A SURVEY OF CREDIT RISK MANAGEMENT PRACTICES BY MICROFINANCE INSTITUTIONS IN KENYA

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A PROJECT REPORT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE MASTER OF BUSINESS ADMINISTRATION (MBA) DEGREE,
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DECLARATION

This project is my original work and has not been presented for degree in any other university.

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This project has been submitted for examination with approval as a university supervisor.

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I would like to dedicate this paper firstly to my parents, Mr. & Mrs. Wambugu for all their sacrifice and moral support all through the various stages of my formal education.

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LIST OF CHARTS

CHART 1: SURVEY RESPONDENTS.................................................................28
CHART 2: ORGANIZATION OF CREDIT CONTROL ACTIVITIES ....................31
CHART 3: PEOPLE RESPONSIBLE FOR THE FORMULATION OF CREDIT POLICY GOALS AND MISSIONS .................................................................32
CHART 4: CREDIT POLICY REVIEW..........................................................35
CHART 5: FACTORS CONSIDERED WHEN DETERMINING THE CREDIT PERIOD .................................................................36
CHART 6: DATA RECIPROCITY CONCEPT....................................................39
CHART 7: PEOPLE RESPONSIBLE FOR THE FORMULATION OF COLLECTION POLICY .......42
LIST OF TABLES

TABLE 1: EXISTENCE OF A CREDIT CONTROL DEPARTMENT ........................................ 29
TABLE 2: EXISTENCE OF CREDIT COMMITTEES .......................................................... 29
TABLE 3: CONSTITUTION OF THE CREDIT COMMITTEES (COMMITTEE MEMBERS) ........ 30
TABLE 4: CREDIT POLICY EXISTENCE ........................................................................ 32
TABLE 5: FACTORS CONSIDERED WHEN ESTABLISHING A CREDIT POLICY .......... 33
TABLE 6: REASONS FOR FORMULATION OF CREDIT POLICIES ................................ 34
TABLE 7: FACTORS CONSIDERED DURING THE FORMULATION OF ORGANIZATION’S CREDIT POLICY ........................................................................................................... 34
TABLE 8: FACTORS CONSIDERED WHEN SETTING CREDIT LIMITS ............................ 36
TABLE 9: CREDIT TERMS GRANTED IN THE CREDIT PROGRAM ............................... 37
TABLE 10: FACTORS AFFECTING CHOICE OF CREDIT TERMS .................................. 37
TABLE 11: TOOLS USED FOR CREDIT ASSESSMENT ................................................ 38
TABLE 12: VARIOUS SOURCES OF CREDIT INFORMATION ........................................ 40
TABLE 13: FACTORS AFFECTING CREDIT RATING ....................................................... 40
TABLE 14: FACTORS AFFECTING CREDIT SCORE MODELS ....................................... 41
TABLE 15: PRINCIPLES OF A GOOD COLLECTION POLICY .................................... 43
TABLE 16: PROCEDURES FOLLOWED IN DEBT COLLECTION ................................... 43
TABLE 17: DETERMINATION OF DEBT WRITE-OFF POINT ...................................... 44
# TABLE OF CONTENTS

DECLARATION ...........................................................................................................I
ACKNOWLEDGEMENTS ......................................................................................... II
DEDICATION LIST OF CHARTS .............................................................................. III
LIST OF CHARTS .................................................................................................... IV
LIST OF TABLES ........................................................................................................ V
TABLE OF CONTENTS .............................................................................................. VI
ABSTRACT ................................................................................................................ VIII

CHAPTER ONE: INTRODUCTION ............................................................................. I
  1.1 BACKGROUND .................................................................................................. 1
  1.1.1 MFI INDUSTRY IN KENYA .................................................................. 3
  1.2 PROBLEM STATEMENT .............................................................................. 4
  1.3 OBJECTIVES OF THE STUDY ..................................................................... 5
  1.4 SCOPE OF THE STUDY .............................................................................. 5
  1.5 IMPORTANCE OF THE STUDY ................................................................... 5

CHAPTER TWO: LITERATURE REVIEW ................................................................... 8
  2.1 INTRODUCTION ............................................................................................ 8
  2.2 CREDIT RISK MANAGEMENT .................................................................... 8
  2.3 ELEMENTS OF CREDIT RISK ASSESSMENT ........................................ 12
  2.4 CREDIT RISK MANAGEMENT POLICIES ............................................... 17
  2.5 QUALITATIVE MODELS ............................................................................. 19
  2.6 DEVELOPMENT OF CREDIT ................................................................... 22
  2.7 KNOWLEDGE GAP ..................................................................................... 24

CHAPTER THREE: RESEARCH METHODOLOGY ..................................................... 26
  3.1 INTRODUCTION ............................................................................................ 26
  3.2 POPULATION ................................................................................................. 26
  3.3 DATA COLLECTION INSTRUMENTS ......................................................... 26
CHAPTER FOUR

4.0 RESULTS AND FINDINGS........................................................................28
4.1 INTRODUCTION.......................................................................................28
4.2 GENERAL INFORMATION.......................................................................28
4.3 THE CREDIT POLICY..............................................................................31
4.4 CREDIT STANDARDS..............................................................................36
4.5 CREDIT PERIOD......................................................................................36
4.6 CREDIT APPRAISALS/ ASSESSMENT......................................................37
4.7 SOURCES OF CREDIT INFORMATION....................................................40
4.8 ORGANIZATION CREDIT RATING..........................................................40
4.9 CREDIT SCORING....................................................................................41
4.10 COLLECTION POLICY..........................................................................42

CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATIONS.............................................45
5.1 INTRODUCTION.......................................................................................45
5.2 SUMMARY OF FINDINGS.......................................................................45
5.3 CONCLUSION..........................................................................................46
5.4 RECOMMENDATIONS:............................................................................47
5.5 FURTHER STUDIES................................................................................47
5.6 LIMITATION OF THE STUDY..................................................................48

APPENDIX I..................................................................................................55
APPENDIX II.................................................................................................49
APPENDIX III...............................................................................................65
ABSTRACT

The survey was an investigation into the credit risk management practices by microfinance institutions (MFIs) in Kenya.

The objectives of the study were to identify the major types of credit risk that MFIs face and to examine the credit risk management practices adopted by microfinance institutions.

The survey was targeted at a population of 35 microfinance institutions but only 23 responded. Primary data was collected using a combination of “drop and pick later” & “self administered” structured questionnaires. The survey was set out to determine the credit management methods applied by microfinance institutions when they offer credit and the factors affecting them. After data collection, examination for completeness, reliability and consistency was conducted on the data. The data were analyzed using descriptive statistics where statistical package for social studies (SPSS) was used. To determine credit risk management practices, this study undertook content analysis of data. Frequency and percentage distribution tables were used to display the results of the survey. Likewise, descriptive technique, comparative analysis and factor analysis were applied to determine factors affecting credit risk management and their consideration.

From the study we see that microfinance institutions had fully fledged credit control departments which had been in operation for a period of between five and fifteen years. The MFIs also had credit control committees. All the firms covered in the survey had a clearly defined and documented credit control policy. Most of the credit control activities were organized within the credit control department. Most of the companies had their credit policy goals formulated and implemented by the credit committees. All the MFIs reviewed their credit policy periodically. A few reviewed their credit policy monthly. Credit scores for customers was the most applicable factor for determining credit period.
Most of the MFIs covered in the survey granted different payment periods for different customers. MFIs observed strictness when offering credit to their clients.
CHAPTER 1: INTRODUCTION

1.1 Background

When a company grants credit to its customers it incurs the risk of non-payment. Credit management, or more precisely credit risk management, refers to the systems, procedures and controls, which a company has in place to ensure the efficient collection of customer payments thereby minimizing the risk of non-payment (Mokogi, 2003). Credit risk management forms a key part of a company’s overall risk management strategy. Weak credit risk management is a primary cause of many business failures. Many small businesses, for example, have neither the resources nor the expertise to operate a sound credit management system (McMenamin, 1999).

The World Bank defines Micro Finance Institutions (MFIs) as institutions that engage in relatively small financial transactions using various methodologies to serve low income households, micro enterprises, small scale farmers, and others who lack access to traditional banking services CBS (1999). Financial intermediation is of great importance in any economy. (Dondo and Ongila 2006) note that, in the Kenya’s Poverty Reduction Strategy Paper (PRSP), the financial sector is expected to play a catalytic role in facilitating economic growth through SMEs. Access to formal credit by small-scale businesspersons has been quite poor particularly among the low-income category. This is largely as a result of the credit policies associated with loans provided by the formal sector (Ringeera, 2003).

According to Mokogi (2003), even if granting credit may accrue benefits of increasing sales to the organization, there are high default risks that may adversely affect the organization’s future. Organizations therefore have to come up with appropriate credit management policies that will yield the maximum benefits. Credit policies vary from one organization to another; a firm’s unique operating conditions dictate the kind of credit
policy to adopt. Myer and Brealey (2003) note that if services are offered on credit, the profit is not actually earned unless and until the account is collected.

Organizations take into consideration a number of factors before setting the credit standards: financial stability of the customer, the nature of credit risk on the basis of prior record of payment e.t.c. In establishing credit terms, the organization should consider the use of cash discount. An increase in the average collection period of a company may be the result of a predetermined plan to extend credit terms or the consequence of poor credit administration (Block and Hirt, 1992).

In recent years, a growing number of developing countries including Kenya have embarked on reforming and deregulating their financial systems, transforming their institutions into effective intermediaries and extending viable financial services on a sustainable basis to all segments of the population (Seibel, 1996). By gradually increasing the outreach of their financial institutions, some developing countries have substantially elevated poverty lending, institutional strategies and financial systems approaches. In the process, a new world of finance has emerged, which is demand-led and savings driven and conforms to sound criteria of effective financial intermediation. There is now incipient experience with the successful integration of microfinance strategies into micro policies, which makes banking in the micro economy and the poor both viable and sustainable.

Throughout the 1980s and the 1990s, these Non-Governmental Organizational-based credit programs improved on the original methodologies and bucked conventional wisdom about financing the poor. First, it was shown that poor people, especially poor women, repay their loans. Near-perfect repayment rates, unheard of in the formal financial sectors of most developing countries, were common among the better credit programs. Second, the poor were willing and able to pay interest rates that allowed MFIs to cover their costs. Third, the combination of these two features; high repayment and
cost-covering interest rates enabled some MFIs to achieve long-term sustainability while reaching large numbers of clients. The promise of microfinance as a strategy that combines massive outreach, far reaching impact and financial sustainability makes it unique among development interventions.

1.1.1 MFI industry in Kenya

The Microfinance industry in Kenya is still nascent and requires various interventions to increase outreach and attain sustainability. Recent developments in the microfinance industry both in Kenya and elsewhere have involved the transformation of MFIs into banks or other forms of regulated institutions. Greater emphasis is on the potential of formal financial institutions such as banks to move “down-market”, and experiment with other types of financial providers such as postal and savings banks, along with renewed interest in the role of credit unions. The increasing commercialization of microfinance has also shed light on the limitations of NGO microfinance institutions (MFIs) in achieving sufficient scale to reach the mass of poor people still unserved (Drake and Rhyne, 2002; Woller, 2002, CGAP, 2004). Many of the expectations to reach scale have been fueled by the promise of new technologies, which anticipate that electronic banking will lower the transaction costs of service delivery significantly (Cracknell, 2004).

The microfinance movement is large and growing (Rukwaro, 2001). It is reported that more than 100 million customers worldwide are borrowing small loans from around 10,000 microfinance institutions (MFIs). A great deal of attention and funding has been directed toward microfinance by the development partners over the past few decades (Rukwaro, 2001). Levels of success, however defined, vary across MFI’s. Some fail and cease to be; others grow to reach millions of borrowers, covering costs in the process.

Among the most difficult situations facing financial institutions is the existence of uncertainty regarding their inflows which are mainly constituted by their deposits
(Baltensperger and Milde. 1976). The financing institution does not know in advance exactly what inflows and outflows it will experience in its deposit accounts. Okutoyi (1988) observes that banks consistently compete for deposits as public confidence in the financial system keeps on being patronized. This point is further underscored by Channon (1986), who points out that as a result of the growing competition and rapid change more and more financing institutions worldwide are increasing their strategic planning efforts aimed at gaining competitive advantage.

1.2 Problem Statement

Granting credit to customers is an important activity thus the importance of credit risk management in these institutions, coupled with taking necessary measures to reduce loan defaulters while at the same time advancing credit in a fair and undiscriminating manner so as to continue offering service to their members. It is estimated that about 60 percent of the total investment in Kenya is currently undertaken by private investors and that about 30 percent of this is generated by MFIs. Government of Kenya (1987) observes that individual members of MFIs have used MFI credit in investment activities such as purchase of land, starting small businesses, housing, education and individual or family welfare.

Weak credit risk management is a primary cause of many business (particularly small business) failures Mc Menamin (1999). Hempel et. al (1994) carried out a study of national banks that failed in the mid 1980s in the U.S.A and found out that the consistent element in the failures was the inadequacy of the bank’s management system for controlling loan quality. A common approach to customers’ credit selection and analysis is the use of the “six Cs” of credit as an initial screening and risk assessment advice. These 6 Cs are: the capacity, capital, character, collateral, conditions and control. Generally, institutions are expected to manage their credit risk to avoid exposing their organization to unnecessarily high levels of risk and subsequently a decline in returns.
A lot of research has been done in developed countries on credit risk management in banks but very little on MFI's. Wanjiru (2000) undertook a study to determine factors that influence productivity of credit officers in micro finance institutions. Rukwaro (2000) wrote on credit rationing by micro finance institutions and its influence on the operations of small and micro enterprises. Kitaka (2006) studied the use of financial performance indicators by micro finance institutions in Kenya. Mokogi (2003) established the economic implications of lending of micro finance institutions on Small & Medium Enterprises. Since then, no known study has been done to determine credit risk management by MFI's. This study therefore seeks to determine credit risk management practices used by Micro Finance Institutions in Kenya.

1.3 Objectives of the Study

The objectives of the study are:

- To identify the major types of credit risk that MFI's face.
- To examine the credit risk management practices adopted by microfinance institutions and suggest improvement.

1.4 Scope of the Study

There are various types of lending institutions in Kenya. This study focuses on MFIs in Nairobi. This study is a micro-economic analysis as it limits itself to Nairobi area only whereas there very many MFIs country wide. MFIs have been selected since they handle a large amount of the total credit turnover in the country. Even in terms of quality, the MFI's compare favorably with streamline commercial banks.

1.5 Importance of the Study

To MFIs

The MFIs will be able to know how to effectively handle the issues of credit risk management and how to reduce their exposure to the risk.
To policy makers

The research will provide valuable information regarding the role of the financial sector greatly needs the effective participation of MFIs. The policy makers will be able to know how well to incorporate the sector and how effectively to ensure its full participation.
To Academicians

The research will provide valuable information regarding the micro financial sector. Being upcoming entrepreneurs the academicians will be furnished with relevant information regarding credit availability. It will also contribute to the general body of knowledge and form a basis for further research.
CHAPTER 2: LITERATURE REVIEW

2.1 Introduction
This chapter is structured based on the research objectives. It reviews the relevant literature available that focuses on the concept of credit risk management that MFI’s can adopt.

2.2 Credit Risk Management

Credit Policy: The management of accounts receivable essentially begins with the decision whether or not to grant credit to a customer, and if so how much and on what terms. It is consequently, the logical starting point for the examination of a credit policy. The term credit policy is used to include all the company’s systems and includes credit selection, credit standards, credit terms and collection policy (Arnold, 2003)

Credit Selection/Screening: According to Balduino (2000), this is the process of selecting the customers who will be granted credit and determining their individual credit limits. It is the initial stage in the operation of an effective credit management system. Usually, a set of criteria or checklists will be available to perform the initial credit screening. The process of credit selection and analysis is essentially an exercise in risk assessment that is, in assessing the probability of customer non-payment.

Sound credit selection procedures help to reduce customer default risk by eliminating unsuitable applicants at the outset, thus avoiding the costly process of chasing slow payments and incurring bad debts later. The old adage “prevention is better than cure” is appropriate here (Mc Menamin, 1999).
A common approach to customer credit selection and analysis is the use of the six Cs' of credit as an initial screening and risk assessment device. Applying the “six Cs’ involves reviewing a potential customer’s capacity, capital, character, collateral, conditions and control as follows: Capacity; Balduino (2000) this is an assessment of the potential customer’s ability to repay the debt. The assessment would include a financial analysis of the customer’s account with a particular emphasis on liquidity and borrowings. Information is also likely to be sought from sources such as bankers and other suppliers relating to the customer’s payment record elsewhere. Capital; how substantial are the customer’s capital resources? What is the customer’s capital structure? Balduino (2000) Character; It relates to an assessment of the personal character, honesty and integrity of the customer and his willingness to comply with credit terms and conditions. Character references may be sought from bankers’ business contacts and associates. Balduino (2000) Collateral; this relates to an evaluation of the assets which the customer has available as security for the debt if required. Balduino (2000)

Conditions; The decision to grant credit to customers could be influenced by current economy and business conditions generally or by specific business conditions relating to the applicant or firm. For instance, if the applicant for the credit is a small business and there is an economic recession in the country, the risk of small business failure in such circumstances is considerably increased. Alternatively, if the firm itself is finding sales for some of its products slow it may take a more relaxed view to granting credit to potential customers. Balduino (2000) Control; This deals with the operating effectiveness of the information systems used by the borrower to manage the business. The lender and investor must be assured that the firm’s accounting system is effective, that the firm meets all regulatory and other legal requirements and that its management information systems are adequate to manage it effectively. Balduino (2000)
Credit Standards; Brigham (1999) normally a customer must meet certain minimum standards in terms of financial stability and strength before the granting of credit is considered. If credit standards are set too high then sales and profit will be lost. Conversely, if they are set too low there is an increased risk of loss through bad debts as financially weak customers may be accepted. According to Mc Menamin (1999), credit standards also have a direct effect on the level of investment in debtors overall. He notes that, relaxation of credit standards will allow debtors balances to increase as customers who would have been previously rejected are now granted credit.

Credit Terms; this is the period of credit allowed to a customer before payment becomes due. They also include any discount terms, which may be offered as an incentive for prompt payment and to reduce the risk of non-payment Detweiler (2004).

Collection policy; these are the systems and procedures, which a company has in place to secure payment from its customers when payment becomes due. This policy sets out the follow up and late payment chasing procedures, such as letters and telephone calls, which will come into operation when a customer’s account become overdue. It is only when payment has been obtained from a customer that a sale is complete. There is a saying among accountants that “a sales is not a sale until it is paid for” Detweiler (2004).

Collection policy is a critical part of the overall credit management process. An effective collection policy is essential to control investment in debtors and also to reduce the risk of financial loss and illiquidity through slow payment. Yet if the collection policy is too stringent, it may antagonize customers and they may seek alternative suppliers Detweiler (2004). It is a business reality that there will be late payers in every customer base. When
a payment is regarded as late, a range of procedures and tactics can be adopted to obtain payment.

Mc Menamin (1999) notes that the actual collection stage can often be quite tricky and requires a certain range of interpersonal skills on the part of the collection staff. The company may not wish to offend a customer and destroy otherwise harmonious customer relations, particularly if the customer is large. However, the company needs to protect its cash flow and will have to investigate collection procedures when a payment is regarded as overdue. Typical payment collection procedures will include:

**Letters and telephone calls:** Normally a written reminder will be issued when a customer’s payment is late. This may be accompanied by a telephone call directly. If payment is still not forthcoming then sterner reminders and telephone calls will be required Kabiru (2002).

**Personal Visits:** In some, according to Kabiru (2002) companies’ sales staff may be responsible for regularly collecting payment when they call to refresh orders. In other cases, where a visit is not part of a sales routine, then a special personal visit to the customer by a member of the sales or accounts staff is usually productive.

**Collection Agencies:** Kabiru (2002) asserts that if the company’s internal attempts to obtain payment prove unsuccessful, then the account may be passed over to a collection agency. However this is a high cost method in terms of fees normally charged by such agencies. In some organizations, the entire credit collection process has been outsourced to collection agencies.

**Legal Action:** This is usually taken as a last resort to recover outstanding debts when all other efforts have failed. Sometimes, a solicitor’s letter which threatens legal action and sets out the consequences of non-payment is sufficient to secure payment. This method is
also expensive and so the costs of collection have to be borne in mind. The amount of the
debt and the possibility of recovery have to be weighed against the costs of pursuing
recovery through the courts. In some instances it may be a case of “throwing good money
after bad” (Mc Menamin, 1999)

2.3 Elements of Credit Risk Assessment

It is incumbent on banks to estimate default risk premiums on those securities
commensurate with that risk exposure. The return distribution for credit risk suggests that
banks need to both monitor and collect information about firms whose assets are in their
portfolios. Thus Managerial efficiency and credit risk management strategy affect the
shape of the loan return distribution (Saunder, 2002).

Greuning and Bratanovic (1999), identify the aspects of credit risk management function
as constituting: credit portfolio management, credit portfolio quality, lending function
and operations, non-performing loan portfolio, credit risk management policies, policies
to limit or reduce credit risk, assets classification and loan loss provisioning policy.

Credit Portfolio Management

According to Mudiri (2003) a good lending policy should allow for the presentation of
loans to the board. It must be flexible to allow for fast reaction and early adaptation to
changing conditions in an organization’s earning mix and market environment.
Considerations that form the basis for sound lending policies include: limit on total
outstanding loan; a limit on the total loan portfolio which is usually expressed relative to
deposits, capital or total assets.
A lending policy should stimulate portfolio diversification and strike a balance while minimizing risk. It should also have a distribution by category i.e. limitations on aggregate percentages of loans in commercial, real estate, consumer or other credit categories. Greuning and Bratanovic (1999), note that the lending policy should cover.

**Types of loans:** A lending policy should specify the types of loans and other credit instruments that the banks intends to offer to clients and should provide guidelines for specific loans.

**Maturities:** a lending policy should establish the maximum maturity for each type of credit and loans should be granted with realistic repayment schedules. Maturity scheduling should be determined in relation to the anticipated source of repayment, the purpose of the loan and the usefulness of the collateral Mudiri (2003)

**Loan pricing:** rates on various loan types must be sufficient to cover the cost of funds, loan supervision, administration and probable losses. They should also provide a reasonable margin of profit, guidelines for other relevant procedures, such as the determination of fees on commitments or punitive interest rates Mudiri (2003)

**Lending authority:** it is often determined by the size of the bank. In small banks it is centralized and decentralized in large banks to avoid delays. Reporting procedures and frequency of committee meetings should be specified to ensure it works harmoniously and when required Mudiri (2003)
Appraisal process: a policy should outline where the responsibility for appraisal lies as acceptable types and limits on the amount of appraisal by qualified independent sets should be described. Ratio of amount of loan to appraise, value of both project and collateral as well as mention of valuation should be detailed Knox (2004).

Maximum ratio of loan amount to the market value of pledged securities; margin requirements should be related to the marketability of securities. The credit policy should assign responsibility and establish a timetable for periodic pricing of collateral.

Recognition: a bank should recognize a loan, whether original or purchased in its balance sheet. It should initially carry the loan at cost.

Impairment, a bank should identify and recognize the impairment of a loan or a collective assessed group of loans. This should be done whenever it is neither probable nor assured that the bank will be able to collect the amounts due according to the contractual terms.

Collections: The loan policy should define delinquent obligations of all types and specify the appropriate report to be submitted to the board. The reports should include sufficient details to allow for the determination of the risk factor, loss potential and alternative courses of action Knox (2004).

Financial information: the safe extension of credit depends on complete and accurate information regarding every detail of the borrower’s credit standing. A lending policy should define the financial statement requirements for businesses and individuals at various borrowing levels and should include appropriate guidelines for audited, non-audited, interim, cash flow, and other statements. If the loan maturity is longer than one year, the policy should require that the bank’s officers prepare financial projections with the horizon equivalent to the loan maturity, Horne and Wachowicz (1998).
Knox (2004) a credit policy cannot be complete without detailed requirements of human resource. Their number lends exposure and specific responsibility should be identified. Quality and frequency of staff training is usually a good indicator of the level of lending competence.

Credit Portfolio Quality Review

A detailed credit portfolio review should include the following: all loans to borrowers with aggregate exposure larger than 5% of the banks capital, all loans to shareholders and connected parties, all loans for which the interest or repayment terms have been rescheduled or otherwise altered since the granting of the loan and all loans classified as substandard, doubtful or lost (Kabiru, 2002).

Horne and Wachowicz (1998) beyond loans, inter-bank deposits are the most important category of assets for which a bank absorbs the credit risk. From a credit risk management perspective, interbank deposits should be treated just like any other credit risk exposure. A bank’s policy should require that corresponding banks be carefully reviewed with regard to the routine establishment and evaluation of risk exposure limits as well as their ability to provide adequate collateral.

Lending Function and Operations

Horne and Wachowicz (1998) The board responsible for approving loans should ensure that a bank’s lending function fulfills three fundamental objectives. These are; a loan should be granted on a sound and collectible basis, funds should be invested profitably for the benefit of shareholders, and the protection of depositors and the legitimate audit needs of economic agents and or households should be satisfied.
A review of the lending process should include analysis of credit manuals and other written guidelines applied by various departments of a bank. The review of the lending process should compile the following: a detailed credit analysis approval process, criteria for approval of loans collateral policy for all types of loans, and communications and monitoring procedures Horne and Wachowiczz (1998).

The capacity and actual performance of all departments involved in the organization, appraisal, approval, disbursement, monitoring, collection, and handling procedure for the various credit functions provided by the bank ought to be reviewed. A credit policy cannot be complete without detailed requirements of human resource. Their number, levels, age, experience and specific responsibilities should be identified. Quality and frequency of staff training is usually a good indicator of the level of lending competence. Therefore on-going training programs for a bank’s credit staff should be reviewed and their adequacy assessed.

Efficient operations of a credit function largely depend on information flow. The policy should pay particular attention to information flows so as to establish whether or not the information actually supplied is complete and available in a timely and cost effective manner. According to MC Menamin, 1999, sources of information are both quantitative and qualitative. He identifies the following sources of information; trade and bank references, financial accounts, business contacts and associates, company’s internal records and credit agencies.

Non-Performing Loan Portfolio

Miller (1999) a list of non-performing loans, including all relevant details, should be assessed on a case-by case basis to determine if the situation is reversible, exactly what can be done to improve repayment capacity, and whether or not workout and or
collection plans have been used. Provision levels should be considered to determine the banks capability to withstand loan defaults.

An indication of a distorted credit culture encompasses; self-dealing, compromise of credit principles, anxiety over income, existence of incomplete credit information, complacency, lack of supervision, technical incompetence and poor selection of risks (Saunders, 2002).

2.4 Credit Risk Management Policies

The basis of sound credit risk management is the identification of the existing and potential risks inherent in lending activities. Measures to counteract these risks normally comprise clearly defined policies of the institutions credit risk philosophy and the parameters within which credit is to be controlled. According to Basel Committee, (1999) the three major policies pertaining to credit risk management includes: policies aimed to limit or reduce credit risk, policies of asset classification and policies of loss provisioning.

Policies to Limit or Reduce the Credit Risk

Large Exposures

Modern prudential regulations usually stipulate that a bank should not make investment grants, give large loans or extend other credit facilities to any individual entity or related group of entities in excess of an amount that represents a prescribed percentage of the
bank’s capital and reserves. Most countries impose a single customer exposure limit of between 10-25% of capital funds (Greuning and Bratanovic, 1999).

Related Party Lending

Lending to connected parties is a dangerous form of credit risk exposure. Related parties create a relationship with the ability to exert control over or influence a bank’s policies and decision-making especially concerning credit decisions. Limits should be established for lending to related parties Detweiler (2004)

Over Exposure to Geographical Areas or Economic Sectors

It is dangerous to concentrate on granting credit to a single sector of the economy or to a narrow geographical region. This makes a bank vulnerable to a weakness in a particular industry or region and poses a risk that it will suffer from simultaneous failures among several clients for similar reasons. It is often difficult to assess the exposure to various sectors of the economy, as most banks reporting systems do not produce such information (Hampel et. al, 1994).

Renegotiated Debt

Detweiler (2004) these are loans that have been restructured to provide a reduction of either interest or principal payments because of the borrowers deteriorated financial position. Restructuring may involve a transfer from the borrower to the bank of real estate, receivables, or other assets to third parties for satisfaction of the loan or the addition of a new debtor to the original borrower. Sinkey, 1992 notes that bank policies should also ensure that such items are properly handled from an accounting and control standpoint.
Asset Classification
All assets for which a bank is taking risk should be classified, including loans and advances. Accounts receivables, investments, equity participation, and contingent liabilities. Banks determine asset classifications themselves but follow standards that are normally set by regulatory authorities (Gardner et. al, 2000).

Loans Loss Provisioning Policy
Asset classification provides a basis for determining an adequate level of provisions for possible loan losses. Policies on loan-loss provisioning range from mandated to discretionary, depending on the banking system. In many countries, in particular those with fragile economies regulators have established mandatory levels of provisions that are related to asset classification (Basel Committee. 1999).

Measurement of Credit Risk
A Cooperative manager needs to measure the probability of borrowing default. Economists, bankers and analysts have employed many different models to assess the default risk on loans and bonds. These vary from relatively qualitative to the highly quantitative. These models are not mutually exclusive in that a bank manager may use more than one method to reach a credit pricing or loan quantity rationing decision (Gardner. et.al 2000).

2.5 Qualitative Models
The financial institution manager can assemble information from private sources such as credit and deposit files and/or purchase such information from external sources such as credit rating agencies. The amount of information assembled varies with the size of the potential debt exposure and the cost of collection. Thygerson (1995) identities two major classifications of factors that enter in to the credit decision. These are:
**Borrower Specific Factors.** These are those idiosyncratic to the individual borrower and include; the borrower’s reputation, leverage or borrowers capital structure, volatility of earnings and collateral Detweiler (2004)

**Market Specific Factors** that have an impact on all borrowers at the time of the credit decision. These factors include; the business cycle and the level of interest rates Detweiler (2004)

**Credit Scoring Model**

This is a credit analysis technique used extensively by banks, credit card companies, finance companies and other financial institutions involved in making consumer credit decisions. The company identifies a range of key financial and other variables and each is given a relative weighting or ranking. For instance, home ownership, salary/income range, bank reference and other credit references are normally identified as four of a range of key evaluation variables Grover (2002). The customer completes a detailed application form, which is assessed by a member of the credit selection staff. Based on the application points score (possibly out of 100) for each variable which is in turn assigned a relative weighting as shown in the table below:
<table>
<thead>
<tr>
<th>Credit scoring</th>
<th>Points score</th>
<th>Weighting</th>
<th>Weighted score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Home ownership</td>
<td>90</td>
<td>0.20</td>
<td>18</td>
</tr>
<tr>
<td>2. Salary/income range</td>
<td>75</td>
<td>0.20</td>
<td>15</td>
</tr>
<tr>
<td>3. Bank reference</td>
<td>80</td>
<td>0.15</td>
<td>12</td>
</tr>
<tr>
<td>4. Credit reference</td>
<td>60</td>
<td>0.15</td>
<td>9</td>
</tr>
<tr>
<td>5. -</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6. -</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.00</td>
</tr>
</tbody>
</table>


The decision whether to extend credit will on single figure- the total weighted score with at least a minimum total weight score (e.g. 70), having to be attained before any credit will be extended. Usually, predetermined range of scores will have been set (e.g. 70-75, 76-80 and 81-85) and this will dictate the credit terms and conditions offered. The higher the range the customer weighted score, the more favorable the credit arrangements Grover (2002).

**Default Risk Model**

This is a typical credit analysis performed by banks which focuses on determining the underlying relationship between a borrower’s characteristics (both financial and non financial) and the expected probability of default, D. we conceptualize this relationship as:

\[ D = d \{I(c), CF, NW, G\} \]
Where

I stands for information quality i.e. timelines and accuracy.

C for character (you cannot do business with bad people)

CF for the level and stability of cash flow

NW for real net-worth and

G for guarantees

As each of these factors deteriorates, borrower expected probability of default increase and vice versa. It is important to note that customer’s risk cannot be considered in isolation, its contribution to portfolio risk is important as well (Sinkey 1999)

Newer Models of Credit Risk Measurement and Pricing

The newer group of credit risk models uses financial theory and more widely available financial market data to make inferences about default probabilities on debt and loan instruments. These models are most relevant in evaluating lending to larger borrowers in the corporate sector. These include; Risk Adjusted Return on Capital (RAROC), the term structure of credit risk approach, mortality rate approach, option models, credit metrics and credit risk + model Grover (2002).

2.6 Development of Credit

At least 300 years ago, credit was used in the civilization of Babylon, Syria and Egypt but it was in medieval Europe that trade developed rapidly on the back of credit facilities (Edwards, 1997). In the 12th century, great trading fairs were held in Europe and
merchants traveled from fair to fair buying and selling continuously, so that a supplier at one place would be paid by the proceeds of his buyer's buyer in another place. Credit was widely used in medieval England to sell basic commodities and rich merchants were able to get advantageous discounts by generating ample cash in advance.

According to Edwards (1997) comments that trade credit as a significant source of financing business increased in the 18th and 19th centuries. During this period, trade expansion was helped by loans from local banks to local firms. The U.K disease of late payment has always been allied to unwillingness to ask customers to pay up. As long ago as 1689 a Langshire merchant recorded, "it being a year since I began to trade, I have been too forward in trusting and too backward in calling". A hundred years later, in 1980, a book seller wrote, "I have resolved to give no person whatsoever any credit, having observed that when credit was given, most bills were not paid within six months, some not for twelve months and some not in two years. The losses sustained of interest in long credits and by those bills not paid at all; the inconvenience of not having ready money to lay out in trade to advantage: together with the great loss of time in keeping accounts and collecting debts. But I might as well attempt to rebuild the Tower of Babel as to run a large business without credit (Edwards, 1997)

This and similar business records show how credit was becoming a tool of expansion but also another item requiring the owners close attention. The historical development of credit shows that business can and must learn from the past if it is to succeed in the future. It is easy to identify failures where past lessons were not learned. For example, the massive 1970s over lending by rich country banks to Third governments, when nobody counted the total indebtedness of anyone country-resulted in the biggest bad debts write-off in history. Another example is the unrestrained UK credit boom of the 1980s, which led to mass in ability of borrowers to withstand a downturn, which every credit manager has known for many years.
Edwards (1997) asserts that there have always been ways and will always be found to satisfy the demand from ‘needers’ without the means to pay right now, but good business management, whether of government, banks, companies, cooperatives or households require decisions, about time scales and amount that can be afforded from future earnings. These decisions have always needed information on the customer or borrower, to be able to judge how much trust and for how long. In the olden days, information was largely by word of mouth. Nowadays, there is a vast industry for information providers, but the principle is the same – you only give credit where good information justifies it.

The modern demand for credit, according to Edwards, requires the seller to organize a credit process to cope with continuing volumes; capital resources to fund the waiting time with a worthwhile return on investment, and regulation, informally or by-law, of credit agreements and their enforcements.

Since big and rich banks exist to lend money to trading firms, people often wonder why sellers of goods and services have taken the task away from the banks by allowing credit. Mainly, the reason is to have more connection with a customer and a more direct aid to selling. However, trade credit is mostly chaotic due to misplaced tolerance by sellers.

2.7 Knowledge gap

Chapter two explores an in-depth review of literature about credit and its underlying issues. Besides credit having benefits like increased sales volume and market share, on the other hand it carries associated cost which must be very well managed. This therefore
required adoption of an effective credit management method. As stated in this chapter this can only be achieved if a sound credit policy document is in place with its variable credit standards, credit period and credit limits well defined. In addition, systematic credit risk assessment and credit appraisal is very important for credit risk exposures minimization. Therefore credible credit history as regards credit partners should be obtained, objectively analyzed through credit rating and scoring hence objective credit decision making. After credit decision is reached it is very important to have a clear collection policy so that default risks and bad debts are minimized leading to the posed research questions in this study that is whether MFIs in Kenya engage in a systematic credit risk management and to identify the major types of credit risk that MFI face.
CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that was adopted in gathering the data. Here the researcher's aim was to explain the methods and tools for presenting data and data analysis to get proper and maximum information related to the subject under study.

3.2 Research design

The research design was descriptive survey method using cross-sectional survey approaches to assist us get the objectives of the study. Mugenda and Mugenda, (1999) the descriptive survey is a method which enables the researcher to summarize and organize data in an effective and meaningful way. They provide tools for describing collections of statistical observations and reducing information to an understandable form. The process of relating an empirical test to support or refute a knowledge claim involved making decisions on what type of data was required, where the data were found, techniques of data collection, analysis and interpretation.

3.2 Population

The population of interest consisted of all the MFI's in Nairobi which are 35 in number as registered by CBK in 2006. Since the population was small I will endeavor to include the entire population in the study.

3.3 Data Collection Instruments

Primary data were collected using a combination of "drop and pick later" & "self administered" structured questionnaires. In the questionnaire both open ended and closed questions were asked. Follow ups were made to ensure collection of the questionnaires
in time, as well as assisting respondents in any difficulties encountered in completion of questionnaires. In each MFI, credit officers were required to fill the questionnaires. A structural questionnaire was used since it is easier to administer, analyze and economical in terms of time and money. Mugenda and Mugenda (1999) notes that a questionnaire is one of the best tools for collecting primary data.

3.4 Data Analysis

The survey was set out to determine the credit risk management methods applied by microfinance institutions when they offer credit and the factors affecting the MFIs in this process. After data collection, examination for completeness, reliability and consistency was done on the data. To determine credit management practices, this study undertook content analysis of data collected by use of tables, frequencies and percentages. Likewise, descriptive techniques in addition to comparative analysis and factor analysis were applied to determine factors affecting credit risk management practises and their consideration.
CHAPTER 4: RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the findings of the study based on data collected from the field. The objectives of the study were:

- To examine the credit risk management practices adopted by microfinance institutions
- To identify the major types of credit risks that MFIs face

4.2 General information

The survey was targeted at a population of 35 microfinance institutions but only 23 responded. The response rate was therefore 66% of the target population. The respondents were from different departments in the MFIs and they were distributed as displayed in the table below.

Chart 1: Survey respondents
Majority of the respondents were from the credit department as can be seen from the table above where they formed 67% of all the respondents covered in the survey. Employees from the marketing department came in second at 19% while the rest were from the sales department.

4.2.1 Credit Department

Table 1: Existence of a credit control department

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>21</td>
<td>91%</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>9%</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>100%</td>
</tr>
</tbody>
</table>

91% of the respondents who were interviewed admitted that their institutions had fully fledged credit control departments. This was as shown in the table above.

4.2.2 Credit Committees

Table 2: Existence of credit committees

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>21</td>
<td>95%</td>
</tr>
<tr>
<td>No</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
<td>100%</td>
</tr>
</tbody>
</table>

Most of the MFIs covered in the survey had credit control committees. This was as displayed in the table above.
Table 3: Constitution of the credit committees (Committee Members)

<table>
<thead>
<tr>
<th>Committee Members</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Manager</td>
<td>5</td>
<td>22.8%</td>
</tr>
<tr>
<td>Finance Director and Credit Manager</td>
<td>3</td>
<td>13.6%</td>
</tr>
<tr>
<td>Finance Director, Marketing Manager, Credit Manager</td>
<td>3</td>
<td>13.6%</td>
</tr>
<tr>
<td>Marketing Manager</td>
<td>3</td>
<td>13.6%</td>
</tr>
<tr>
<td>Managing Director, Finance Director, Credit Manager</td>
<td>2</td>
<td>9.2%</td>
</tr>
<tr>
<td>Marketing Manager</td>
<td>2</td>
<td>9.2%</td>
</tr>
<tr>
<td>Credit Manager and Credit Officers</td>
<td>1</td>
<td>4.5%</td>
</tr>
<tr>
<td>Finance Director</td>
<td>1</td>
<td>4.5%</td>
</tr>
<tr>
<td>Finance Director, Credit Manager &amp; Legal Manager</td>
<td>1</td>
<td>4.5%</td>
</tr>
<tr>
<td>Finance Director, Marketing Manager, Credit Manager &amp; Legal Manager</td>
<td>1</td>
<td>4.5%</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Most of the respondents said that their institutions had the work of the credit committee handled by the credit manager. The credit committees in most of the MFIs constituted of the credit manager, credit officers, finance director and in some cases the legal manager of the institution. These teams constituted by all the four with the inclusion of the marketing manager. The distribution of these is as displayed in the table above.
According to the respondents, most of the credit control activities were organized within the credit control department. This was as shown above where it formed 44% of all the respondents while a good percentage of firms had their credit control activities organized by the credit control department in liaison with the marketing department while the rest of the institutions had their activities organized by the involvement of all the departments.

4.3 The credit policy

The following mean score will be utilized from this section onwards. The scores “Not at all” and “Little extent” represented factors considered when establishing credit policy that were “Not applicable”, equivalent to 1 to 2.5 on the continuous Likert scale (1 ≤ NA ≤ 2.5). The scores of ‘moderate application’ represented factors considered when establishing credit policy that were regarded as moderately applicable. This was equivalent to 2.6 to 3.5 on the Likert scale (2.6 ≤ MA ≤ 3.5). The score of “very great extent” and “great extent” represented factors considered when establishing credit policy that were regarded as largely applied (LA) by the MFI under investigation. This was equivalent to 3.6 to 5.0 on the Likert Scale (3.6 ≤ LA ≤ 5.0).
Table 4: Credit policy existence

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>22</td>
<td>95.7%</td>
</tr>
<tr>
<td>No</td>
<td>1</td>
<td>4.3%</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>100%</td>
</tr>
</tbody>
</table>

Most of the organizations had a clearly defined credit policy while a small percentage had no clearly defined credit policy.

Chart 3: People responsible for the formulation of credit policy goals and missions

Most of the companies had their credit policy goals formulated and implemented by the credit committees (47.8%). This was followed by the firms whose credit control policies were formulated by credit control department (26%) and those with the credit managers as the final say formed 17.4% of all the MFIs covered in the survey. The managing director had the responsibility of formulating the credit control policy goals in 8.7% of the firms covered in the survey.
4.3.1 Factors considered when establishing a credit policy

Table 5: Factors considered when establishing a credit policy

<table>
<thead>
<tr>
<th>Factors considered when establishing a credit policy</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>General trends in bad debts for existing debtors</td>
<td>4.36</td>
<td>.658</td>
</tr>
<tr>
<td>General trends in recovery rates</td>
<td>4.18</td>
<td>.733</td>
</tr>
<tr>
<td>Amount of working capital your organization is willing to invest or risk in a customer</td>
<td>4.17</td>
<td>.650</td>
</tr>
<tr>
<td>Understanding of your organization's financial exposure</td>
<td>4.09</td>
<td>.733</td>
</tr>
<tr>
<td>Existing credit policies</td>
<td>3.96</td>
<td>.878</td>
</tr>
<tr>
<td>Current credit trends i.e. ACP</td>
<td>3.61</td>
<td>1.076</td>
</tr>
<tr>
<td>Sales turnover</td>
<td>3.61</td>
<td>.722</td>
</tr>
<tr>
<td>Past trends in defaults probability</td>
<td>3.48</td>
<td>1.377</td>
</tr>
<tr>
<td>Macro economic factors in the economy</td>
<td>3.30</td>
<td>1.185</td>
</tr>
</tbody>
</table>

As can be seen from the table above, general trends in bad debts for existing debtors and general trends in recovery rates were the most applicable factors considered when establishing a credit policy where they had a mean score of 4.36 and 4.18 respectively. The least applicable factors were past trends in defaults probability and macro economic factors in the economy with mean scores of 3.48 and 3.30 respectively.
4.3.2 Existence of a written and documented credit policy

All the firms covered in the survey had a clearly defined credit control policy.

4.3.3 Reasons for the formulation of organization’s credit policy

Table 6: Reasons for formulation of credit policies

<table>
<thead>
<tr>
<th>Reason</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importance of accounts receivable management</td>
<td>4.41</td>
<td>.666</td>
</tr>
<tr>
<td>Creation of consistency within different debts</td>
<td>4.00</td>
<td>.756</td>
</tr>
<tr>
<td>Creation of formal consistent approach to credit decision making</td>
<td>4.00</td>
<td>.756</td>
</tr>
<tr>
<td>Requirements of the regulating bodies</td>
<td>3.82</td>
<td>1.053</td>
</tr>
<tr>
<td>Recognition of the dept’s input to overall firm’s strategy</td>
<td>3.64</td>
<td>.727</td>
</tr>
<tr>
<td>Organization’s formality to document all policies</td>
<td>3.36</td>
<td>1.049</td>
</tr>
</tbody>
</table>

Most of the reasons for the formulation of credit control policies that were under investigation were largely applicable with importance of accounts receivable management and creation of consistency within different debts being the most applicable. This is because they both had mean scores of 4.41 and 4.00 respectively. Organization’s formality to document all policies was moderately applicable with a mean score of 3.36.

4.3.4 Factors considered in the formulation of organization’s credit policy

Table 7: Factors considered during the formulation of organization’s credit policy

<table>
<thead>
<tr>
<th>Factor</th>
<th>Means</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desired profit margins</td>
<td>4.64</td>
<td>.581</td>
</tr>
<tr>
<td>Competitiveness in the industry</td>
<td>4.50</td>
<td>.512</td>
</tr>
<tr>
<td>Desired market share and sales volume</td>
<td>4.09</td>
<td>.610</td>
</tr>
<tr>
<td>Organization's cash requirements</td>
<td>3.82</td>
<td>.501</td>
</tr>
<tr>
<td>Geographical location</td>
<td>3.00</td>
<td>.690</td>
</tr>
</tbody>
</table>
During the formulation of an organization's credit policy, the most applicable considerations were on the desired profit margins and competitiveness in the industry with mean scores of 4.64 and 4.5 respectively. Geographical location was the least applicable consideration with a mean score of 3.0.

4.3.5 Frequency of reviewing credit policy

Chart 4: Credit policy review

According to the results of the survey, most MFIs reviewed their credit policy on an annual basis where this constituted 40% of the MFIs covered in the survey while the rest did this semi annually and quarterly with scores of 26% and 22% respectively. A minority of 12% reviewed their credit policy monthly.
4.4 Credit standards

Table 8: Factors considered when setting credit limits

<table>
<thead>
<tr>
<th></th>
<th>Means</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Added profits from increased sales volumes</td>
<td>4.00</td>
<td>.674</td>
</tr>
<tr>
<td>Probability of bad debts</td>
<td>4.30</td>
<td>.559</td>
</tr>
<tr>
<td>Default risk probability</td>
<td>4.13</td>
<td>1.217</td>
</tr>
<tr>
<td>Opportunity costs of additional debtors</td>
<td>3.83</td>
<td>.937</td>
</tr>
<tr>
<td>Overall costs of managing debtors</td>
<td>3.43</td>
<td>1.308</td>
</tr>
</tbody>
</table>

The most of the above named factors in the table were very applicable when setting credit limits as they all had a mean score greater than 3.6 while the overall costs of managing debtors was a moderately applicable factor considered with a mean score of 3.43.

4.5 Credit period

Chart 5: Factors considered when determining the credit period

Credit scores for customers was the most applicable factor for determining the credit period for a client with a score of 4.35 followed closely by average credit terms for the
industry at a mean score of 4.22. The least applicable factor for determining credit period was using credit as a marketing tool. This had a mean score of 3.39.

4.6 Credit appraisals/Assessment

4.6.1 Credit terms

Table 9: Credit terms granted in the credit program

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash discount and cash discount periods</td>
<td>5</td>
<td>22%</td>
</tr>
<tr>
<td>Different payment periods for different customers</td>
<td>18</td>
<td>78%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Most of the MFIs covered in the survey granted different payment periods for different customers. This was according to 78% of the respondents. The remaining 22% admitted that cash discount and cash discount periods were the credit terms used.

4.6.2 Factors considered when choosing credit terms

Table 10: Factors affecting choice of credit terms

<table>
<thead>
<tr>
<th>Factor</th>
<th>Means</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required rate of return of additional account receivable</td>
<td>4.19</td>
<td>.602</td>
</tr>
<tr>
<td>Efforts to shorten average collection period and default rates</td>
<td>4.05</td>
<td>.785</td>
</tr>
<tr>
<td>Effect on profit margins</td>
<td>4.41</td>
<td>.666</td>
</tr>
<tr>
<td>Cash discount costs</td>
<td>3.50</td>
<td>.859</td>
</tr>
</tbody>
</table>
The most applicable factors affecting the choice of credit terms are the required rate of return of additional account receivable and efforts to shorten the average collection period and default rates which had mean scores of 4.19 and 4.05 respectively. The factors considered were also significantly applicable since they had mean scores of 3.5 and above.

4.6.3 Various tools used for credit assessment

Table 11: Tools used for credit assessment

<table>
<thead>
<tr>
<th>Tools</th>
<th>Means</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>In house credit professionals within the credit dept</td>
<td>4.52</td>
<td>.593</td>
</tr>
<tr>
<td>Specialist credit analysts</td>
<td>4.00</td>
<td>.791</td>
</tr>
<tr>
<td>Reliance on trade references</td>
<td>3.12</td>
<td>.600</td>
</tr>
</tbody>
</table>

According to the results of the survey, the most applicable tools for credit assessment were in house credit professionals within the credit department which had a mean score of 4.52 followed by specialist credit analysts with a mean score of 4.00. Reliance on trade references was a moderately significant tool for credit assessment since it had a mean score of 3.12
Most of the respondents covered in the survey said that their credit institutions did not engage in data reciprocity concept as a way of sharing credit information. This is true from 59% of the people covered in the survey. 41% shared credit information through data reciprocity. Those who used data reciprocity as a way of sharing credit information said it had the following advantages:

- A lot of available information
- Comparison of performance between MFIs
- Improved credit policy efficiency
- Gives an idea on the credit repayment trends in the industry

The disadvantages mentioned were:

- Revealing of confidential information
- The process is time consuming
4.7 Sources of credit information

Table 12: Various Sources of credit information

<table>
<thead>
<tr>
<th>Sources of credit information</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial statements</td>
<td>4.68</td>
<td>.477</td>
</tr>
<tr>
<td>Credit rating reports</td>
<td>4.30</td>
<td>.703</td>
</tr>
<tr>
<td>Company's own experience</td>
<td>4.13</td>
<td>.869</td>
</tr>
<tr>
<td>Trade Checking</td>
<td>3.91</td>
<td>.733</td>
</tr>
<tr>
<td>Bank checking</td>
<td>3.74</td>
<td>.752</td>
</tr>
</tbody>
</table>

The most applicable sources of credit information were financial statements and credit rating reports which had mean scores of 4.68 and 4.30 respectively. The other sources of credit information were also significantly applicable as they all had mean scores of above 3.5.

4.8 Organization Credit Rating

Table 13: Factors Affecting Credit Rating

<table>
<thead>
<tr>
<th>Factors Affecting Credit Rating</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to service debts as expected</td>
<td>4.36</td>
<td>.492</td>
</tr>
<tr>
<td>Savings pattern</td>
<td>4.22</td>
<td>.850</td>
</tr>
<tr>
<td>Probability of default</td>
<td>4.09</td>
<td>.949</td>
</tr>
<tr>
<td>Outstanding total credit amount at any time</td>
<td>3.96</td>
<td>.976</td>
</tr>
<tr>
<td>Spending Patterns</td>
<td>3.78</td>
<td>.795</td>
</tr>
<tr>
<td>Default correlation</td>
<td>3.61</td>
<td>.783</td>
</tr>
</tbody>
</table>

Ability to service debts as expected and savings pattern affected credit rating the most with mean scores of 4.36 and 4.22 respectively. Probability of default, outstanding total
credit amount at any time, spending patterns and default correlation were also significantly applicable as they all had mean scores above 3.5 according to the results.

4.9 Credit Scoring

Table 14: Factors affecting credit score models

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punctuality of trade credit payment</td>
<td>4.57</td>
<td>.507</td>
</tr>
<tr>
<td>Debtors' capacity</td>
<td>4.26</td>
<td>.619</td>
</tr>
<tr>
<td>Length of credit history</td>
<td>4.04</td>
<td>1.022</td>
</tr>
<tr>
<td>Types of credits</td>
<td>3.91</td>
<td>.793</td>
</tr>
<tr>
<td>Past credit levels extended</td>
<td>3.48</td>
<td>.846</td>
</tr>
</tbody>
</table>

The most applicable factors affecting credit score models were punctuality of trade credit payment with a mean score of 4.57 and length of credit history with a mean score of 4.26. Past credit levels extended was a moderately applicable factor affecting credit score models.
4.10 Collection Policy

4.10.1 Formulation of credit collection policy

Chart 7: People responsible for the formulation of collection policy

Credit committees were responsible for the formulation of collection policies in the MFIs covered in the survey. This was as admitted by 47.6% of the respondents while the credit control formulated the collection policy in 23.8% of the firms covered in the survey. Credit department in consultation with marketing team were responsible for formulating collection policy in 14.3% of the firms while the managing and finance directors were responsible for this in 14.3% of the firms under investigation.
4.10.2 Principles of debt collection

Table 15: Principles of a good collection policy

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Being strict with credit limits</td>
<td>4.52</td>
<td>.512</td>
</tr>
<tr>
<td>Prompt invoice Sending</td>
<td>4.29</td>
<td>.845</td>
</tr>
<tr>
<td>Systematic review of debtors</td>
<td>4.29</td>
<td>.902</td>
</tr>
</tbody>
</table>

All the principles cited in the survey as good collection policies were largely applicable since they had mean scores approaching a perfect score of 5.

4.10.3 Procedures for debt collection

Table 16: Procedures followed in debt collection

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Gentle demand letter</td>
<td>4.58</td>
<td>.607</td>
</tr>
<tr>
<td>a follow up telephone call</td>
<td>4.14</td>
<td>1.062</td>
</tr>
<tr>
<td>second and strong worded letter</td>
<td>3.95</td>
<td>.921</td>
</tr>
<tr>
<td>more telephone calls with legal action warning</td>
<td>3.43</td>
<td>1.076</td>
</tr>
</tbody>
</table>

The first two procedures in the table i.e. a first gentle demand letter and a follow up telephone call were largely applicable in debt collection with mean scores of 4.58 and 4.14 respectively. More telephone calls as a procedure of debt collection was moderately applicable with 3.43 as its mean score.
4.10.4 Debt write-off point

Table 17: Determination of debt write-off point

<table>
<thead>
<tr>
<th>Role</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing Director</td>
<td>3</td>
<td>14.3%</td>
</tr>
<tr>
<td>Finance Director</td>
<td>2</td>
<td>9.5%</td>
</tr>
<tr>
<td>Credit Manager</td>
<td>4</td>
<td>19%</td>
</tr>
<tr>
<td>Legal Manager</td>
<td>1</td>
<td>4.8%</td>
</tr>
<tr>
<td>Credit Committee Team</td>
<td>4</td>
<td>19%</td>
</tr>
<tr>
<td>Managing Director, Finance Director, Credit Manager</td>
<td>4</td>
<td>19%</td>
</tr>
<tr>
<td>Managing Director, Finance Director and Marketing manager</td>
<td>3</td>
<td>14.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The table above is a display of the people responsible for the determination of a debt write-off point. It can be seen this responsibility is heavily bestowed on the credit control team as well as the collaboration of the managing director, finance director and credit manager. These had a representation of 19% each. The managing director was responsible for debt write-off in 14.3% of the firms covered in the survey while the finance director held this responsibility in 9.5% of the firms covered in the survey. The legal manager was the least involved in debt write-offs.
CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section of the research provides a summary of the findings, conclusions and the recommendations on credit risk management practices by microfinance institutions. The purpose of the study was to investigate credit risk management practices adopted by microfinance institutions and the major types of credit risks that MFIs face.

5.2 Summary of findings

Most of the MFIs covered in the survey had credit control committees while those that did not have credit control committees had the work of the credit committee handled by the credit manager. Most of the organizations had a clearly defined credit policy and goals which were formulated and implemented by the credit committees, credit control department or the credit managers. During the formulation of an organization’s credit policy, the most applicable considerations were the desired profit margins and competitiveness in the industry. Added profits from increased sales volumes, overall costs of managing debtors, default risk probability, opportunity costs of additional debtors and probability of bad debts were all considered reasonably when setting credit limits.

When determining the credit periods, credit scores for customers, average credit terms for the industry credit rating of customers, availability of customers and trade credit as marketing tool were the factors considered by most of the respondents were largely applied.

Most of the MFIs covered in the survey granted different payment periods for different customers while a few used cash discount and cash discount periods as tools for giving credit terms. The choice of credit terms was by a large extent affected by required rate of
return of additional account receivable and efforts to shorten the average collection period and default rates.

In house credit professionals within the credit department and reliance on trade references were the most applicable tools for credit assessment. On the issue of credit rating of organizations, ability to service debts as expected and savings patterns affected credit rating the most. The other factors namely outstanding total credit amount at any one time, spending patterns, probability of default and default correlation also affected the credit rating of organizations according to the results of the survey. The credit score models for the microfinance institutions were affected by the punctuality of trade credit payments and length of credit history.

Strictness with credit limits, prompt invoice sending and systematic review of debtors were the collectively applied principles in debt collection by the MFI's. Gentle letters were issued to debtors by the MFI's in the event that they exceeded the debt repayment periods agreed upon. It is the responsibility of the credit control team as well as the collaboration of the managing director, finance director and credit manager to implement debt write-off in MFI's.

5.3 Conclusion

Most of the microfinance institutions had fully fledged credit control departments which had been in operation for a period of less than five years. Most MFI's also had credit control committees. All the firms covered in the survey had a clearly defined and documented credit control policy. Most of the credit control activities were organized within the credit control department. Most of the companies had their credit policy goals formulated and implemented by the credit committees. All the MFI's reviewed their credit policy periodically where this was either annually, semi annually or quarterly. A few reviewed their credit policy monthly. Credit scores for customers was the most applicable factor for determining credit period. Most of the MFI's covered in the survey granted
different payment periods for different customers. MFIs also observed strictness when offering credit to their clients.

In-house credit professionals within the credit department and specialist credit analysts were responsible for credit assessment. MFIs are reluctant to engage in data reciprocity concept as a way of sharing credit information since they want to have a competitive edge over their peers.

Financial statements form the most widely used source of credit information used by microfinance institutions before they award any credit to their clients.

5.4 **Recommendations:**

- There is need for more credit analysis professionals for the microfinance institutions to remain competitive in the industry.
- Measures should be put in place to ensure that MFIs share credit information without necessarily jeopardizing their operations.
- Establishment of credit reference bureaus to provide information to MFIs.
- A customized default risk model should be put in place in order to take care of the needs of individual debtors and different economic sectors.

5.5 **Further studies**

The research recommends the following areas for future studies:

1. The focus of the study was microfinance institutions. Future research can be carried on savings and credit co-operative societies (SACCOS) since they also play a major role in credit extension to their members and also face credit risk.
2. An investigation should be carried out on the default rates of debtors, causes of default and the appropriate measures to contain the defaulters.
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In house credit professionals within the credit department and specialist credit analysts were responsible for credit assessment. MFIs are reluctant to engage in data reciprocity concept as a way of sharing credit information since they want to have a competitive edge over their peers.

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2. An investigation should be carried out on the default rates of debtors, causes of default and the appropriate measures to contain the defaulters.
5.6 Limitation of the Study

This study had the following limitations:

- Due to time factor the study only sampled MFIs located in Nairobi Area.
- The questionnaire was considered too lengthy by some of the respondents.
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APPENDIX I
Letter of Introduction

Dear Respondent,

This questionnaire is designed to gather information on “A survey of credit risk management practices by microfinance institutions in Kenya”. The study is being carried out for a Project Proposal paper in partial fulfillment of requirements for the degree of Master of Business Administration from the University of Nairobi- School of Business.

The information in the questionnaire will be treated with confidentiality and in no instance will your name be mentioned in this research. The information provided will not be used for any other purpose other than for this research.

Your assistance in facilitating the same will be highly appreciated.

Thank you in advance.

Yours sincerely,

MBA Student
Stephen Wambugu

Supervisor
Mr. Lishenga
APPENDIX 2

Questionnaire

A survey of credit risk management practices by microfinance institutions: A case of selected MFIs in Nairobi

1. Name of the MFI _____________________________________________________ (optional)

3. Department /section ............................................................................

4. Does your organization have a fully-fledged credit control department?
   • [ ] Yes  [ ] No

5. If yes how many years has the credit department been fully operational?
   • Below 5 years [ ]
   • Between 5-15 years [ ]
   • Over 15 years [ ]

6. How many credit professionals are engaged in your credit control department?
   • Under 5 [ ]
   • 5 [ ]
   • 10 [ ]
   • over 10 [ ]

7. Does your organization have credit committees?
   • [ ] Yes  [ ] No

8. If yes, tick the following to determine the constitution of your organization’s credit committee’s team
   • The managing director [ ]
   • The finance director [ ]
   • The marketing manger [ ]
   • The credit manager [ ]
   • The legal managers [ ]
   • Others specify................................. [ ]
9. How are credit control activities organized in your organization? Please tick as appropriate

- Within credit control department [ ]
- Liaison of marketing department and credit department [ ]
- Unified involvement of all departments as well as consideration of customers [ ]
- Another specify .......................................................... [ ]

**The credit Policy**

10. Does your organization have a specific credit policy?
- [ ] Yes  [ ] No

11. If yes, whose responsibility is to formulate its goals and missions, implement them and consequently evaluate their performance?

- The credit control department [ ]
- The credit committee [ ]
- The credit manager [ ]
- The managing director [ ]

12. The following are factors to consider when establishing a credit policy. Indicate to what extent they apply in your company. (1=Not important at all, 2=A little important, 3 Important, 4= Very important, 5= Critically important)
<table>
<thead>
<tr>
<th></th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding of your organization’s financial exposure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of working capital your organization is willing to invest or risk in a customer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existing credit policies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General trends in recovery rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current credit trends i.e. Average collection Period-ACP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General trends in bad debts for existing debtors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales turnover</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Macro economic factors in the economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Past trends in defaults probability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other specify</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. Does your organization have a specific written or documented credit policy

- [ ] Yes  [ ] No

14. If yes, see below the various reasons why your organization formulates credit policies. Please tick appropriately indicating how you feel they apply to your organization. (1-Not important at all, 2=A little important, 3 Important, 4= Very important, 5= Critically important).

<table>
<thead>
<tr>
<th></th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importance of accounts receivable management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creation of consistency within different debts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creation of formal consistent approach to credit decision making</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recognition of the credit department’s input to overall firm’s strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization formality to document all policies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Requirements of the regulating agencies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other specify</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
15. What factors are considered when formulating your organization’s credit policy? Tick Appropriately? (1=Not important at all, 2=A little important, 3 Important, 4= Very important, 5= Critically important)

<table>
<thead>
<tr>
<th>Factor</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitiveness in the industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geographical location</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Desired profits margins</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Desired market share and sales volume</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization’s cash requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others specify</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16. How regularly do you review your credit policy?

- Monthly [ ]
- Quarterly [ ]
- Semi annually [ ]
- Annually [ ]
- Other specify [ ]

Credit Standards

17. What factors do you consider when setting credit limits?

(1=Not important at all, 2=A little important, 3 Important, 4= Very important, 5= Critically important)

<table>
<thead>
<tr>
<th>Factor</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Added profits from increased sales volume</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Probability of bad debts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Default risk probability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opportunity costs of additional debtors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall costs of managing debtors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Credit Period

18. What factors do you consider when determining the credit period? Please tick appropriately (1=Not important at all, 2=A little important, 3=Important, 4=Very important, 5=Critically important)

<table>
<thead>
<tr>
<th>Factor</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average credit terms for the industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade credit as marketing tool</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Rating of customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit scores for customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Availability of customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Credit Appraisals / Assessment

19. Which of the following credit terms do you grant in your credit program? Tick only if used.

- Cash discount and cash discount periods [ ]
- Different payment periods for different customers [ ]
- others specify [ ]
- none of the above [ ]

20. If affirmative for any of the above terms, to what extent do these factors affect the choice of your credit terms? (1=Not important at all, 2=A little important, 3=Important, 4=Very important, 5=Critically important)

<table>
<thead>
<tr>
<th>Factor</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required rate of return of additional account receivable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efforts to shorten Average collection Period &amp; Default rates?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect on profit Margins</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash discount costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others , specify</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
21) These are various tools/used for credit assessment. Tick all that are used ranking their importance or weight in the organization. (1=Not important at all, 2=A little important, 3 Important, 4= Very important, 5= Critically important)

<table>
<thead>
<tr>
<th></th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>In house credit professionals within the credit department</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specialist credit analysts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance on trade references</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others, specify</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

22) The micro finance sector is a unique sector characterized by broad similarities. Do you engage in data reciprocity concept as a way of sharing credit information?

- Yes ( )
- No ( )

23. If yes, outline its advantages and disadvantages.

Advantages.

Disadvantages.

Source of Credit Information

24) The following are various sources of credit information. To what extent do you use them. Please tick as appropriate (1=Not important at all, 2=A little important, 3 Important, 4= Very important, 5= Critically important).
<table>
<thead>
<tr>
<th>Financial statements</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit rating reports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank checking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade checking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company’s own experience</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others specify</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Credit Rating**

25) The following factors affect organizations’ credit rating. How important are they to your organization? Tick (1-Not important at all, 2=least important, 3 Important, 4= Very important, most important)

<table>
<thead>
<tr>
<th>Ability to service debts as expected</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding total credit amount at any time</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Savings patterns</td>
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<td></td>
</tr>
<tr>
<td>Spending patterns</td>
<td></td>
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<td></td>
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<tr>
<td>Probability default</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Default correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other specify</td>
<td></td>
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</tbody>
</table>
Credit Scoring

26) The following factors affect credit score models. How important are they to your organization. Tick 1-Not important at all, 2=least important, 3 Important, 4= Very important, 5=Most important)

<table>
<thead>
<tr>
<th>Factor</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punctuality of trade credit payment</td>
<td></td>
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<tr>
<td>Debtors' capacity</td>
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<td></td>
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<tr>
<td>Length of credit history</td>
<td></td>
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<tr>
<td>Types of credits</td>
<td></td>
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<tr>
<td>Past credit levels extended</td>
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<tr>
<td>Other specify</td>
<td></td>
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</tbody>
</table>

Collection Policy

27) Who formulates the collection policy in your organization? Please tick where appropriate

- The managing director & finance Director [ ]
- The credit committee [ ]
- The credit control department [ ]
- The credit department with consultation with marketing team[ ]
- Other, specify [ ]

28) The following are the principles of a good collection policy. How important are they important in your organization? (1-Not important at all, 2=least important, 3 Important, 4= Very important, 5= Most important)

<table>
<thead>
<tr>
<th>Principle</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Being strict with credit limits</td>
<td></td>
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<tr>
<td>Prompt invoice sending</td>
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<td></td>
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<tr>
<td>Systematic review of debtors</td>
<td></td>
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</tbody>
</table>
29) The following are procedures followed in debt collection. Rate the significance of the debt collection in your organization.

5 = highly significant, 4 = moderately significant 3 = significant 2 = less significant 1 = Not at all

<table>
<thead>
<tr>
<th></th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>first gentle demand letter</td>
<td></td>
<td></td>
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<tr>
<td>a follow up telephone call</td>
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<tr>
<td>second and strong worded letter</td>
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<tr>
<td>more telephone calls with legal action warning</td>
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</tbody>
</table>

30) In your organization what determines a debt’s write-off point? Who is responsible for determining debt write-off pint in your organization?

- The managing director
- The finance director
- The credit manager
- The legal manager
- The credit committee team
- The credit control team

THANK YOU VERY MUCH FOR YOUR SUPPORT IN THIS PROJECT
APPENDIX III

List of Microfinance institutions as of (CBK 2006)

1. AAR Credit service
2. Action Aid
3. ADRA Kenya
4. Agakhan Foundation Micro Credit Programme
5. Archdioceses of Nairobi
6. AREP
7. BIMAS
8. Care International
9. Christian Health Association of Kenya
10. Co-operative Bank of Kenya
11. Crossbridge Credit Ltd
12. Daraja Trust
13. Ecumenical Church Loan Fund (ECLOF)
14. Elite Microfinance
15. Equity Building Society
16. Family Finance
17. Faulu Kenya
18. Ghetto Child Programme
19. Hope Africa
20. Jamii Bora
21. Jaru Micro credit Africa Ltd
22. Jitegeme Credit scheme
23. Jitegeme Trust
24. KADET
25. Kenya Commercial Bank-Special Loan Unit
26. Kenya Gatsby Trust
27. Kenya Post Office Savings Bank
28. Kenya Small Traders and Enterprise Society
29. Kenya Women Finance Trust
30. K-Rep Bank Ltd
31. K-Rep Development Agency
32. Micro Kenya Ltd
33. Milenia Multipurpose Credit society
34. OIKO credit
35. Pride Africa
36. Private Sector Development Unit
37. SISDO
38. Skills Across Kenya
39. Small and Micro-Enterprise Programme (SMEP)
40. Small Enterprise Credit Association
41. Smallholder Irrigation Scheme Development Organisation
42. St. John's Community Centre
43. Sunlink Micro finance Partners
44. Undugu Society of Kenya
45. United Disabled Persons of Kenya (UDPK)
46. Vintage Management Consultants
47. WEDCO
48. Widows and Orphans Welfare
49. Window Development Fund
50. World Vision
51. Yehu Enterprise support services