KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

AN ASSESSMENT OF THE EFFECTIVENESS OF CREDIT RISK MANAGEMENT IN MICROFINANCE INSTITUTIONS IN KUMASI METROPOLIS".

By

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DECLARATION

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree or diploma at Kwame Nkrumah University of Science and Technology, Kumasi or any other educational institution, except where due acknowledgement has been made in the text.

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DEDICATION

I dedicate this work to my family especially my elder brother, Daniel Sarpong and all my siblings and also to my late grandmothers; Awo Abena Agyemang and Yaa Nuakowaa.

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ABSTRACT

The research's goal was to evaluate the influence of credit risk management on the liquidity position of Ghanaian microfinance companies: a case study of selected MFIs in the Kumasi Metropolis. The descriptive research design was employed by the researcher. The quantitative research method was applied. The study's target population consisted of 156 workers from selected MFIs in the Kumasi Metropolitan Area. The census approach was utilised to pick all 156 research participants. The major data collection tool was a questionnaire. The questionnaire was analysed using statistical methods such as frequencies, percentages, and mean. Staff training, client project review, internal controls, customer affordability calculation, credit granting policy, debt collection strategies, and credit scoring models were identified as credit risk reduction measures employed by the MFI to manage loan default. MFI assessed the following aspects before issuing loans to clients: capacity to pay, future prospects of the business, profitability of the firm, cash flow statement, profit and loss statement, security, customer character, borrower payback history, and credit utilisation experience. Overreliance on guarantors, carelessness and poor underwriting, as evidenced by inadequate loan documentation, a lack of current financial information, and a lack of protective covenants in the loan agreement, communication ineffectiveness, and ineffective loan monitoring, all contribute to loan default. To increase loan recovery at the MFI, the research advised that management organise frequent workshops and seminars to train credit officers on loan approval, credit assessment procedures, loan supervision tactics, and monitoring strategies.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

MFIs are "financial organisations that provide financial services to low-income people who are frequently denied access to regular banking systems due to a lack of acceptable collateral" (Murdoch 2010). The term "lack of credit" refers to "a lack of collateral that the economically disadvantaged should provide to traditional financial institutions, as well as the various difficulties and high costs associated with dealing with large numbers of small, frequently illiterate borrowers" (Weiss & Montgomery 2015). The poor often rely on high-interest loans or friends and relatives who are similarly cash-strapped. MFIs try to address these issues with initiatives such as group lending and monthly savings schemes. According to Otero (2009), microfinance is the provision of financial services to low-income economic agents as well as very poor self-employed and/or unemployed individuals. "These financial services often involve savings and credit, but may also include insurance and payment services," writes Ledgerwood (2009).

According to Schreiner and Colombet (2011), "microfinance is an effort to provide impoverished individuals who are ignored by the traditional banking system with access to small deposits and small loans." All around the world, poor economic players are prevented from engaging in formal financial and banking organisations. As a result of this exclusion, the poor, especially in developing nations, have invented a slew of informal, community-based financial structures to meet their needs. Over the last two decades, an increasing number of formal sector organisations (nongovernmental, government, and commercial) have been founded to address the same objectives. Microfinance refers to informal and formal partnerships that offer financial services to economically disadvantaged individuals (Brau & Woller, 2014).

Risk levels, according to the fundamental notion of risk management, should be accurately connected to predicted profits. MFIs that handle these risks well will thrive (Oberdorf, 2009). Microfinance institutions (MFIs) have risks that must be handled efficiently and effectively in order for them to grow. MFIs will almost certainly fail to meet their social and financial objectives if risk is not properly managed. Donors, investors, lenders, borrowers, and savers lose trust in a firm when risks are not effectively handled, resulting in the loss of present and future sources of funds. Microfinance institutions (MFIs) will lose their main business and become unsustainable if investment funds are exhausted.

According to Tshorhe et al. (2011), credit risk is "the likelihood that some of a bank's assets, particularly loans, will lose value and become worthless." Loans constitute a significant portion of a bank's assets. Bank assets are often illiquid, exposing investors to the greatest credit risk (Koch & MacDonald, 2010). Credit risk management is crucial for banks since they usually have little equity relative to their asset base, and a small percentage of gross loans turning bad may lead a bank to collapse. Thus, credit risk management is crucial to a bank's and, indeed, the whole financial system's health (Tshorhe et al., 2011). Banks use a range of strategies to mitigate credit risk. These include collateral guarantees, netting loans against deposits from the same counterparty, credit insurance, factoring, debt collection, surety bonds, and letters of credit. Every financial organisation faces a difficult risk management dilemma, which is becoming more important in a world where economic events and financial systems are inextricably linked. Risk management has been underlined as a critical component for financial long-term profitability by global financial firms and banking regulators.

According to Parker (2009), there are two sorts of risks: market risk and specialist risk (or non-market risk). Market risk refers to the risk that an entire class of assets or liabilities faces." Market risk is the possibility that the value of an investment asset or group of securities may plummet.This risk of value loss may be influenced by underlying economic and financial market components such as legislative changes, interest rate fluctuations, harsh weather, or the political environment (Parker, 2009). In developing countries, the bulk of MFIs invest in medium and long-term financial products. These investments expose investors to a distinct set of dangers. On the one hand, investors face inherent risks in the microfinance industry, while additional risks stem from national hazards typical in developing nations. Investors should be aware that the legal, institutional, and macroeconomic conditions in developing nations differ greatly from those in developed countries. Fewer financial reporting requirements, heightened political instability, exchange rate controls, currency devaluations, and liquidity shortages, as well as restrictions on the movement of private money or foreigner investments, may expose investors to a variety of dangers. As a consequence, this study will examine the impact of credit risk management on the liquidity situation of Ghanaian microfinance enterprises using selected MFIs in the Kumasi Metropolis as case studies.

1.2 Statement of the problem

Prior literature within finance have conducted an extensive examination of the influence of risk management parameters on corporate performance limiting it to either individual risk management parameters and/or a composite or integrated risk management parameter with much dominance within emerged markets on banking sector (Sharifi et al., 2019; Bulbul et al., 2019; Li et al., 2020; Qureshi and Lamarque, 2021).

Microfinance institutions (MFIs) in Ghana play a significant role in providing financial services to underserved populations, contributing to poverty reduction and economic development. However, these institutions face inherent risks, with credit risk being one of the most prominent challenges they encounter. Credit risk arises from the possibility that borrowers may default on their loan obligations, exposing MFIs to potential financial losses and affecting their overall performance and sustainability. Agyei-Mensah & Tachie-Menson, (2014) highlights the importance of managing credit risk effectively in microfinance institutions to ensure their long-term viability and ability to fulfill their social mission. Inadequate credit risk management practices can lead to increased default rates, non-performing loans, and liquidity constraints, jeopardizing the stability of the institutions.

However, Fosu, Danso & Owusu-Agyei, (2019) Annan & Appiah, (2018) specific relationship between credit risk management and the liquidity position of microfinance companies in the Kumasi Metropolis of Ghana remains relatively unexplored. The Kumasi Metropolis has a diverse microfinance landscape, with various institutions operating in different contexts, serving distinct clienteles, and employing varying credit risk management practices. Therefore, a focused investigation into the role of credit risk management in the liquidity position of microfinance institutions in this specific context is warranted.

In light of the above, the problem statement for this research study is to investigate the role of credit risk management in the liquidity position of microfinance companies in the Kumasi Metropolis, Ghana. The study aims to explore the effectiveness of credit risk management practices employed by these institutions and their impact on maintaining a favorable liquidity position within this specific context.

1.4 Purpose of the Study

The research's goal was to evaluate the influence of credit risk management on the liquidity position of Ghanaian microfinance companies: a case study of selected MFIs in the Kumasi Metropolis.

1.5 Specific Objectives of the Study

The specific objectives include:

1. To identify the credit risks faced by microfinance institutions.
2. To evaluate the effectiveness of credit management practices used by the selected MFIs in the Kumasi Metropolis.
3. To identify strategies that are instituted to monitor and control credit risk in these MFI institutions.

1.6 Research Questions

1. To what extent do microfinance institutions in the Kumasi Metropolis face credit risks?
2. What is the effectiveness of the credit management practices used by the selected MFIs in the Kumasi What Metropolis?
3. What are the strategies that are instituted to monitor and control credit risk in these MFI institutions?

1.7 Significance of the Study

The research increased the loan portfolios of the chosen microfinance institutions in the Kumasi Metropolis via appropriate credit risk management practises, resulting in considerable interest revenue. Furthermore, the research results will have a significant influence on microfinance institutions' financial performance, and it can therefore be said that the better the MFI's credit risk management, the better its liquidity performance. Given the significance of credit portfolio management health, study is required to determine the elements that have a negative influence on MFI loan performance management. The project's findings will help MFIs apply effective techniques for reducing the institution's expanding non-performing loan portfolio and thereby improving financial performance and profitability.

Second, since the country's financial (Lending institutions) operate in the same environment and deal with comparable clientele, the initiative would benefit Ghana's banking and non-banking financial sectors as a whole. Third, the study might be used as a resource for future research efforts. As a result, the research would significantly contribute to the growth of the microfinance industry, which is essential to the economy.

1.8 Scope of the Study

The goal of the research was to evaluate the influence of credit risk management on the liquidity condition of Ghanaian microfinance firms via a case study of selected MFIs in the Kumasi Metropolis. This indicates that the scope of this research will be confined to the MFIs chosen in Ghana's Ashanti Region's Kumasi Metropolis. The conceptual scope of the study, on the other hand, is confined to the following research objectives: assessing the efficient credit management practises applied by the chosen MFIs in the Kumasi Metropolis. Second, look at the many kinds of credit risks that microfinance institutions face, as well as the systems in place to monitor and manage credit risk at these institutions. These goals will direct the study's analysis.

1.9 Overview of methodology

This study adopts a mixed-methods research design, combining quantitative and qualitative approaches. The quantitative approach enables the collection of numerical data to analyze credit risk management practices and liquidity positions. The qualitative approach provides an in-depth understanding of the factors influencing credit risk management and how they relate to the liquidity position of microfinance institutions. The research focuses on selected microfinance institutions in the Kumasi Metropolis of Ghana. Kumasi is chosen as the study area due to its significant concentration of microfinance institutions and its representation of the microfinance industry in Ghana.

The study employs primary and secondary data collection methods to gather relevant information. The primary data collection involves structured questionnaires administered to key personnel in the selected microfinance institutions. The questionnaires aim to collect quantitative data on credit risk management practices, liquidity ratios, loan portfolio quality, and other relevant variables. The questionnaires may include Likert-scale questions, multiple-choice questions, and open-ended questions to capture a comprehensive understanding of credit risk management and liquidity positions.

A purposive sampling technique is employed to select microfinance institutions that represent a diverse range of sizes, client bases, and operational characteristics within the Kumasi Metropolis. The sample size will depend on the number of microfinance institutions available and the feasibility of data collection within the given resources and time constraints.

The collected data is analyzed using both quantitative and qualitative data analysis techniques. Quantitative data is analyzed using statistical software such as SPSS or

Excel. Descriptive statistics, such as mean, median, and standard deviation, are used to summarize the data. Inferential statistics, such as correlation analysis and regression analysis, may be employed to examine the relationships between credit risk management practices and liquidity positions.

1.10 Organization of the Study

The research is divided into five chapters. The first chapter, the introduction, will cover the backdrop to the investigation, the problem statement, the purpose of the study, the aims of the study, the research questions, the importance of the study, the scope of the inquiry, and the layout of the remainder of the study. The second chapter will include a detailed theoretical and empirical literature overview on the issue, as well as the research conceptual framework. The third chapter will go over research technique, which includes topics like study design, research population, sample, and sampling processes. It also included data sources and tools, data collecting techniques, and data analysis. The fourth chapter will concentrate on presenting and interpreting study findings. The study's results will be described and shown using figures and tables with frequency and percentages. Finally, chapter five will provide a study summary, results conclusions, study recommendations, and future research goals.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 Introduction

The literature review serves as a critical component of this research study, as it provides a comprehensive overview of existing scholarly works, theories, and empirical studies relevant to the investigation of credit risk management and liquidity position in microfinance institutions. This literature review chapter aims to synthesize and critically analyze the published literature, offering insights into the current knowledge, research gaps, and theoretical frameworks surrounding the subject matter.

2.1 Conceptual review

The conceptual review in this literature review chapter aims to provide a comprehensive understanding of the key concepts, theories, and models associated with credit risk management in microfinance institutions. This section establishes the foundational knowledge necessary for comprehending the complex nature of credit risk and its implications for the liquidity position of microfinance institutions.

2.2.1 Risk

According to Habegger (2008), risk reflects the chance that an undesirable event will occur and the consequences of its possible outcomes. Risk has a characteristic attribute that reflects uncertain consequences regardless of the choice adopted in any given risk-prone scenario and can be reflected in almost all decisions made by man. Risk is encountered in the daily operations of both large and small corporations of which financial institutions are no exemptions. In finance, risk is often described as a technical issue of unpredictable projected results, both positive and negative (Tahiri, Hassan, and Sidiqi, 2010).

Risk is intimately related to the entrepreneurial spirit and value creation in various industries and political contexts (Tahiri, Hassan, and Sidiqi, 2010:6). It can be argued that two forces bring risk to be. The first one is the uncertainty of eligible outcomes and the second is that the outcomes have to be useful for providing utility, (Holton, 2004). Risk occurs in almost all aspects of life and can be seen in the business, health, social and political environments among others. Risks encountered financially by financial institutions can be grouped among others as credit risk, market risk, liquidity, and operational risks (OECD, 2002). Financial risk is used to describe the various categories of risk linked with financing an enterprise and the risk of loan default by the companies that are involved in such financial transactions (Lin, 2011). It is worth noting that, in recent times, efforts are being geared towards effectively analyzing risk associated with both the financial and non-financial sectors. Systems are been instituted to make the best decision when confronted with risk-prone investment decisions.

2.2.2 Risk Management

Risk management is defined as "the application of analysis tools and the establishment of measurements to quantify the amount of financial loss (or gain) that a company is exposed to when certain unforeseen and unpredictable changes and occurrences occur" (Gorrod, 2004:3). Another definition of risk is the act of comprehending and controlling hazards that an entity must inevitably face in order to pursue its corporate goals (CIMA Official Terminology, 2005). Risk is essential to achieving the business goals and objectives of corporate entities. The management, however, must not be discouraged by this circumstance from making hazardous choices that, when handled well, can benefit such enterprises. The management of risk is a requirement of good corporate governance.

It is therefore important to institute standards, concise strategies, and policies to effectively curb the degree of uncertainty that results from such risks. Managing risk is a key to hedging and controlling the uncertainty arising from risks. Asare-Bekoe, (2010) observes that the purposes of risk management in the banking sector are to:

1. Increase profitability,
2. Reduce foreign exchange losses,
3. lower the variability of cash flows,
4. safeguard fluctuating earnings,

5. ensure the sustainability of the company (Fatemi and Glaum, 2000).

For these objectives to be achievable, banks have to operate in a sound risk management environment where the impact of uncertainty and potential losses are being managed by sound risk measures that direct such activities to yield the best risk results to management and also reduce devaluation of shareholders" wealth as a result of the volatility of profit (Asare-Bekoe, 2010).

2.2.3 Credit

Credit is the trust that permits one party to send resources to another party where the second party does not compensate the first party immediately (thereby creating a debt), but instead plans to either repay or return those resources (or other material of equivalent worth) at a later date (Sullivan et al., 2003). The resources made available can either be monetary, like loans, or they can be in the form of products or services, like consumer credit. Therefore, credit includes any type of postponed payment given by a creditor, also referred to as the lender, to a debtor, also referred to as a borrower.

Beneficiaries who agree to make a payment in the future are given credit. Credit is accessed for a variety of reasons by people, businesses, and other corporate entities (Tetteh, 2012). Advances like personal loans that have a maximum five-year repayment schedule are considered short-term loans. Designed for small and mediumsized businesses, medium-term loans have a five- to ten-year repayment schedule. Long-term loans (for corporate entities) have a payback period of more than ten (10) years, as their name suggests. In Ghana, short- and medium-term loan is most often accessed (UT BANK, 2012). The asset balance file of banks heavily relies on advancing credit, which is essential to their operations (Tetteh, 2012). Although it carries a considerable risk, it has the potential to produce enormous profits. Practice demonstrates that credit risks are most frequently recorded by banks in connection with losses (Bakshi, Madani, and Zhang, 2001).

2.2.4 Sources of credit risk

There are two main broad sources of credit risk (Bakshi, Madani, and Zhang, 2001). They are external and internal factors.

a) External factors include:

i. Economic Conditions

Credit risk management is frequently impacted by national economic conditions. This is the outcome of changes in the business cycle, exchange rate, interest rate, availability, and quality of credit, which influence the national income. Borrowers' capacity to fulfill their obligations may be impacted by a liquidity crisis or other financial issue. Additionally, the legal and regulatory reform can force financial institutions to alter the standard and effectiveness of their debt collection efforts as well as how they supervise a transaction.

ii. Competition

Financial institutions compete with one another for expansion, profitability, and industry leadership.. They thereby end up lowering standards and improper loan pricing. This ends up increasing the cost of non-performing loans (Bangkok Bank, 2006).

b) The internal risk factors of credit risk include:

i. Competence of staff

The administration of loans or credit to the bank‟s loyal customers is a very critical responsibility that must be taken up by experts with in-depth knowledge. Officers who lack the requisite expertise in the tasks they are accountable for, whether it be in the area of investment, the management of problematic assets, or the development of new products, could result in subpar lending practices, ineffective administration, and ultimately a loss for financial institutions (Bangkok Bank, 2006). ii. Management Information System (MIS)

The department in charge of the provision of up-to-date information on credits must adhere to its responsibilities. Failure to receive such information on a timely basis could lead to risk on credit advances. This includes timely data on economic trends, adjustments to industry and/or market share structure, commodity prices, currency rates, past-due debts, credit concentrations, and analyses of problematic loans.

iii. incorrect credit quality evaluation

This issue might be brought on by credit expansion and competition pressure, which both tend to make it more difficult to obtain reliable data in a timely manner. In addition, quick expansion into new markets or rapid growth itself may induce management to provide loans without conducting adequate financial and economic research. Simple credit quality indicators like borrower characteristics, the present and predicted value of collateral, or the support of a parent company or connected companies may be used by management to support credit choices in order to speed up decision-making.

iv. new products or services being introduced without conducting enough risk analysis

Prior to their debut, new items must undergo a thorough analysis. Banks rush to

market with new product lines and services without thoroughly vetting their legitimacy in an effort to gain a competitive edge and increase revenues. Such a strategy might cause major issues for various financial organizations because it is contrary to the fundamentals of sound credit underwriting. Financial institutions that follow best practices in credit underwriting typically test new goods and services before making them
available to the broader public.

v. Lending in Excess

Banks in their quest to maintain and win more customers to achieve supernormal profits could lend to their customers more than their required minimum. This intention weakens customers‟ or borrowers‟ ability to repay such loans since each customer has to a particular level the strength to repay loans

vi. Self–Dealing

Transactions between a private foundation and ineligible individuals are referred to as self-dealing. These transactions could be between the company and important workers, family members, directors, and partnerships, where such behaviors as giving excessive credit to insiders, deviating from the stated credit policy, and abusing one's position of authority to get loans could be identified (Minnesota Council on Foundations, 2013).

2.2.5 Credit Risk Management Systems

Although there are many causes for financial institutions' problems, according to Kapila and Kapila (2001: 255), "lax credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances" continue to be the primary causes of serious banking problems. A bank's counterparties can experience a deterioration in their credit standing as a result. The primary activity of banks has always been lending, and the only way to do so successfully has always been to carry out an accurate evaluation of a borrower's creditworthiness (Fight, 2004). In order to ensure the return of these assets with interest and eliminate the danger of potential customer defaults, banks have had to insure against their assets through credit risk management.

By limiting credit risk exposure to levels that are acceptable, credit risk management (CRM) is a management technique that assists in maximizing a bank's risk-adjusted rate of return (Casu, Girardone, and Molyneux, 2006: 282). From the definition, it is clear that the main goal of CRM is to reduce the likelihood that a client will be unable to repay loans after receiving credits. In order to lower the risk of client default, Marrison(2002) asserts that good credit risk management systems are just as important for bank management as depositing, mobilizing, and extending credit.

According to Danmarks Nationalbank(2001), the issuing of credit is essential to routine banking activities, hence it stands to reason that this is the main factor that exposes banks to risk. Because of this, the evaluation of each customer's credit has historically been a component of how banks manage credit risk. The basis for credit evaluation is the client's financial status, which paints a picture of the client's creditworthiness (Danmarks Nationalbank, 2001). The ability and willingness of the customer to fulfill its commitments to the bank, that is, to service the loan, is a crucial consideration for the bank. In order to effectively manage credit risk, one needs to implement tools, processes, and mechanisms that can be relied upon to keep track of their lending activities. These tools, processes, and mechanisms should be used to identify, assess, and evaluate risks as well as to develop strategies for managing those risks through the use of risk models.

Banks will become unprofitable and won't last very long if they don't handle credit risks efficiently. According to Mishkin(2004:217) and Tefera, by employing key credit risk management principles, banks can reduce their exposure to credit risk on a variety of loans (2001:14). Below is a list of these guidelines:

i. Screening and monitoring: The choice of loans to borrowers in an unfavourable loan market requires the lenders to screen out conditions that hinder the repayment of a loan. This process is done to reduce the tendency of granting loans to clients that cannot finance them and increase the chances of those that can finance the loans to yield profitability to the lending organization.

ii. Long-term Customer Relationship: If the deficit unit has a history of borrowing from the bank, banks can further cut down on their exposure to credit risk. In this case, the bank will have a way to keep track of their customers' creditworthiness and the history of loan payments. The cost of information collecting is reduced, and it is simpler to weed out people at risk for having bad credit as a result. Banks may deal with even unforeseen moral hazard eventualities with the help of long-term relationships.

iii. Collateral Requirements: It is a crucial instrument for credit risk management. Collateral is a legally sound, valuable liquid asset that the loan recipient pledges as security for the loan's value (Harding and Johnson, 2002). The lender's losses are reduced in the event of loan default by collateral, which is correctly promised to the lender as compensation if the borrower defaults. With this instrument in place, borrowers will make every effort, even in the worst-case scenarios, to settle what they owe since they can claim ownership of assets that were previously exploited.

iv. Credit Rationing: Despite borrowers' willingness to accept higher interest rates, this is one of the concepts of credit risk management that applies when deciding not to grant new loans. According to Korinek (2013), credit rationing will help banks avoid seeking excessive interest rates that may result in loan defaults.

2.3 Theoretical Review

2.3.1 Asymmetry Theory

A creditor's greater understanding of the risks and rewards connected with investment projects for which credit goods and services are designed constitutes information asymmetry in a debt market. Lenders experience moral hazard and adverse selection due to a lack of information asymmetry between themselves and their borrowers (Kibor et al., 2015). It is not profitable for MSEs to commit resources to evaluation and monitoring when lending is for tiny amounts, as is the situation with small-credit products and services. This is because businesses cannot provide services to customers who need access to credit without first vetting potential borrowers and applicants using information that isn't always at their disposal. So, while deciding whether or not to grant a loan, MSEs are in an informationally imbalanced position (Kibor et al., 2015).

The term adverse selection is used to describe an unethical outcome of the market's operation that leads to data issues. These issues manifest themselves when the qualities of a service or good are not carefully monitored (Tfaily, 2017). According to Akerlof (1970), adverse selection, which occurs before the signing of the credit agreement, results from the fact that information about the characteristics of the borrower is dissimulated. Poor borrowers want to seem to be excellent clients in a credit relationship, thus they may try to conceal facts to give the impression that they pose less of a danger. As a result, it is extremely challenging for banks to positively differentiate between borrowers of varying creditworthiness. The bank can determine the quality of loan applicants based on their willingness to accept the terms of credit offered.

Sekoenya (2019) argues that if MFIs are competent to take on or change suitable techniques for credit management, they will be in a better position to earn a large share of profit, which would ultimately improve the performance of the companies. Microfinance institutions and borrowers, who are often from lower socioeconomic brackets, face an information gap due to the inclusion of the information asymmetry theory into this research.

2.3.2 Modern Portfolio Theory

The central tenet of Modern Portfolio Theory is that even the most risk-averse investors can build portfolios that, on average, provide positive anticipated returns relative to the market, given a specific degree of risk (Bakar and Rosbi, 2018; Rawat and Sharma, 2019). When it comes to the world of finance and investment, it is often regarded as a major economic theory.

This theory was devised by Harry Markowitz, who claims that it is feasible to design an efficient frontier of optimum portfolios delivering the best possible anticipated return for any given degree of risk (as stated in Kibor, et al., 2015). This theory was developed by Harry Markowitz. The theory also maintains that the idea of management of working capital is the foundation upon which the concept of credit risk management is constructed. It is vital to have a sensible strategy for administration of a company's working capital and as a result, the company must always have sufficient working capital. Additionally, working capital funds should be released as soon as feasible to boost the company's bottom line.

Portfolio management entails creating and managing a diversified investment portfolio consistent with an investor's risk profile. When many securities are pooled together in a way that maximizes returns while minimizing risk, the result is positive (Rawat and Sharma, 2019). Kibbor et al. (2015) identified basic tactics in portfolio creation to avoid risks. Per this theory, if the risks associated with the stocks in a portfolio are not correlated, then the portfolio risk will be lower than the risk of holding any one stock. This demonstrates the importance of not just picking companies, but the appropriate combination of stocks, when deciding how to allocate one's investment capital. Since the projected returns of the businesses are contingent on the likelihood of repayment, Microfinance institutions in Ghana experience adverse selection while trying to determine which borrowers are most likely to pay back money they borrowed to purchase products and services. Ghana's microfinance institutions employ credit risk management practices consistent with the theory.

2.4 Empirical Review

Kisaka and Simiyu (2014) evaluated the credit risk management strategies of Kenya's microfinance firms. The information was gathered through a survey study. Thirty microfinance organisations were chosen at random to participate in the survey. Semistructured questionnaires were used to acquire the primary data. The surveys were sent, emailed, dropped off, and picked up. Loan and credit officials at those organisations were singled out as the intended responders. Calculating summary statistics like means, percentages, and standard deviations is a crucial part of any data analysis process. According to the results, the vast majority of microfinance organisations employ 6C credit risk management strategies. The findings also showed that microfinance institutions place a premium on knowing how much credit risk an organisation is exposed to. Loan defaults were reduced by follow-ups conducted by microfinance institutions. The findings further demonstrate that MFIs properly document and analyse loan review data as an integral part of risk management.

Financial institutions also resort to litigation when the promised value of collateral has changed due to a borrower's changed financial status or structure. According to the results, most financial institutions are using Credit Metrix to track credit movement and predict default.

In order to evaluate the impact of credit management systems on the loan performance of microfinance organisations, Mot et al. (2012) conducted a study. Our primary objective was to determine whether or not loan performance varied as a function of credit terms, customer evaluation, credit risk control methods, and credit collection procedures. The methodology we used was purely descriptive. Credit officials at Microfinance Institutions (MFIs) in Meru town made up the respondents. At the 5% level of significance, the correlation between loan repayment and collection policy was determined to be =12.74 (P=0.000).

The objective of Chakabva (2015) study is to identify the risks encountered by microfinance and evaluate the efficacy of their current risk management practices. This research seeks to increase knowledge and comprehension of risk management practices through an exhaustive literature review and fieldwork. To establish a theoretical foundation, a comprehensive literature review was conducted, and prior research on various aspects of microfinance risk management was investigated. This was followed by a study of the risk management of microfinance providers in the Cape Metropolis; large financial institutions such as commercial banks were excluded. A questionnaire was used to obtain information from microfinance providers in Cape Town. These microfinance providers were selected from a credit provider roster obtained from the National Credit Regulator's (NCR) public domain. A method of purposive sampling was used to select participants for this study. All information provided by respondents is kept strictly confidential, and their anonymity is guaranteed. This study revealed that microfinance lacks collaterals and instead relies on a close relationship between microfinance SMMEs and their clients. In microfinance SMMEs, risk management frameworks that provide an allencompassing approach to risk management are mainly absent. Significantly fewer microfinance SMMEs actively identify, categorize, prioritize, and document risks. The research also revealed that views on risk management vary depending on whether the respondent is an enterprise proprietor or manager.

In order to reduce non-performing loans among Tanzanian MFIs, Moshi (2020) evaluates credit risk management techniques. 79 MFIs participated in the case study, which was guided by three objectives: reducing non-performing loans, detecting and mitigating credit risks, and preventing non-performing loans. Primary data were gathered by presenting the survey questionnaire to a random sample of 150 credit/loan officers from MFIs selected using a purposeful sampling approach. The results showed that the occurrence of Non-performing loans was attributable to many causes, such as MFIs' inadequate credit record keeping and a lack of scrutiny of borrowers' credit histories prior to credit/loan acceptance. The survey also discovered that MFIs used a number of different techniques to spot Non-Performing Loans. Investigating how to make borrowers pay back their debts was one of the techniques used. Furthermore, the primary methods for avoiding NPLs were thorough borrower assessment and close borrower monitoring. Even after employing the aforementioned techniques, the majority of MFIs still struggled with the issue of non-performing loans. By monitoring borrower compliance with lending terms and conditions and regularly analyzing loan repayment trends, this research demonstrates how MFIs may identify credit risks that have been contributing to Non-performing loans.

It is the goal of this study by Simiyu (2008) to investigate the key issues faced by micro finance institutions in Kenya and to identify the techniques employed by these institutions to control credit risk. The study employed a descriptive research approach with a sample size of thirty (30) micro financing organisations to achieve its aims. The list of microfinance organisations was taken from the Central Bank of Kenya Directory (2006) and some of the surveys were left and then picked up, while others were sent back and forth. The loans and credit officials at these institutions were the intended response pool. After gathering all of the relevant data, the researcher analyzed it using statistical methods including averaging, percentages, and standard deviations. Based on the results, it was determined that 6C credit risk management techniques are widely used among microfinance institutions. The research also found that microfinance institutions place a premium on knowing how much risk an organisation faces from its clientele. Microfinance institutions employ follow-ups to reduce loan defaults.

Credit risk management at Ghanaian microfinance organisations was studied by Tawiah and Asante (2018). Five microfinance organisations in the Ashanti region of Ghana were selected at random to serve as the study's sample of the total population of microfinance institutions in Ghana. Questionnaires were the primary means by which information for the study was gathered. The study found that commercial loans to corporations, individuals, and SMEs constituted the greatest credit risk to the microfinance organisations studied. It was also found that most of these microfinance organisations used accounting-based methods and subjective analysis to measure the extent of their organization's exposure to risk.

Appiah-Konadu et al. (2016) used GTZ (2000)'s Risk Management Feed-back Loop concept to evaluate microfinance firms' credit risk management techniques to reduce loan defaults. The evaluation was carried out with the assistance of a survey methodology and a convenience non–probability sampling technique. According to the findings of the descriptive study, credit risk is the most important risk that constitutes a considerable danger to the overall survival of microfinance enterprises.
This risk also provides the greatest potential for loss.

Gyamfi (2012) examined the efficiency of the techniques employed by the businesses. The data gathering stage of the study was aided by a five-person team from the Institute of Professional Studies in Accra. Twenty randomly chosen micro-firms in Accra were used for the research. According to the results, smaller MFFs are more susceptible to credit risk than larger corporations.

Boateng and Boateng (2014) examined the risk management procedures at Ghanaian microfinance institutions. This study mostly relies on secondary research for its data. It was found that there are a wide variety of challenges that microfinance organisations must overcome. Research shows that the top echelons of microfinance institutions are woefully uninformed about the threats to their institutions, and that they are using reactive and inefficient risk management techniques. Benefits, such as lessening the over-management of risks and better organizational alignment with the MFI's goal, may be attained by incorporating a systematic approach to enterprise risk management into MFIs.

Duho et al., (2021) investigate the impact of income diversification strategy on credit risk and market risk of microfinance institutions (MFIs) in emerging markets such as Ghana. The analysis is based on quarterly data from an average of 271 MFIs operating between 2016 and 2018. The dataset contains 3,259 unbalanced and crosssectional data points. Using income diversification indices and accounting ratios to assess the other variables, the research evaluates the diversification strategy. The researchers explored the relationship using the weighted least squares (WLS) method.

The findings indicate a correlation between income diversification and improved loan quality and credit risk management. The results suggest that MFIs that hold more cash and cash equivalents are more likely to have a high loan loss provision and to hold more government securities, indicating that optimal cash management should be given considerable attention.

2.5 Conceptual Review

"Credit risk occurs when a borrower fails to complete his commitments on time, resulting in a loan default," as previously mentioned. In the literature, several writers have outlined a set of conditions that degenerate into credit risk. “Poor institutional governance, poor management control, inappropriate laws, limited institutional capacity, inappropriate credit policies, volatile interest rates, low capital and liquidity levels, government interference, and inadequate central bank supervision were identified as the main sources of credit risk by authors such as Nijskens and Wagner (2011), Breuer, Jandacka, Rheinberger, and Summer (2010), and Saunders and Allen (2012). The bulk of these factors, according to the authors, are interrelated, and the cause of one component may deteriorate into another. For example, a lack of management oversight may result in poor credit assessment and unlawful lending practises on the part of credit department personnel."

Apanga et al. (2016) uncovered many factors of credit risk throughout their analysis. According to them, "corporate and small company commercial loans, interbank transactions, trade finance, and foreign currency transactions were the main sources of credit risk in Ghanaian commercial banks' activities." Surprisingly, Apanga et al. (2016) discovered risk characteristics that differed considerably from those previously identified by the authors. If one studies the sources referenced in Apanga et al. (2016), one might argue that they were highly influenced by the banks' portfolios, and hence the kind of firms with whom the banks engaged on a regular basis. Regardless of how credit risk sources are defined, all of the highlighted elements have a high possibility of producing potential credit worries."

Fukuda (2012), Giesecke and Kim (2011), and Nijskens Wagner and Marsh (2006) have all mentioned "systematic risk as a cause of credit risk. According to Fakuda (2012), systemic risk arises when a borrower fails to complete his obligation repayments, with negative consequences for other borrowers in an economy. The mortgage crisis in 2009, according to Giesecke and Kim (2011) and Nijskens and Wagner (2011), rendered it impossible for mortgage enterprises to fulfil their financial obligations, making it difficult for US banking institutions to meet their liquidity needs. According to the author, "this spread to other sectors of the economy, resulting in a liquidity freeze and banks hesitant to lend money out for fear of defaults."

According to the study's findings, there are no consistent credit risk variables. What one bank regards as a credit risk may not be seen as such by another. Tier 2 banks, for example (microfinance institutions), are not permitted to conduct foreign currency transactions under Bank of Ghana regulations. As a consequence, Apanga et al.

(2016) discovered that "foreign currency risk is not a source of credit risk for microfinance enterprises. Similarly, since the loan portfolios of microfinance firms are often small and personal, the sources of risk will differ from those of commercial banks. These arguments support the notion that credit risk sources are not uniform and are highly impacted by the industry in which a bank works.

In his seminal work, Walker (2009) identified three key sources of credit risk: company activities, strategic sources, and external sources. Walker (2009) identified other credit risk indicators as portfolio and product mix, new products and distribution techniques, third-party originations, and target market". Clearly, the components stated under business operations correspond to the credit risk factors indicated in

Apanga et al. (2016)'s study

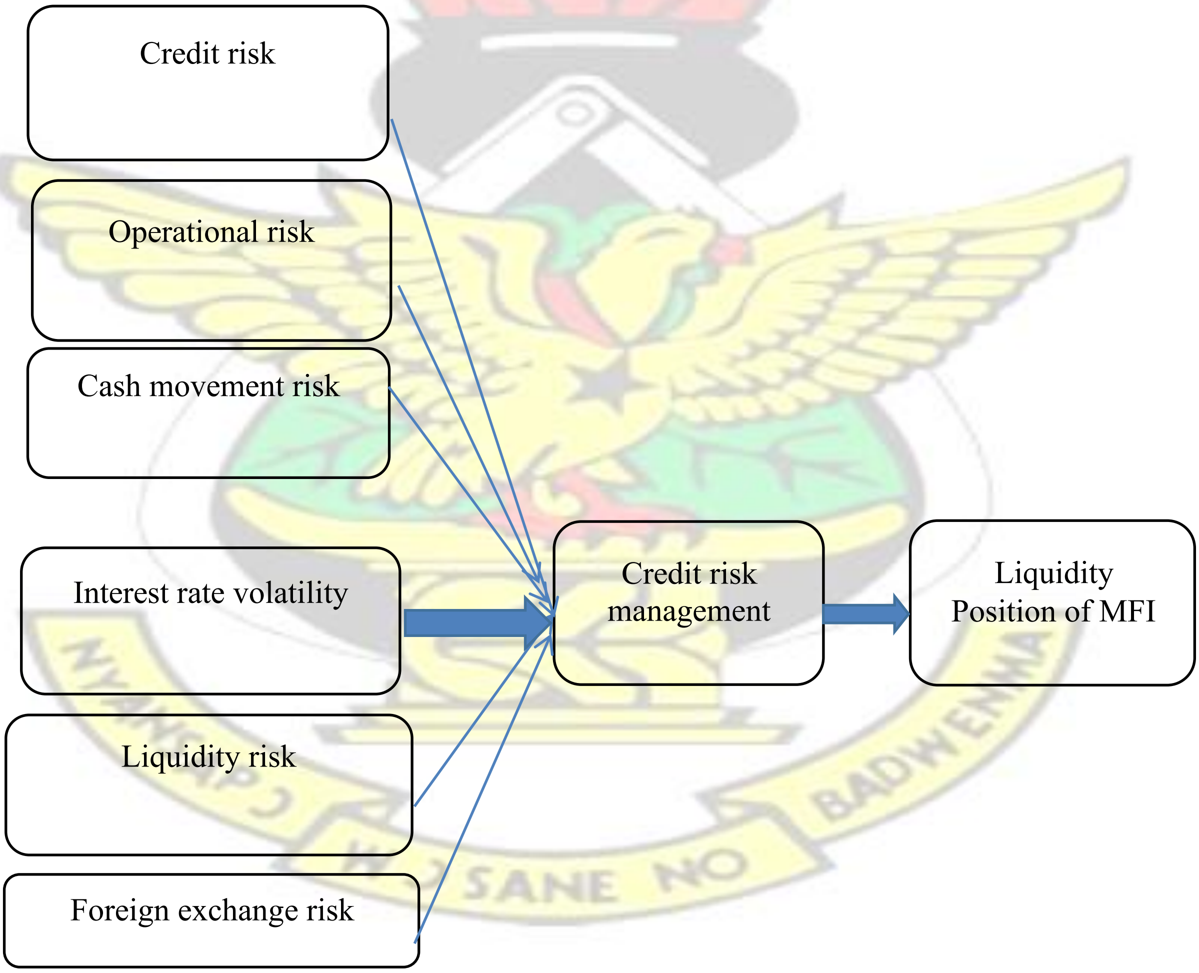

Figure 2.1 Conceptual Model of the Study

Source: Authors Construct (2019)

CHAPTER THREE

METHODOLOGY OF THE STUDY

3.1. Introduction

This chapter is dedicated to discussing the methodologies used for data acquisition pertaining to the research problem at hand. The text provides an overview of the study's methodology, including the approach to studying, the specific population under investigation, the sample size, and the methods used for sampling. Furthermore, the study included a comprehensive description of the data collection equipment used as well as the data analysis techniques utilised.

3.2. Research Design

The study employed the cross-sectional descriptive survey design where deductive reasoning is applied to the quantitative data (Otieno, Nyagol, and Onditi, 2016). Deductive reasoning is used to make logical conclusions after the analysis. The deductive approach is a method where the researcher uses theories as bases to conduct an investigation which would be used to determine the result of a theory (Creswell, 2014). The deductive method is usually made of quantitative techniques. The quantitative technique uses a survey questionnaire where data are normally collected from respondents Researchers that utilize quantitative approaches collect and analyze numerical data to understand, forecast, and/or control occurrences.

The survey method is employed for the quantitative study because it examines a sample of the population to produce a quantitative or numeric depiction of attitudes, practices, and opinions. Through face-to-face questionnaire administration, primary data was acquired in the quantitative research design. Usage of the survey method was considered to be efficient and economical; it brings many advantages to the researcher; For instance, it is economical compared to interviewing, authorizes secrecy, and could produce additional truthful answers, besides it has the possibility of eliminating prejudice owing to wording questions differently with diverse respondents (Otieno et al., 2016). Subsequently, the use of the quantitative technique was employed to help in understanding the level of credit risk management practices, their effectiveness, and the credit risk strategies employed by Ghanaian Microfinance institutions.

3.3. Population of the Study

According to Snijders and Bosker, (1999), a population is the entire group of persons having the characteristic or characteristics that interest a researcher. For this study, the population of the study comprised of forty (156) employees at the Credit Risk Management Department (CRMD) target group for this research recruited from microfinance institutions (MFI) located in the Kumasi Metropolitan Area.

3.4. Sample and Sampling Technique

All 156 respondents for the research were chosen using census sampling procedures. Due to the small size of the population, this entails gathering data from all people in the target group. A census sample is so named because data is collected on every member of the population. The main benefit of utilising a census, according to Bryman (2004), is that it offers a genuine assessment of the population (no sampling error). Because it is more convenient for social research, the study used a quantitative research technique.

3.5. Data Collection Instrument

Creswell and Plano Clark (2010) "used a variety of methodologies to collect data in their social science research. Data collection for this research was facilitated by the use of questionnaires. The staff were given a series of self-administered questionnaires by the researcher. The survey instrument was developed on a fivepoint Likert scale, (1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, and 5=Strongly Agree). The questionnaire was divided into four sections. Section A collected data about the demographic characteristics of the employees. Section B evaluated the effectiveness of the credit management practises used by the selected Microfinance Institutions (MFIs) in the Kumasi Metropolis. Section C of the report focused on the credit risks encountered by microfinance institutions, while Section D provided a comprehensive overview of the strategies and procedures used to

effectively monitor and mitigate credit risk inside these institutions".

3.6 Validity and Reliability

Validity is a fundamental criterion used to assess the quality of a study answer pertaining to a certain issue. The statement suggests that when a theory, model, notion, or category is deemed valid, it signifies its ability to effectively represent reality. In other words, a valid measure is one that successfully assesses the specific construct it was intended to evaluate. The validity or invalidity of a measure is determined by the manner in which it is used. The determination of a measure's validity is contingent upon the characterization of the idea being assessed, as stated by De Vaus and cited by Amaratunga et al. (2002). Assessing the reliability and validity is a recurring task encountered over the course of doing research. The issues associated with measuring in research are diverse, since they pertain to the quantification of abstract, intangible, and unobservable phenomena. The assumption of importance is often seen in several instances involving numerical values. In the context of hypothesis testing, it is essential that an idea used to substantiate a theory be subjected to measurement. Consequently, the first decision that the research must address is to the method of measuring a certain idea. Self-report measures include a variety of assessment tools, such as open-ended or close-ended questionnaires, Likerttype scales, structured, semi-structured, or unstructured interviews, and open-ended or close-ended questionnaires. It is evident that every kind of measurement presents a distinct array of obstacles that want resolution in order to ensure the significance, precision, and effectiveness of the measurement. After conducting a pilot test, the reliability of the questionnaire was evaluated by using Cronbach's alpha correlation coefficient. The internal consistency of the instrument was assessed to be 0.87, indicating a high level of reliability.

3.7. Pilot Testing

A pilot study was conducted to evaluate the questionnaire's clarity and readability, as well as the internal consistency of the measures. A preliminary examination was conducted at the selected Microfinance Institutions (MFIs). A cohort of fifteen individuals was selected to participate in the preliminary examination. The researcher used pilot testing of the questionnaire in order to ascertain the content validity and reliability of the questions in evaluating the desired subject matter. The questionnaire underwent revisions in order to make it suitable for use in practical settings. The primary objective of enhancing the clarity of the questions within the questionnaire is to ensure that they are easily comprehensible for the respondents, hence facilitating their ability to provide acceptable responses to the items. The pilot test also provided valuable insights into the responses seen in the field. The responses were inputted into SPSS version 20.0 in order to assess the reliability of the instrument.

3.8. Data Collection Procedure

Respondents were given structured questionnaires with closed-ended questions. This was done between 10 a.m. and 2:00 p.m. on business days. The researcher went to the MFIs and spoke with the authorities. The researcher physically gave the surveys to the workers and afterwards collected the questionnaires after gaining authorization from the authorities.

3.9. Data Analysis Procedure

The data was generated and analysed using the Statistical Package for Social Sciences (SPSS) version 16.0 after the questionnaires were sorted. The questionnaire was analysed using statistical methods such as frequencies, percentages, and mean. The questionnaire was designed in a five-point likert style, with strongly disagree = 1, disagree = 2, not sure = 3, agree = 4, and highly agree = 5. In terms of qualitative data analysis, following each field visit, the researcher would summarise the interviews into themes. To get familiar with it, the researcher first transcribed and read through it. The researcher then transcribed the interviews and combined them with material from the field notebook to conduct theme analysis.

3.10. Ethical Considerations

Ethics may be seen as a framework of moral principles put forward by individuals or organisations and widely acknowledged, which establishes guidelines and expectations for ethical conduct in relation to various situations (Bryman, 2004).

When doing research, it is essential to consider ethical concerns. Brynard and Hanekom (2006) argue that qualitative research is more susceptible to ethical challenges as a result of the heightened level of rapport established between the researcher and the participants. Leedy and Ormrod (2005) "identified three primary ethical considerations, namely informed consent, confidentiality, and the ramifications of conducting interviews. The researcher in this work diligently followed a set of ethical guidelines throughout the various stages of data collection, analysis, and dissemination.

- The participants willingly agreed to participate in the study.
- The participants used their discretion in selecting the interview time and date.
- Throughout the course of the investigation, the researcher maintained a stance of transparency and integrity with the participants, ensuring that any pertinent material relevant to their experiences was accurately portrayed.
- In order to safeguard the confidentiality, anonymity, non-identifiability, and non-traceability of the participants, the researcher used codes instead of using their actual names".

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 Introduction

The objective of this study was to "assess the impact of credit risk management on the liquidity status of microfinance institutions (MFIs) in Ghana, specifically focusing on a case study of selected MFIs in the Kumasi Metropolis. The stated objectives are as follows: a) to evaluate the efficacy of credit management practises employed by designated microfinance institutions (MFIs) in the Kumasi Metropolis, b) to identify the credit risks encountered by these microfinance institutions, and c) to identify the strategies implemented for monitoring and controlling credit risk within these MFI institutions".

The researcher sent a total of 156 questionnaires to the participants, out of which 114 were successfully completed and returned, while the remaining 42 were not received. Consequently, the analyses conducted in the research were based on a response rate of 73%.

4.1 Demographic information of the respondents

According to Table 4.1, the majority (65.8%) were men, while 39 respondents (34.2%) were females. Furthermore, 31 respondents (27.2%) were under the age of 30, 30 respondents (26.3%) were between the ages of 42-50 years, 27 respondents (23.7%) were above 51 years old, and 26 respondents (22.8%) were between the ages of 32-40 years. Furthermore, 57 respondents (50%) held Bachelor's degrees as their highest academic level, 48 respondents (42.1%) had Diplomas in Education, and 9 respondents (7.9%) held Masters degrees as their highest academic credentials.

Table 4.1: Demographic information of the respondents

Gender	Frequency	Percent (%)
Male	75	65.8
Female	39	34.2
Total	114	100
Age category		
Less than 30 years	31	27.2
31- 40 years	26	22.8
41- 50 years	30	26.3
Above 51 years	27	23.7
Total	114	100
Educational qualification		
Diploma	48	42.1
Bachelor‟s degree	57	50
Masters degree	9	7.9
Total	**114**	**100**

Source: Field survey, 2019, N= 114

4.1.1 Categories of loan customers

According to the data presented in Table 4.2, it can be observed that a total of 35 customers, accounting for 30.7% of the entire customer base, were representative of the population. Similarly, 33 customers, constituting 28.9% of all traders, were found to be representative. Furthermore, 18 customers, equivalent to 15.8% of the total agricultural production, were identified as representative. Additionally, 12 customers, representing 10.5% of all mining activities, were included in the analysis.

Table 4.2 Categories of loan customers

Categories of loan customers	Frequency	Percent (%)
Agricultural	18	15.8
Mining	12	10.5
Trading	33	28.9
Small scale entrepreneur	35	30.7
Contractors	6	5.3
Salaried workers	5	4.4
Manufacturing	5	4.4
Total	**114**	**100**

Source: Field survey, 2019, N= 114

4.2 Presentation of Research Objectives

This section presents tables that provide analysis and discussion on the study objectives. These objectives encompass the evaluation of the efficacy of credit management practises employed by chosen microfinance institutions (MFIs) in the Kumasi Metropolis, the identification of credit risks encountered by these MFIs, and the assessment of the strategies implemented to monitor and control credit risk within these MFI institutions.

4.2.1 The credit risks faced by microfinance institutions

The study's first goal was to examine the credit risks that microfinance organisations confront. Table 4.3 examined the credit risks that microfinance institutions face.

Table 4.3: The credit risks faced by microfinance institutions

ITEMS	1 n(%)	2 n(%)	3 n(%)	4 n(%)	5 n(%)
Complacency	12 (10.5)	33 (28.9)	16 (14)	50 (43.9)	3 (2.7)
excessive dependence on guarantors	0	10 (8.8)	8 (7)	87 (76.3)	9 (7.9)
Negligence and underwriting usually cause poor loan documentation	27 (23.7)	0	6 (5.3)	21 (18.4)	60 (52.6)
Loan agreement conditions and financial details are lacking	0	0	24 (21.1)	35 (30.7)	55 (48.2)
Failure to communicate	19 (16.7)	0	8 (7)	21 (18.4)	66 (57.9)
Contingencies are when lenders downplay or overlook loan default risk	0	0	20 (17.5)	15 (13.2)	79 (69.3)
Competition includes following rivals' behaviours rather than lenders' credit requirements	27 (23.7)	0	6 (5.3)	21 (18.4)	60 (52.6)
Insufficient loan monitoring	0	0	24 (21.1)	35 (30.7)	55 (48.2)

Keys: 1=Strongly Agree, 2=Agree, 3=Neutral, 4=Disagree, 5=Strongly Disagree

Source: Field survey, 2019, N= 114

Based on the findings shown in Table 4.3, it can be seen that a majority of the respondents, namely 50 individuals (equivalent to 43.9% of the total sample), expressed agreement with the notion that complacency has the potential to result in loan default. Conversely, 33 respondents (28.9%) disagreed with this perspective, while 16 respondents (14%) maintained a neutral stance. A smaller proportion of the participants, including 12 individuals (10.5%), strongly disagreed with the idea, whilst just 3 respondents (2.7%) strongly agreed with it. In addition, a majority of the participants, namely 87 respondents (76.3%), expressed agreement with the notion that excessive dependence on guarantors has the potential to result in loan default. A smaller proportion of the respondents, 10 individuals (8.8%), remained neutral on the matter, while 9 respondents (7.9%) strongly agreed and 8 respondents (7%) maintained a neutral stance.

Moreover, a significant proportion of the participants, namely 60 respondents accounting for 52.6% of the total sample, expressed strong agreement with the role of carelessness and inadequate underwriting practises in contributing to loan default. This assertion was supported by the observation of insufficient loan documentation as an indicator of such deficiencies. Out of the total sample size of 27 respondents, including about 23.7% of the participants, a significant proportion of 21 respondents, equivalent to 18.4%, expressed strong disagreement. Conversely, a notable number of 21 respondents, accounting for 18.4%, indicated agreement. Additionally, a smaller subset of 6 respondents, corresponding to 5.3%, expressed indifference towards the subject matter.

In addition, a total of 55 participants, accounting for 48.2% of the sample, expressed agreement with the potential for loan default due to inadequate access to up-to-date financial information and the absence of protective covenants in the loan agreement. Furthermore, 35 respondents, constituting 30.7% of the sample, agreed with this notion, while 24 respondents, representing 21.1% of the sample, expressed indifference towards the issue. In addition, a total of 66 participants, accounting for 57.9% of the sample, expressed a strong agreement about the potential correlation between ineffective communication and the occurrence of loan default. Moreover, 21 respondents (18.4%) indicated agreement, while 19 respondents (16.7%) expressed disagreement, and 8 respondents (7%) remained neutral or indifferent on the matter. Based on the results of the survey, it was found that 69.3% of the respondents (n=79) agreed that contingencies are associated with lenders' tendency to minimise or ignore factors that might potentially result in a loan default. Additionally, 17.5% of the respondents (n=20) expressed indifference towards this issue, while 13.2% of the respondents (n=15) agreed with the statement.

In addition, a total of 60 participants, accounting for 52.6% of the sample, expressed a strong agreement with the notion that loan defaults are mostly attributed to the adoption of competitors' practises rather than adhering to the lender's own credit criteria. Conversely, 27 respondents, representing 23.7% of the sample, strongly disagreed with this perspective. Furthermore, 21 respondents, comprising 18.4% of the sample, expressed agreement, while 6 respondents, accounting for 5.3% of the sample, maintained a neutral stance on the matter. Moreover, a total of 55 participants, accounting for 48.2% of the sample, expressed agreement with the notion that inadequate loan monitoring is a contributing factor to loan default. Additionally, 35 respondents, constituting 30.7% of the sample, agreed with this statement, while 24 respondents, representing 21.1% of the sample, expressed indifference towards the issue.

The aforementioned results align with the assertions made by Asiedu-Mantse (2011), which suggest that the combination of exceptionally low deposits and elevated failure rates has forced several rural banks to undergo substantial liquidation, hence weakening the confidence of the general public in rural banks within Ghana. The speaker further underscored the presence of an inappropriate lending culture, along with ineffective oversight and retrieval of loan provisions for customers, which have resulted in notable levels of credit risk and liquidity risk among the majority of rural banks. In 1999, the Bank of Ghana undertook the decision to withdraw the banking licences of 23 rural banks due to their precarious financial condition resulting from inappropriate lending conduct and practises that significantly impaired their liquidity. McNaughton (2009) posits that the presence of credit risk has a detrimental impact on liquidity risk. Failure to adequately address this issue may result in severe consequences, such as a substantial financial crisis inside a bank, ultimately leading to capital depletion, insolvency, and the subsequent collapse of the institution.

The elevated risk associated with loan portfolios in rural banks may be attributed to insufficient credit management practises, hence requiring collaborative efforts to develop and implement measures aimed at improving the situation. The utilisation of proficient credit management strategies has emerged as a significant mechanism for enhancing profitability, augmenting liquidity, and optimising shareholder value. Additionally, it facilitates the expansion of financial intermediation, while concurrently mitigating risk on investment returns, thereby fostering economic growth and development in rural regions. The research would use return on equity (ROE) as the dependent variable to assess profitability, while credit assessment, credit disbursement, and credit collection tactics would be included as independent variables for evaluating credit management practises.

4.2.2 The credit management practices used by the selected MFIs in the Kumasi Metropolis

The second objective of the research was to "evaluate the effectiveness of credit management practises used by the selected Microfinance Institutions (MFIs) operating within the Kumasi Metropolis. Tables 4.4, 4.5, and 4.6 were used to analyse the effectiveness of credit management practises employed by the selected Microfinance Institutions (MFIs) in the Kumasi Metropolis".

Table 4.4 Credit risk reducing tools and evaluate their importance to your MFI

S/N	ITEM	1	2	3	4	Mean X	Rank
1	Staff training	112	2	0	0	3.21	1st
2	Client project evaluation	112	2	0	0	3.21	1st
3	Internal controls	108	6	0	0	2.45	2nd
4	Customer affordability calculation	102	10	2	0	2.23	3rd
5	Credit granting policy	98	9	7	0	2.21	4th

6	Debt collection techniques	88	22	4	0	2.20	5th
7	Credit scoring models	79	30	5	0	1.89	6th
	Average Total	**699**	**81**	**18**	**0**		
	Average Percent (%)	**87.5**	**10.2**	**2.3**	**0**		

Source: Field survey, 2019, N= 114

Based on the results of the study, it was observed that a significant proportion of respondents, approximately 87.5%, expressed agreement with regards to the efficacy of credit risk reduction tools employed by the microfinance institution (MFI). Among these tools, staff training emerged as the most highly regarded, with a mean score of 3.21, ranking it in the first position. Following closely behind were client project evaluation and internal controls, both with a mean score of 2.45, placing them in the second position. Customer affordability calculation received a mean score of 2.23, positioning it in the third rank, while credit granting policy and debt collection techniques both obtained a mean score of 2.21, placing them in the fourth rank. This implies that the credit policy implemented by the MFI may have a positive effect on the rate of default. The results align with the findings reported by Asamani-Darko (personal communication).

Table 4.5: Factors considered before granting loans

Factors	**Very high(4)**	**High (3)**	**Moderate(2)**	**Low(1)**	**Mean X**	**Rank**
Ability to pay	113	1	0	0	3.45	1st
Future prospects of the business	112	2	0	0	3.42	2nd
Profitability	110	2	2	0	3.41	3rd
Cash flow statement	109	3	2	0	2.85	4th
Profit and Loss statement	105	5	4	0	2.76	5th
Security	104	6	4	0	2.75	6th
Character	103	4	7	0	2.72	7th
Borrower repayment history	103	8	3	0	2.71	8th
Experience of credit utilization	101	7	6	0	2.63	9th
Average Total	**960**	**38**	**28**	**0**		
Average Percent (%)	**93.6**	**3.7**	**2.7**	**0**		

Source: Field survey, 2019, N= 114

Based on the results of the study, it was observed that a significant majority of respondents, specifically 93.6%, expressed agreement with regards to the factors that Microfinance Institutions (MFIs) take into consideration when granting loans to their clients. These factors were ranked based on their mean scores, with the ability to pay being ranked first (mean score - 3.45), followed by future prospects of the business (mean score - 3.42) in second place, profitability (mean score - 3.41) in third place, cash flow statement in fourth place, profit and loss statement in fifth place, and security with a mean score of 2.75.

Table 4.6: Monitoring the loan portfolio

Monitoring the loan portfolio	Frequency	Percent (%)
Monthly basis	112	98.2
Yearly basis	0	0
When there is default	2	1.8
Total	114	100
Staff in charge of loan monitoring Credit officers	98	86
Branch Managers	5	4.4
Special Personnel	11	9.6
Total	114	100
loan monitoring process is helping the bank to control credit default		
Yes	114	100
No	0	0
Don"t know	0	0
Total	114	100
Type of loans granted Short Term Loan	87	76.3
Medium Term Loan	18	15.8
Long Term Loan	9	7.9
Total	**114**	**100**

Source: Field survey, 2019, N= 114

Based on the data shown in Table 4.5, it can be seen that the majority of respondents, namely 112 individuals (98.2%), reported checking their loan portfolio on a monthly basis. In contrast, a small proportion of respondents, specifically 2 individuals (1.8%),

indicated that they only monitor their loan portfolio in the event of a default. In addition, a majority of the respondents (86%) said that credit officers assume responsibility for loan monitoring. A smaller proportion of respondents (9.6%) suggested that individuals with specialised roles are responsible for this task, while a minority (4.4%) revealed that branch managers are in charge of loan monitoring. In addition, all 114 respondents (100%) expressed agreement with the notion that the loan monitoring method effectively aids in mitigating credit default for the bank. Moreover, a significant majority of the respondents, namely 87 individuals
(equivalent to 76.3% of the total sample), reported that their Microfinance Institutions (MFIs) provide short-term loans to consumers. In contrast, a smaller proportion of the respondents, specifically 18 individuals (accounting for 15.8% of the total sample), indicated that their MFIs give medium-term loans to customers. Additionally, a minority of the respondents, specifically 9 individuals (representing 7.9% of the total sample), reported that their MFIs provide long-term loans to clients.

4.2.3 Strategies that are instituted to monitor and control credit risk in these MFI institutions.

The third goal of the research was to discover measures used in these MFI organisations to monitor and manage credit risk. Table 4.7 identifies the credit risk monitoring and management techniques used by these MFIs.

Table 4.7 Strategies that are instituted to monitor and control credit risk in these MFI institutions.

Strategies	**1 n(%)**	**2 n(%)**	**3 n(%)**	**4 n(%)**	**5 n(%)**
The MFI workers are regularly trained on credit risk management		10(8.8)	17(14.9)	34(29.1)	53(45.3)
Effective training is offered		10(8.8)	10(8.8)	56(49.1)	38(33.3)
When credit risk management requires revision, the MFI asks clients		10(8.8)	5(4.4)	45(39.5)	54(47.4)

The MFI evaluates consumers' creditworthiness before financing.	0	0	18(15.8	45(39.5)	51(44.8)
There is regular credit review at the MFI	0	0	19(16.7)	17(14.9)	78(68.4)
The MFI closely monitors loan recipients		13(11.4)	11(9.6)	31(27.2)	59(51.8)
Credit users get professional advise on how to use their credit	0	16(14)	18(15.8)	20(17.6)	60(52.6)
Credit is merit-based	0		20(17.5)	45(39.5)	49(43)
There is no political involvement in profit awarding	0		12(10.5)	37(32.5)	65(57)
Credit risk policies and strategy are thorough and effective		10(8.8)	5(4.4)	45(39.5)	54(47.4)
Credit Administration and measurement are appropriate	0	0	18(15.8	45(39.5)	51(44.8)

Keys: 1-Strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly agree Source: Field survey, 2019, N= 114

According to the findings shown in Table 4.6, it can be seen that a majority of the respondents, namely 53 individuals (accounting for 45.3% of the total), expressed a strong agreement with the notion that MFI employees get regular training in credit risk management. Additionally, 34 respondents (29.1%) indicated their agreement, while 17 respondents (14.9%) remained neutral on the matter. A smaller proportion of the participants, specifically 10 individuals (8.8%), expressed their disagreement with the statement. In addition, a total of 56 participants, accounting for 49.1% of the sample, expressed a high level of agreement about the availability of effective training courses. Furthermore, 38 respondents, constituting 33.3% of the sample, strongly agreed with this statement. Conversely, 10 participants, representing 8.8% of the sample, either disagreed or expressed indifference towards the effectiveness of the training courses.

Based on the findings of the survey, it was seen that 54 respondents, accounting for 47.4% of the total, expressed strong agreement with the notion that the MFI actively seeks customer input in instances when adjustments to credit risk management are necessary. Additionally, 45 respondents (39.5%) indicated agreement, while 10 respondents (8.8%) expressed disagreement, and 5 respondents (4.4%) remained indifferent to the matter. In addition, it was found that 51 participants (44.8%) expressed agreement with the notion that the Microfinance Institution (MFI) employs lending principles as a means of evaluating the creditworthiness of borrowers prior to disbursing loans. Similarly, 45 respondents (39.5%) also concurred with this perspective, while 18 participants (15.8%) remained neutral or apathetic on the matter. In addition, a majority of the respondents, namely 78 individuals representing 68.4% of the total, expressed agreement with the notion that the microfinance institution (MFI) carries out regular credit reviews. A smaller proportion of respondents, 19 individuals accounting for 16.7% of the total, expressed indifference towards this practise. Lastly, 17 respondents, representing 14.9% of the total, also expressed agreement with the MFI's frequent credit review activities. Furthermore, a majority of the respondents, namely 51.8% (n = 59), expressed agreement with the notion that the microfinance institution (MFI) effectively oversees borrowers who have received loans. A smaller proportion, 27.2% (n = 31), also agreed with this statement. Conversely, a minority of respondents, 11.4% (n = 13), disagreed with the statement, while 9.6% (n = 11) remained neutral. In addition, a total of 60 participants, constituting 52.6% of the sample, expressed strong agreement about the provision of professional counselling to credit customers on effectively utilising the credit extended to them. Furthermore, 20 respondents (17.6%) indicated agreement, 18 respondents (15.8%) expressed indifference, and 16 respondents (14%) disagreed with this statement. Based on the findings of the survey, it was seen that 49 participants, or 43% of the total respondents, expressed a strong agreement with the notion that credit is allocated based on merit.

Additionally, 45 respondents, accounting for 39.5% of the sample, indicated agreement with this perspective. Conversely, 20 participants, representing 17.5% of the total, expressed indifference towards the matter.

In addition, a majority of the participants, namely 65 respondents (57%), expressed agreement with the notion that there is no political interference in the process of allocating profits. On the other hand, 37 respondents (32.5%) also agreed with this statement, while 12 respondents (10.5%) remained neutral or uninterested. Based on the survey data, it was found that 54 respondents (47.4%) expressed strong agreement with the presence of a comprehensive and efficient credit risk strategy and policies.

Additionally, 45 respondents (39.5%) indicated agreement, while 10 respondents (8.8%) expressed disagreement, and 5 respondents (4.4%) remained neutral on the matter. In addition, a total of 51 participants (44.8%) expressed agreement with the presence of appropriate credit administration and evaluation. Similarly, 45 respondents (39.5%) also concurred with this viewpoint, while 18 participants
(15.8%) remained neutral or indifferent. In addition, a majority of the respondents (68.4%) expressed agreement with the notion that the MFI often performs credit reviews. A smaller proportion of respondents (16.7%) indicated indifference, while a minority (14.9%) agreed with this statement.

4.3 Discussion of Results

The purpose of this research was to examine how credit risk is managed by Ghanaian microfinance institutions. The theoretical underpinnings of the research were the theories of asymmetry and current portfolio theory. The findings are discussed in the subsections below.

4.3.1 Identify the credit risks faced by microfinance institutions.

The objective of the research was to determine the level of credit risk management practices in microfinance. The results show that credit risk management practices at microfinance companies range from moderate to high. A well-defined concept of credit risk, frequent credit risk assessment using appropriate methodologies, periodic evaluation and updates of credit risk assessment methods, and excellent systems for monitoring and managing credit risk exposure are what contribute to their level of credit risk management.

In addition, a total of 60 participants, accounting for 52.6% of the sample, expressed a strong agreement with the notion that loan defaults are mostly attributed to the adoption of competitors' practises rather than adhering to the lender's own credit criteria. Conversely, 27 respondents, representing 23.7% of the sample, strongly disagreed with this perspective. Furthermore, 21 respondents, comprising 18.4% of the sample, expressed agreement, while 6 respondents, accounting for 5.3% of the sample, maintained a neutral stance on the matter. Moreover, a total of 55 participants, accounting for 48.2% of the sample, expressed agreement with the notion that inadequate loan monitoring is a contributing factor to loan default. Additionally, 35 respondents, constituting 30.7% of the sample, agreed with this statement, while 24 respondents, representing 21.1% of the sample, expressed indifference towards the issue.

The aforementioned results align with the assertions made by Asiedu-Mantse (2011), which suggest that the combination of exceptionally low deposits and elevated failure rates has forced several rural banks to undergo substantial liquidation, hence weakening the confidence of the general public in rural banks within Ghana. The speaker further underscored the presence of an inappropriate lending culture, along with ineffective oversight and retrieval of loan provisions for customers, which have resulted in notable levels of credit risk and liquidity risk among the majority of rural banks. In 1999, the Bank of Ghana undertook the decision to withdraw the banking licences of 23 rural banks due to their precarious financial condition resulting from inappropriate lending conduct and practises that significantly impaired their liquidity. McNaughton (2009) posits that the presence of credit risk has a detrimental impact on liquidity risk. Failure to adequately address this issue may result in severe consequences, such as a substantial financial crisis inside a bank, ultimately leading to capital depletion, insolvency, and the subsequent collapse of the institution.

The elevated risk associated with loan portfolios in rural banks may be attributed to insufficient credit management practises, hence requiring collaborative efforts to develop and implement measures aimed at improving the situation. The utilisation of proficient credit management strategies has emerged as a significant mechanism for enhancing profitability, augmenting liquidity, and optimising shareholder value. Additionally, it facilitates the expansion of financial intermediation, while concurrently mitigating risk on investment returns, thereby fostering economic growth and development in rural regions. The research would use return on equity (ROE) as the dependent variable to assess profitability, while credit assessment, credit disbursement, and credit collection tactics would be included as independent variables for evaluating credit management practises.

4.3.2 Evaluate the effectiveness of credit management practices used by the selected MFIs in the Kumasi Metropolis.

Objective two of the research was to assess the effectiveness of credit risk management strategies used by microfinance institutions. Results showed that respondents were split on whether or not the microfinance organization's credit risk management procedures were effective. Concerns include whether or not the institution regularly conducts credit risk benchmarking, whether or not it trains and supports its employees in credit risk management, whether or not it has a clearly defined process for collecting and analysing credit risk data, and whether or not it manages credit risk associated with microfinance products other than loans (such as micro-insurance or micro-savings).

Customer affordability calculation received a mean score of 2.23, positioning it in the third rank, while credit granting policy and debt collection techniques both obtained a mean score of 2.21, placing them in the fourth rank. This implies that the credit policy implemented by the MFI may have a positive effect on the rate of default. The results align with the findings reported by Asamani-Darko (personal communication). A credit policy is a formalised document that provides guidance and instructions for the lending activities conducted by senior management and the Board of Directors. The policy provides prescribed standards and a designated culture in relation to credits that are required to be observed and adhered to. Furthermore, it serves as a manifestation of the Bank's fundamental credit concept. The credit policy is seen as a means of establishing a structure that aligns with the strategic objectives of the bank, hence facilitating the achievement of asset quality. There are variations in credit regulations between different financial organisations. Nevertheless, all of them have the same goal of pursuing effective credit administration or management. As to AsamaniDarko's personal communication, a primary objective of a bank's credit policy is to facilitate the availability of financial services by offering prompt and effective credit to a wider and more diverse range of clients, while maintaining a portfolio health of no less than 95%.

Credit security is a well-established mechanism that ensures the recovery of funds from a borrower in the case of their inability to fully fulfil their repayment obligations.

Dunkman (2016) posits that the primary objective of security is to serve as a preventive measure against concerns pertaining to the borrower's ability to fulfil repayment obligations. The author emphasised that security serves as a means to increase loan applications beyond existing capacities, as well as a secondary measure to recoup loans in the event of borrower default. Agyeman (2017) asserts that although collateral security plays a crucial role in lending choices, banks must exercise caution when creating security requirements, as this might potentially impede credit administration. The reliance on collateral security as the primary determinant for funding bankable projects introduces a significant level of risk.

Naceur and Goaid (2009) found “a significant positive correlation between bank loans and profitability. In their research on bank performance and credit risk management, Achou and Tenguh (2007) identified a significant correlation between the performance of financial institutions, namely in terms of profitability, and their management of credit risk, specifically in terms of loan performance”. Enhanced performance may be achieved via effective credit management. Therefore, it is essential for financial institutions to use prudent credit management protocols in order to safeguard their assets and protect the interests of their investors. In a study conducted by Nduta (2013), a significant correlation was found between the implementation of credit management practises and the achievement of financial success, specifically in terms of profitability. The speaker underscored the importance of credit assessment, credit risk management, and collection procedures in enhancing the financial performance of Micro-Finance Institutions in Kenya. The

aforementioned statement holds true in the context of rural financial institutions in Ghana.

4.3.3 To identify strategies that are instituted to monitor and control credit risk in these MFI institutions.

The third objective of the research was to identify strategies that are instituted to monitor and control credit risk in these MFI institutions.. The findings showed that limiting credit risk connected to fraud and financial crime is the most important credit risk management technique for microfinance organisations. The second significant strategy is the institution's frequent assessment and updating of credit risk management policies and procedures, followed by controlling liquidity risk and restructuring or rescheduling loans.

The results presented align with the findings of Huppi and Feder (2010), who highlighted the significance of loan monitoring in ensuring the success of projects and subsequently enhancing timely loan repayments. The authors underscored the need of regular loan monitoring in achieving higher rates of recovery by promptly detecting probable instances of delinquency and borrower misappropriation of loan funds. The authors underscored the need of considering credit monitoring as a mechanism to ensure timely repayments at the first indication of non-payment, whether it pertains to interest or the principle amount. The lending bank should engage in consistent monitoring of the borrower's adherence to the loan repayment obligations as initially agreed upon. Nevertheless, the majority of rural banks have not been able to effectively capitalise on this potential to mitigate the prevalent issue of loan defaulters.

As stated by Casu et al. (2016), it is important for banks to conduct thorough assessments of borrowers' ability to repay loans both before to and subsequent to the issuance of the loan facilities. According to Asamani-Darko (Personal Communication), monitoring is a crucial aspect of the recovery process as it enables individuals to get personal insights into factors that might potentially result in late payments and eventual default. Inadequate monitoring and control measures have been identified as a significant contributing factor to the occurrence of loan defaults in many rural banks. The oversight and administration of loans, as well as the broader portfolio, are under the purview of the Head of Credits and the credit teams situated at each bank branch.

In order to ascertain the underlying reasons behind delayed, insufficient, or nonexistent payments on underperforming loans, credit officers may find it necessary to conduct regular visits to clients. Nevertheless, it is important to conduct frequent evaluations of outstanding loans in order to mitigate the progression of overdue and high-risk loans. The suggestion was made that monitoring may be conducted by the Officer's visitation or communication with the client, as well as through the involvement of the bank's and the customer's liaison agents.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter summarised the study's results, conclusions, recommendations, and future research directions.

5.1 Summary of Findings

The objective of this study was to "assess the impact of credit risk management on the liquidity situation of microfinance firms in Ghana, specifically focusing on a case study of selected MFIs in the Kumasi Metropolis". The researcher used a descriptive research approach. The researchers used the quantitative research methodology. The target group of this research included 156 employees who were recruited from certain Microfinance Institutions (MFIs) located in the Kumasi Metropolitan Area. The census method was used in order to choose a total of 156 study participants. The primary instrument used for data collection was a questionnaire. The questionnaire underwent statistical analysis using techniques such as frequency analysis, percentage calculations, and mean calculations.

The primary objective of the research was to "evaluate the effectiveness of credit management practises used by the selected Microfinance Institutions (MFIs) in the Kumasi Metropolis". According to the findings of the study, it was observed that a significant proportion of respondents, specifically an average of 87.5%, expressed agreement with regards to the efficacy of credit risk mitigation tools employed by the Microfinance Institution (MFI) in managing loan defaults. The most highly ranked tool, as indicated by a mean score of 3.21, was staff training. Following closely behind were client project evaluation and internal controls, both receiving the same mean score of

2.45 and ranking second. Customer affordability calculation, with a mean score of 2.23, was ranked third, while credit granting policy, with a mean score of 2.21, was ranked fourth. Debt collection was not explicitly mentioned in the provided text.

Based on the results of the study, it was observed that a significant majority of respondents, specifically 93.6%, expressed agreement with regards to the factors that microfinance institutions (MFIs) take into consideration when granting loans to their clients. The foremost factor, as indicated by a mean score of 3.45, was the ability of the clients to repay the loan. Following closely behind, with a mean score of 3.42, was the assessment of the future prospects of the clients' businesses. The factor of profitability ranked third, with a mean score of 3.41. The cash flow statement was ranked fourth, while the profit and loss statement was ranked fifth. Lastly, the factor of security received a mean score of 2.75.

Based on the results of the survey, it was found that a significant majority of respondents, namely 98.2%, said that they engage in a monthly review of their loan portfolio. Moreover, a significant majority of 86% of respondents said that credit authorities are responsible for overseeing loan monitoring. Moreover, there is unanimous agreement among all participants that the loan monitoring method plays a crucial role in enabling the bank to effectively manage and mitigate credit default risks. In addition, a significant majority of 76.3% of respondents said that their Microfinance Institution (MFI) offers short-term loan products to clients.

The secondary objective of the research was to “analyse the credit risks faced by microfinance firms”. Based on the results of the survey, it was found that a significant proportion of respondents, namely 43.9%, expressed agreement with the notion that complacency may potentially result in loan default. Additionally, a significant majority of 76.3% of respondents expressed agreement with the notion that an excessive dependence on guarantors might potentially result in loan default. Moreover, a significant majority of 52.6% expressed strong agreement with the notion that loan failure might be attributed to negligence and inadequate underwriting practises, as shown by the presence of insufficient loan documentation. Additionally, a significant proportion of respondents, namely 48.2%, expressed agreement with the notion that loan default might potentially be attributed to insufficient up-to-date financial data and a dearth of protective covenants within the loan contract. Moreover, a significant majority of 57.9% expressed strong agreement with the notion that inadequate communication has the potential to result in loan default. Based on the results of the survey, it was found that a majority of respondents, namely 69.3%, held the belief that contingencies are associated with lenders' tendency to minimise or ignore circumstances that might potentially result in a loan default. Moreover, a significant majority of 52.6% expressed strong agreement with the notion that loan failure might be attributed to the acts of competitors, rather than being only influenced by the credit standards set by the lenders themselves. In addition, a significant proportion of the participants, namely 48.2%, expressed the belief that inadequate loan monitoring plays a role in the occurrence of loan default. The primary objective of this study was to ascertain the various strategies used by microfinance institutions (MFIs) in monitoring and managing credit risk. Based on the results of the survey, it was found that a significant proportion of workers (45.3%) working in MFIs expressed high agreement with the provision of regular credit risk management training. Additionally, a significant proportion of respondents, namely 49.1%, expressed high agreement with the availability of effective training courses. Based on the findings of the study, it was observed that a significant proportion of respondents, namely 47.4%, expressed strong agreement with the notion that the Microfinance Institution (MFI) actively seeks customer input in situations when adjustments to credit risk management are necessary. In addition, a significant proportion of respondents, namely 44.8%, expressed agreement with the notion that the Microfinance Institution (MFI) employs lending rules as a means of evaluating the creditworthiness of individuals prior to granting loans. In addition, a significant majority of 68.4% of respondents expressed agreement with the notion that the MFI (Microfinance Institution) carries out regular credit evaluations. In addition, a majority of 51.8% of respondents expressed the belief that the Microfinance

Institution (MFI) effectively oversees the activities of its loan beneficiaries. Moreover, a significant majority of 52.6% expressed strong agreement with the notion that credit users should be offered expert guidance on the appropriate utilisation of the credit given to them. Based on the findings of the survey, it was observed that a significant proportion of respondents, namely 43%, expressed a strong agreement with the notion that credit is allocated based on merit. Moreover, a majority of 57% of respondents expressed agreement with the notion that there is an absence of political interference in the allocation of profits. Based on the findings of the research, a significant proportion of respondents, namely 47.4%, expressed a high level of agreement about the existence and efficacy of a comprehensive credit risk strategy and associated processes. In addition, a significant proportion of respondents (44.8%) expressed the belief that the current credit management and assessment practises are sufficient. Moreover, a significant majority of 68.4% of respondents expressed agreement with the notion that the Microfinance Institution (MFI) carries out regular credit evaluations.

5.2 Conclusions

The findings of the study indicated that "the microfinance institution (MFI) used many techniques to effectively handle loan default. These strategies included staff training, client project assessment, internal controls, customer affordability calculation, credit providing policy, debt recovery tactics, and credit scoring models". MFI evaluates many key factors before to disbursing loans to its customers, including their ability to repay, the future outlook of their company, the profitability of their firm, their cash flow statement, profit and loss statement, collateral, the character of the customer, their repayment history, and their experience with credit utilisation.

Loan default can be attributed to several factors, including complacency, excessive dependence on guarantors, negligence, and subpar underwriting practises. These issues are often manifested through insufficient loan documentation, outdated financial information, and the absence of protective covenants in loan agreements. Additionally, ineffective communication, disregard for potential contingencies, and inadequate loan monitoring contribute to the likelihood of default.

5.3 Suggestions for further Research

The researcher has recommended conducting a study to "investigate the impact of inservice training on the loan monitoring performance of credit officers". The study will focus on selected financial institutions in the Kumasi Metropolis as case studies, in line with the recommendations provided by the previous study.

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APPENDIX A

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECNOLOGY

QUESTIONNAIRE FOR EMPLOYEES OF MFIs IN THE KUMASI METROPOLIS

Dear Respondent,

I am a post graduate student studying Master of Science in Accounting and Finance at Kwame Nkrumah University of Science And Technology. This questionnaire is to seek your opinion on **"THE ROLE OF CREDIT RISK MANAGEMENT IN THE LIQUIDITY POSITION OF MICROFINANCE COMPANIES IN GHANA: CASE STUDY OF SELECTED MICROFINANCE INSTITUTIONS IN THE KUMASI METROPOLIS".** Please honestly provide your answers to this questionnaire. You may tick (√) the correct responds. Your cooperation is highly needed. Thank you.

SECTION 1: Demographic Characteristics of the Respondents

1. Gender: Male [ ] Female [ ]

2. Educational Qualification of the Respondents

No formal education [ ] BECE/SSSCE/WASSCE [ ] Diploma [ ] Bachelor"s degree [ ]

Master"s degree [ ] PhD [ ]

3. Status: Credit Officer [ ] Accountant [ ]

Section B: The credit management practices used by the selected MFIs in the Kumasi Metropolis.

4. **Which categories of loan customers do you deal with? Tick as many as applicable**

Agric [ ] Mining [ ] Trading [ ] Small scale entrepreneur [ ] Contractors [ ]
Salaried Workers [ ] Manufacturing [ ]

Please evaluate the credit risk reducing tools and evaluate their importance to your MFI. Using the following scale: 1= Very important, 2= somewhat important, 3=important, 4=Neutral, 5= not important

S/N	*ITEM*	*1*	*2*	*3*	*4*	*5*
5	Credit granting policy					
6	Customer affordability calculation					
7	Internal controls					
8	Staff training					
9	Credit scoring models					
10.	Debt collection					
11.	Client project evaluation					

12.How do you rate the following factors before granting loans?
Please circle your choice.

Please rate the following factors before granting loans. Using the scale:
1= Low, 2= Moderate, 3=High, 4=Very high

Factors	*Very high(4)*	*High(3)*	*Moderate(2)*	*Low(1)*

a. Character b. Security c. Ability to pay d. Borrower repayment history c. Profit and Loss statement d. Future prospects of the business e. Cash flow statement f. Experience of credit utilization e. Profitability	

13.How often do you monitor the loan portfolio? Monthly basis [ ] Yearly [ ] When there is default [ ] 14.Who are those in charge of loan monitoring?

Credit officers [ ] All workers [ ] Branch Managers [ ] Special Personnel [ ]

15.Will you say that your loan monitoring process is helping the bank to control credit default?

Yes [ ] No [ ] Don"t know [ ]

16. What type of loans do you grant? Tick as many as applicable Short Term Loan [ ] Medium Term Loan [ ] Long Term Loan [ ]

Other (Specify) ………………………………………………………

17. **Section C: Rate the credit risks faced by microfinance institutions.**

Using the following scale: SD-Strongly disagree, D-Disagree, N-Neutral, A-Agree, SA-Strongly agree

ITEM	*SD*	*D*	*N*	*A*	*SA*
a. Complacency b. Over reliance on guarantors c. Carelessness and poor underwriting typically evidenced by inadequate loan documentation d. Lack of current financial information and a lack of protective covenants in the loan agreement. e. Communication ineffectiveness f. Contingencies refer to lenders tendency to play down or ignore circumstances in which a loan might result in default. g. Competition involves following competitors behaviour rather than maintaining the lenders own credit standards. h. Ineffective loan monitoring					

Section D: Strategies that are instituted to monitor and control credit risk in these MFI institutions.

In your opinion, to what extent can the following strategies be instituted to monitor and control credit risk in these MFI institutions in the Kumasi Metropolis?

1-Strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly agree

S/N	***Strategies***	*1*	*2*	*3*	*4*	*5*
18	The MFI workers are regularly trained on credit risk management					
19	Effective Training courses are provided					
20	The MFI calls for customers opinion when credit risk management needs adjustment					
21	The MFI follows the lending principles to evaluate the credit worthiness of customers before granting credit.					
22	There is regular credit review at the MFI					
23	The MFI effectively monitor customers who have been offered loans					
24	Credit customers are given expert advice on how to effectively utilize the credit granted					
25	Credit is granted based on merit					
26	There is no political interference in the profit granting process					
27	There is a comprehensive and effective credit risk strategy and policies					
28	There is an appropriate Credit Administration and measurement					

Thanks for your cooperation