondents (60 percent) opposed or strongly disagreed with the assertion that employee incentives effectively enhance delinquent loan recovery, while only 18 percent agreed and 22 percent did not agree or disagree. According to 56 percent of respondents who agreed or strongly agreed, regular evaluations of collection policies have enhanced credit management. On the other hand, 36% of respondents indicated they disagreed or strongly disagreed, while 8% stated they did not agree or disagree. Furthermore, 70% agreed or strongly agreed that a tight debt collection approach is more effective than a permissive policy, whereas 30% disagreed or strongly disagreed.

Table 10: The Level Agreement of Credit Risks Control of MFIs

| Attributes /Opinions | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|--|----------------|-------|---------|----------|-------------------|
| COLLECTION | 32 | 28 | 8 | 12 | 20 |
| POLICY | | | | | |
| Available collection policies have assisted towards effective credit management. | | | | | |
| Formulation of collection policies has been a challenge in credit management. | 36 | 22 | 12 | 14 | 16 |
| Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults | 32 | 28 | 8 | 12 | 20 |
| Staff incentives are effective in improving the recovery of delinquent loans. | 0 | 18 | 22 | 32 | 28 |
| Regular reviews have been done on collection policies to improve the state of credit management. | 20 | 36 | 8 | 18 | 18 |
| A stringent policy is more effective in debt recovery than a lenient policy | 34 | 36 | 0 | 14 | 16 |

Source: Field Survey, 2022

Challenges Associated with Recovering Loans of Selected Microfinance Institutions in the Birim Central Municipality (3rd Specific Objective)

Loan recovery is an important financial institution activity that keeps clients pleased while freeing up new loans. A methodical strategy is essential for clients to create excellent habits and a payment culture. It is also possible to think of it as a commercial activity whose primary purpose is to turn losses into profits for the company (Munusamy, Chelliah & Mun, 2010). Nevertheless,

financial institutions face several challenges in loan recovery no matter how strategic they plan in managing credit or applying good credit management practices. Because of this, the study sought to assess the challenges associated with recovering loans of selected microfinance institutions in the Birim Central Municipality. This section of the chapter presents the findings on that.

Table 11 displays descriptive data that reflect the degree to which factors were viewed as obstacles. The mean scores in this table are closer to 5, which is the highest number on the measuring scale for variables that are highly perceived as problems. Low mean scores are close to 1, the lowest number on the measuring scale, for variables viewed as low challenges.

Based on these criteria, the variables are lowly perceived as challenges. “Poor house numbers of loan customers” has the smallest mean score ($M = 2.36$, $SD = 1.156$), “Inadequate documentation submitted by loan customers” ($M = 3.26$, $SD = 1.397$) and “Loan diversion on the part of customers” ($M = 3.40$, $SD = 1.414$) also have small mean scores. Therefore, based on the perceptions of the officials of the Microfinance Institutions, they do not represent strong challenges faced by them in recovering loans from the customers.

The other variables, on the other hand, have high mean scores, indicating that they are widely considered as obstacles to loan recovery from clients. These include: “Board and staff influence on approval, disbursements and recovery” ($M = 3.74$, $SD = 1.192$), “Customer business failure due to mismanagement” ($M = 3.66$, $SD = 1.239$); “Lack of appropriate security on the part of loan applicants” ($M = 3.62$, $SD = 1.227$); “The problem of Liquidity on the part of customers” ($M = 3.58$, $SD = 1.247$); “Inadequate information about the customers’ business” ($M = 3.50$, $SD = 1.460$); “Delay in approval of loans” (M

= 3.50, SD = 1.460) and “High interest rate used by the bank” (M = 3.42, SD = 1.326).

Table 11: Challenges Associated with Recovering Loans

| Challenges | Mean | Std. Deviation | Rank |
|---|------|----------------|------------------|
| The problem of Liquidity on the part of customers | 3.58 | 1.247 | 4 th |
| Board and staff influence approval, disbursements, and recovery | 3.74 | 1.192 | 1 st |
| Delay in approval of loans | 3.48 | 1.344 | 6 th |
| High-interest rate used by the bank | 3.42 | 1.326 | 7 th |
| Poor house numbers of loan customers | 2.36 | 1.156 | 10 th |
| Lack of appropriate security on the part of loan applicants | 3.62 | 1.227 | 3 rd |
| Inadequate information about the customers’ business | 3.50 | 1.460 | 5 th |
| Inadequate documentation submitted by loan customers | 3.26 | 1.397 | 9 th |
| Customer business failure due to mismanagement | 3.66 | 1.239 | 2 nd |
| Loan diversion on the part of customers | 3.40 | 1.414 | 8 th |

Source: Field Survey, 2022

The study has revealed the challenges officers face in microfinance institutions, especially those in the Birim central municipality. Among these are the issue of the Board and staff influencing approval, disbursements, and recovery, Customer business failure due to mismanagement, lack of appropriate security on the part of loan applicants, the problem of Liquidity on the part of customers, inadequate information about the customers’ business, delay in the approval of loans and high overdue rate used by the bank.

Some of the challenges loan officers face in their recovery process include poor or non-monitoring of micro and small businesses by banks, delays in completing and payment of loans, and fund diversion (Bichanger & Asey,

2013). Kasozi (1998) claims that there are defects in the borrower over which the lender has limited influence on client business failure due to mismanagement. It is also worth considering business management. Many borrowers lack technical skills, such as maintaining business performance and keeping records until the loan is returned. This is troublesome since they rarely reinvest their gains, resulting in long-term loan default. When it comes to recovering debts, this effectively becomes a stumbling block for MFIs.

Another big issue was the high-interest rates of the microfinance institutions, which made it impossible for customers to pay and made loan recovery difficult. According to Kohansal and Mansoori (2009), various variables might make loan recovery challenging, such as government-imposed interest rate limitations, informal lenders' monopoly position in credit markets, and excessive transaction fees levied by borrowers in borrowing, moral hazard issues, and others.

Causes of Non-Performing Loans of Selected Microfinance Institutions in the Birim Central Municipality (4th Specific Objective)

According to Alton and Hazen, non-performing loans are 90 days or more past due or do not yield interest (2001). Caprio and Klingebiel (1990) define nonperforming loans as loans that do not produce revenue over a long time. For at least 90 days, this covers the debt's principal and interest. The study's objectives included analysing the determinants of non-performing loans from selected microfinance institutions in the Birim Central Municipality. This section of the chapter presents the findings.

Table 12 displays descriptive statistics that demonstrate how variables were evaluated as determinants. Variables highly perceived as determinants in

this table have mean scores closer to 5, the highest number on the measuring scale. Low mean scores for poorly perceived variables as determinants are close to 1, the lowest value on the measuring scale.

The least well-liked variables as determinants, according to these criteria, were "Lenient credit terms," which had the lowest mean score (M = 3.10, SD=1.329). The mean scores for "poor credit evaluation" (M = 3.40, SD = 1.355) are also low. As a result, they do not appear to be important drivers of non-performing loans, according to officials from Microfinance Institutions. On the other hand, the other variables have high mean ratings, implying that they are widely regarded as drivers of non-performing loans. "High interest rate" (M = 4.08, SD = 1.243), "Poor credit Monitoring" (M = 3.64, SD = 1.411), and "Incompetent personnel" (M = 3.62, SD = 1.244) are just a few examples.

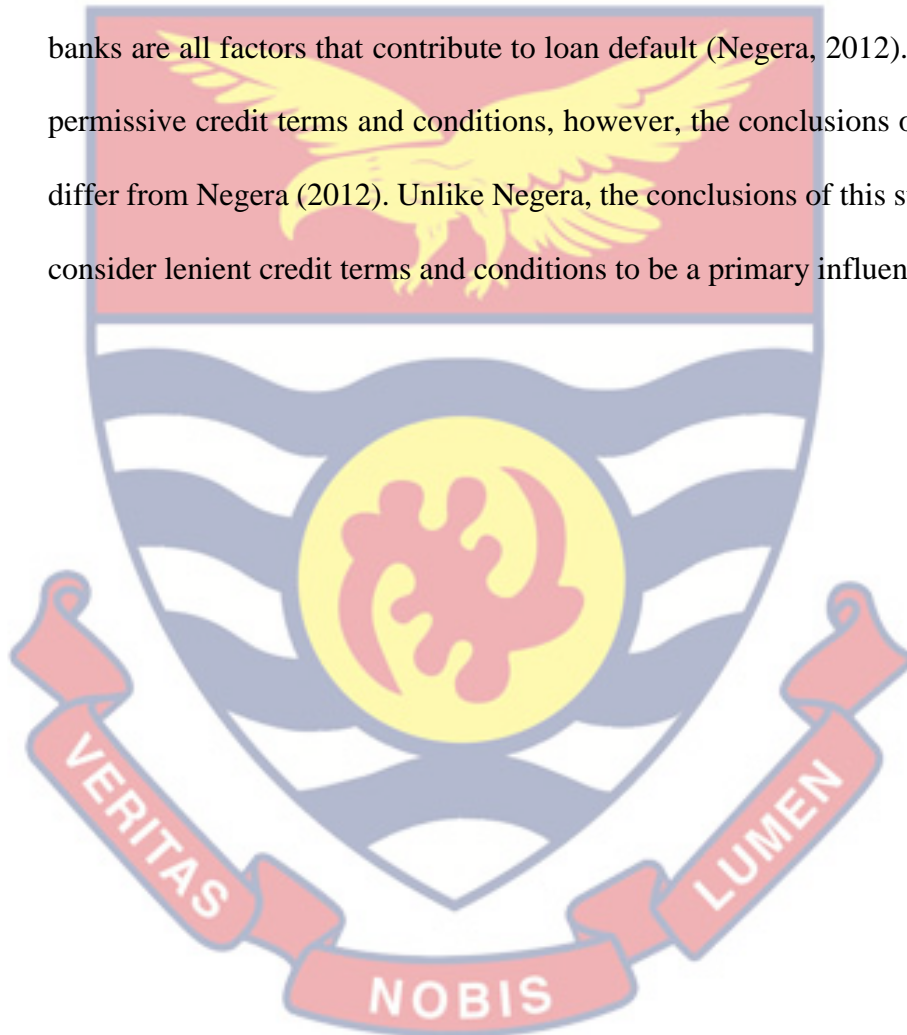
Table 12: Determinants of Non-Performing Loans

| Determinants | Mean | Std. Deviation | Rank |
|------------------------|------|----------------|-----------------|
| Poor credit assessment | 3.40 | 1.355 | 4 th |
| Poor credit Monitoring | 3.64 | 1.411 | 2 nd |
| High interest rate | 4.08 | 1.243 | 1 st |
| Incompetent staff | 3.62 | 1.244 | 3 rd |
| Lenient credit terms | 3.10 | 1.329 | 5 th |

Source: Field Survey, 2022

The study's findings show that in the Birim Municipality, excessive interest rates, poor credit monitoring, and incompetent staff were the key predictors of non-performing loans. According to Beck, Ioannidou, and Schäfer (2018), the most significant factors driving NPLs are GDP growth (a major driver over the last decade), share prices, interest rates, and the currency rate.

Interest rates, remittances, and the unemployment rate are all tied to NPLs (Kurumi & Bushpupa, 2017). Poor credit evaluation, failed loan monitoring, underdeveloped credit culture, lenient credit terms and conditions, forcible lending, disrupted integrity, limited institutional capacity, unfair competition among banks, deliberate default by borrowers and their knowledge limitations, fund distraction for an unintentional purpose, and over/under financing by banks are all factors that contribute to loan default (Negera, 2012). In terms of permissive credit terms and conditions, however, the conclusions of this study differ from Negera (2012). Unlike Negera, the conclusions of this study did not consider lenient credit terms and conditions to be a primary influence.



CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

Introduction

The study's main purpose is to examine the impact of credit management on poverty reduction in the Birim Central Municipality in the Eastern Region of Ghana. This section of the thesis summarises the study's findings, draws inferences and recommendations based on the findings, and provides recommendations for any future research related to this study.

Summary of Findings

The study specifically determined the microcredit management practices, assessed the challenges associated with recovering loans, and assessed the determinants of non-performing loans of selected microfinance institutions in the Birim Central Municipality. As a result, the study focused on microfinance institutions and microcredit beneficiaries in the Birim Central Municipality in Ghana's Eastern Region, where various microfinance activities are underway. A standardized questionnaire was used to interview officers from the selected microfinance institutions and their beneficiaries. The data was collected based on the respondents' social and economic activities and the MFIs' credit management policies and methods. By comparing all variables under the defined objectives, the researcher could answer the questions posed above.]\

Key Findings

The study's first goal was to explore how microfinance institutions handle their microcredit and its influence on poverty reduction among their

customers in the Birim Central Municipality. The inferential analysis helped the researchers establish a link between the independent and dependent variables.

According to the study, if client appraisal, credit risk control, and collection method were all held constant, poverty reduction would be 4.798, but a unit increase in microcredit management would result in a 0.494 rise in poverty reduction. Essentially, the study's findings demonstrated that MFIs' microcredit administration positively impacted the poverty reduction of the institution's beneficiaries.

The second goal was to figure out how chosen microfinance institutions in Birim Central Municipality handled microcredit. Most MFIs employed client appraisal, credit risk control, and collection policy to handle microcredit in their institutions, according to the findings. MFIs also believe that freely available collection policies have contributed to bad credit management, that developing collection policies is difficult in credit management, and that limiting loan size is a realistic credit management method. Client evaluation is an effective credit management method that considers the character of the clients seeking credit.

Taking into account the third objective, which assessed the challenges associated with recovering loans from selected microfinance institutions in the Birim Central Municipality, the study discovered that issues such as board and staff influencing approval, disbursements, and recovery, customer business failure due to mismanagement, lack of appropriate security on the part of loan applicants, customer liquidity problems, and inadequate information arose. It was also discovered that the high-interest rate used by the microfinance institutions made it difficult for the customer to pay, and thereby loan recovery becomes a challenge.

The study's four goals were to look at the reasons for non-performing loans at a few microfinance firms in Birim Central Municipality. As a result, the study's findings reveal that the key reasons for non-performing loans in the Birim Municipality were high-interest rates, insufficient credit monitoring, and incompetent staff.

Conclusion

The rationale for microfinance institution failure piqued the researcher's interest in undertaking advanced investigations into credit management in microfinance institutions in the Birim Central Municipality in Ghana's Eastern Region. The major goal was to see if credit appraisal, credit risk management, and collection technique in Ghana's Eastern Region affected poverty reduction.

The study revealed a strong positive connection between the variables (microcredit management and poverty reduction), as shown by 0.757. The study shows that microfinance organizations' microcredit management significantly lowers poverty among borrowers. MFIs employed client appraisal, credit risk control, and collection strategy to manage microcredit in their organizations, according to the report.

The study also concludes that MFIs are faced with several impediments in their operations of which the board and staff influencing on approval, disbursements, and recovery, customer business failure due to mismanagement were the prominent ones. Non-performing loans have been a great concern to industry players regarding MFIs. The study concludes that the three main determinants of non-performing loans are high-interest rates, poor credit monitoring, and incompetent staff.

Recommendations

The following suggestions are proposed premised on the study's findings. Despite the positive impact of microcredit management by the microfinance institutions, it was below 50%, which means there is still room for improvement. Given this, the study suggests that microfinance institutions should have rigorous credit terms and collection policies. Client evaluation processes and credit risk controls help them have a stronger influence on their clients' poverty reduction. This is very critical due to the fact that it is the main brain behind forming a microfinance institution

Although existing collection rules have aided inadequate credit management, collection policy creation and client evaluation must be regarded as vital. A comprehensive client appraisal must be done to minimise the amount of non-performing loans, which go a long way to affect the institutions' profitability and their means of contributing to poverty reduction.

The board and staff influencing approval, disbursements, recovery, and customer business failure due to mismanagement were part of the main challenges the MFIs were facing. Therefore, it is advisable that all staff members, including the board directors, follow the letter of the policies of the Bank of Ghana in relation to avoiding interferences in approval, disbursements, and recovery of loans to customers. They should also refrain from giving themselves loans which was one of the concerns of the Bank of Ghana at the point of revoking the license of those MFIs across the country. Another recommendation is that customers who are given loans should be guided in the management of their business, and the loans can also be given in stages as they

are being guided in the administration of the business, which will safeguard and avoid non-performing loans.

The study results depicted that high-interest rates, poor credit monitoring, and incompetent staff were the major determinants of non-performing loans. Having this in mind, it is very critical for the microfinance institutions to make sure that they have frequent research and meetings with their clients and prospective clients to have feedback on their level of interest rates to aid them in making good decisions will be mutually beneficial. Moreover, the MFIs are urged to ensure that they have regular training, especially in credit management, for their staff members to keep at par with the industry changes and innovations.

Recommendations for Further Research

According to the study, it was found that the impact of the management of the credit of MFIs was not up to 50%. This could be because other variables related to microcredit management were not considered in the study. As a result, the study proposes that more research be done into all of the variables related to microfinance credit management and their effects on poverty reduction for beneficiaries and the institution's success.

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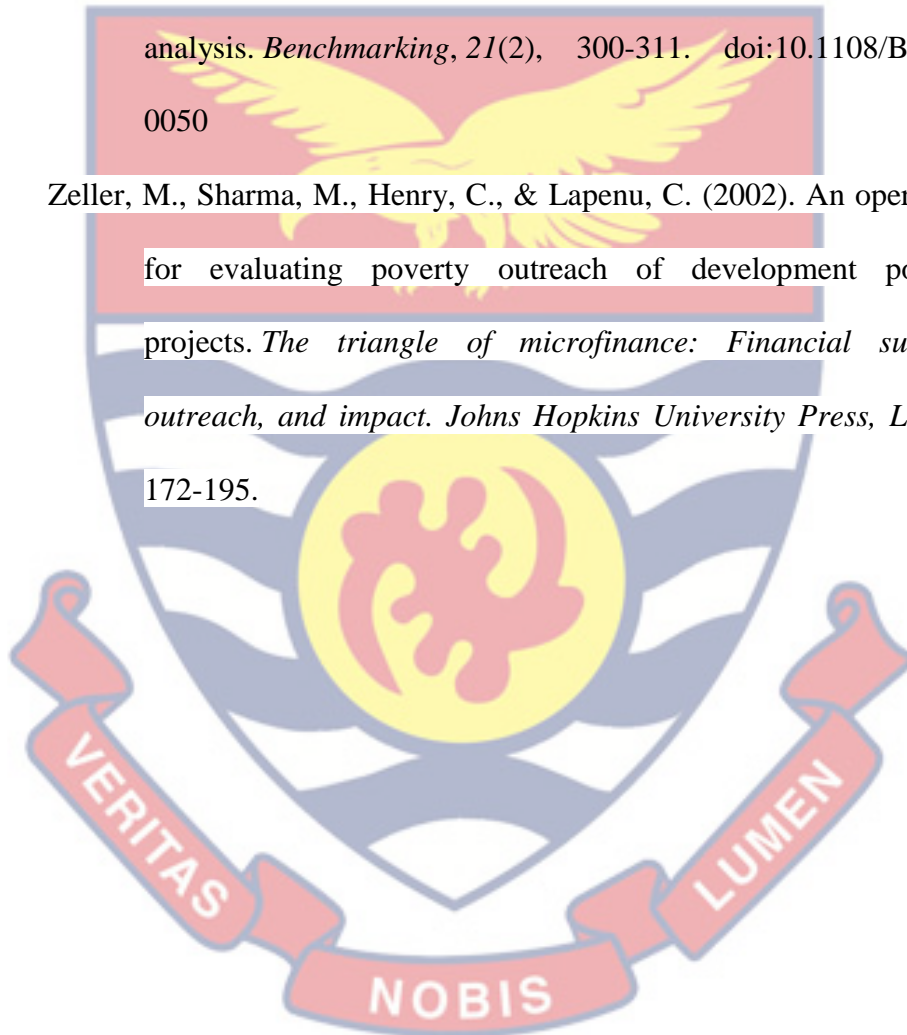
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APPENDICES

APPENDIX 'A'

QUESTIONNAIRE FOR CUSTOMERS

This research seeks to find out the procedures adopted by the Microfinance Institutions (MFIs) in the Birim Central Municipality in the granting and collection of credits. Our intentions are purely for academic purposes, and not, in any way attempt to assess individuals. You are assured that all information supplied will be held confidentially.

Please kindly respond as honestly and carefully as you can. Tick (✓) as appropriate.

Section A: Personal Data

1. Sex Male () Female ()
2. Age 16-25 [] 26- 35 [] 36-45 [] 46- 55[] 56+ []
3. Marital Status: Single [] Married [] Divorced [] Separated [] Widowed []
4. Educational level: Never attended any school [] Basic [] Secondary [] Tertiary []
5. How long did you operate with the MFIs before contracting the loan?
Less than six (6) months [] More than six (6) months []
6. How often did you make deposits before the loan was given?
Weekly or less [] Every two weeks [] Monthly [] Quarterly or more []

Section B: Impact of Microcredit Management on Poverty Reduction

Please use a tick (√) to indicate your response in the space provided the extent of to which how your access to microfinance services have impacted your poverty reduction.

| No. | Statement | Strongly Agree | Agree | Neutral | Disagree | Strongly Agree |
|-----|--|----------------|-------|---------|----------|----------------|
| 1. | Increase in total income | | | | | |
| 2. | Meeting daily, health and financial needs as well as sustaining a specified level of economic well-being (better food and high standard of living) | | | | | |
| 3. | Increase in personal assets (livestock, equipment, land, etc) | | | | | |
| 4. | Providence against having to sell physical assets to protect household assets. | | | | | |
| 5. | Enhances quality of life and self-confidence | | | | | |
| 6. | Microfinance interventions have a positive impact on the education of children. | | | | | |

QUESTIONNAIRE FOR BANK OFFICIALS ON CREDIT MANAGEMENT PRACTICES

This research seeks to find out the procedures adopted by MFIs in the granting and collection of credits. Our intentions are purely for academic purposes, and not, in any way attempt to assess individuals. You are assured that all information supplied will be held confidentially.

Please kindly respond as honestly and carefully as you can. Tick [] as appropriate

Section A: Personal Data

1. Sex: Male () Female ()

2. Age groups: 16-25 () 26-35() 36-45 () 46-55() 56-65()

3. Marital status: married () single () widow () divorce ()

4. Educational level: Never attended School () Basic () Secondary Teacher/Nursing/Vocational Training () Tertiary

() other, (specify).....

6. What types of loans do you have for your customers?

Commercial loan () Salary loans () Micro loans () Managed loans ()

Section B: Microcredit Management Practices

Please use a tick (√) to indicate your response in the space provided the extent of to which do your firm(s) make use of the following components of Credit Management Practices.

| No. | Microcredit Management Practices | Every Time | Almost Every Time | Sometimes | Almost Never | Never |
|-----|----------------------------------|------------|-------------------|-----------|--------------|-------|
| 1. | CLIENT APPRAISAL | | | | | |
| 2. | CREDIT RISK CONTROL | | | | | |
| 3. | COLLECTION POLICY | | | | | |

Please use a tick (√) to indicate your response in the space provided the extent of to which the following factors provided below represent the microcredit management you adopt.

| No. | Microcredit Management Practices | Strongly Agree | Agree | Neutral | Disagree | Strongly Agree |
|-----|---|----------------|-------|---------|----------|----------------|
| 4. | CLIENT APPRAISAL Client appraisal is a viable strategy for credit management. | | | | | |
| | The MFI has competent personnel for carrying out client appraisal. | | | | | |
| | Client appraisal considers the character of the customers seeking credit facilities. | | | | | |
| | Aspects of collateral are considered while appraising clients. | | | | | |
| | Failure to assess customers capacity to repay results in loan defaults | | | | | |

| | | | | | | |
|----|---|--|--|--|--|--|
| 5. | CREDIT RISK CONTROL Imposing loan size limits is a viable strategy in credit management | | | | | |
| | The use of credit checks on regular basis enhances credit management. | | | | | |
| | Flexible repayment periods improve loan repayment. | | | | | |
| | Penalty for late payment enhances customers commitment to loan repayment | | | | | |
| | The use of customer credit application forms improves monitoring and credit management as well | | | | | |
| | Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk | | | | | |
| | Interest rates charged affect performance of loans in the MFI | | | | | |
| 6. | COLLECTION POLICY Available collection policies have assisted towards effective credit management. | | | | | |
| | Formulation of collection policies have been a challenge in credit management. | | | | | |
| | Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults | | | | | |
| | Staff incentives are effective in improving recovery of delinquent loans. | | | | | |
| | Regular reviews have been done on collection policies to improve state of credit management. | | | | | |
| | A stringent policy is more effective in debt recovery than a lenient policy | | | | | |

Section C: Challenges Associated In Recovering Loans

Please use a tick (√) to indicate your response in the space provided the extent of to which the following factors provided below represent the challenges you encounter in your loans administration and recovery activities.

| No. | Challenges Associated In Recovering Loans | Very Serious Challenge | Serious Challenge | Moderate Challenge | Minor Challenge | Not at a Challenge |
|-----|---|------------------------|-------------------|--------------------|-----------------|--------------------|
| 1. | The problem of Liquidity | | | | | |
| 2. | Board and staff influence on approval, disbursements and recovery | | | | | |
| 3. | Delay in approval of loans | | | | | |
| 4. | High overdue rate used by the bank | | | | | |
| 5. | Poor house numbers of loan customers | | | | | |
| 6. | Lack of appropriate security on the part of loan applicants | | | | | |
| 7. | Inadequate information about the | | | | | |

| | | | | | | |
|-----|--|--|--|--|--|--|
| | customers' business | | | | | |
| 8. | Inadequate documentation submitted by loan customers | | | | | |
| 9. | Customer business failure due to mismanagement | | | | | |
| 10. | Loan diversion on the part of customers | | | | | |

Section D: Determinants of Non-Performing Loans

Please use a tick (√) to indicate your response in the space provided the extent of to which the following factors provided below represent the determinants of non-performing loans

| No. | Determinants Of Non-Performing Loans | Strongly Agree | Agree | Neutral | Disagree | Strongly Agree |
|-----|--------------------------------------|----------------|-------|---------|----------|----------------|
| 7. | Poor credit assessment | | | | | |
| 8. | Poor credit Monitoring | | | | | |
| 9. | High interest rate | | | | | |
| 10. | Incompetent staff | | | | | |
| 11. | Lenient credit terms | | | | | |