Credit Management in Microfinance Institutions: A Case Study of Some Selected Microfinance Institutions in the Ashanti Region of Ghana

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Abstract
Credit risk has proven to be one of the main forms of risks financial institutions are exposed to due to their very nature of business operations. The study investigated the credit risk management of microfinance institutions in Ghana. The target population for the study constituted all the microfinance institutions in Ghana and specifically the study sample came from five microfinance institutions who operate in the Ashanti region. The study used questionnaires as its main data collection instrument. Findings from the study revealed that the key credit risk sources the surveyed microfinance institutions were exposed to in their operations were corporate, individual and SMEs commercial loans. Also, it was established that most of these microfinance institutions relied mostly on accounting based method and subjective analyses to quantify their organization risk exposures, hence it was recommended that management of these microfinance institutions should make it a point to build the capacities of their credit administration department on a regular basis since any mishap in their duties may lead to series of loan defaults.
Keywords: Credit risk management, Microfinance institutions, Bank of Ghana Credit Policy, Ghana

1. Background of the Study

Most banking organizations have failed to ensure the adequate management of the credit facilities they advance to their customers. This dereliction in their credit management have resulted to incidences such as default in loan payment, bad debts as well as other unfortunate occurrences. For financial institutions, risk management remains a keen challenge in their business operations due to the banks inability to rightly predict the events likely to occur in their business space (Feridun, 2006). Available evidence within the West Africa Sub-region suggests that Ghana banking institutions are not out of these risk management woes yet (Boye, 2014). For instance, Boye (2014) found out that in spite of the well-known credit risk that financial organizations have to deal with in their operations, other risks types namely; trade financing, foreign exchange transactions, financial futures, options, bonds, equities, swaps and in the extension of commitments and guarantees have all been established as other of forms of risks banks within the Sub-Saharan regions have to deal with in order to remain sustainable.

According to Adamu, Asongo and Nyor (2014) microfinance institutions and other non-financial institutions provide small forms of credit to individuals and SMEs who may not have collaterals to request for loans from commercial banks. Hence, microfinance appears to fill the gap by serving the segment of the markets that traditional banks have woefully failed to meet their financial needs. However, a significant impediment associated with this market segment is how microfinances institutions will be able to effectively manage the concentration risk associated with these segments in order for them to remain within their regulatory framework as well as meet their shareholder's needs. Agene (2011) described credit risk as the weakening in credit advances units that eventually culminate into credit losses and high non-performing loans and management costs. Unfortunately, Agene (2011) posits that these occurrences are mostly common with non-traditional banks of which microfinance institutions are no exception.

As Ditcher (2003) rightly puts it, for any financial institution to be successful with its credit administration, it will largely depend on its tools and approaches it may employ to assess its credit lines. As such, credit decisions ought to be based on careful assessment of risk factors of the borrower as well as any other economic indicators that can equally affect the obligee ability to offset his or her obligation. Accordingly, most financial institutions have employed a number of approaches which includes simple methods (i.e. subjective and informal approaches) and fairly complex ones that comprise the use of simulation models and use of Credit Reference Bureau to inform their credit departments credit decisions (Horne & Wachowicz, 2007).

However, in terms of extant literature, there have been quite number of suggestions that seek to minimize the exposure to bad loans by persuading financial institutions to have greater introspection into its customer's financial capability, prior credit history and prior payment patterns (Adamu et al., 2014). Interestingly, too much scrutiny into a borrower's ability to offset his obligations may equally pose as a bane to attract more customers as the ability to attract customers sometimes depends on a bank's capacity to quickly and easily make well-informed credit decisions within the 24-hour mantra. As Pandey (2008) vividly puts it, the credit policy is largely informed by economic conditions as well as clients' characteristics hence a bank's ability to have a balance within these domains can have a huge impact on its credit administration. Therefore, this study focuses on selected Microfinance institutions in the Ashanti Region in Ghana to determine their credit risk management practices, their effectiveness and associated challenges.

1.1 Statement of Problem

Credits and advances remain one of the main source of revenue to both banking and non-financial institutions in general. For most microfinance institutions in Ghana, loans and advances constitute significant portions of the institutions credit risk even though there may be other potential avenues of credit risk within their business operations namely; banking book and in the trading book (Boampong, 2014; Boakye, 2015). Evidently, risks and uncertainties form an integral part of banking operation, due to their very nature of their operations. However, the higher the risks, the greater the returns and hence there is the need for the banks to strike for an equitable balance between the two.

Admittedly, the issue of credit risk has become a topical issue in policy debates due to their impact they have on banks operations, nonetheless as posited by Apanga, Appiah and Arthur (2016) there seems to be relatively scant research on this topic mostly within developing countries.

Though some earlier studies have sought to address this gap in the literature by measuring credit risk management within developing economies, for instance, the works of Afriyie and Akotey (2012) investigated credit risk performance relationship among rural banks in Ghana, Apanga et al. (2016) equally studied credit risk management practices of some listed commercial banks in Ghana, Boahene, Dasah and Agyei (2012) similarly assessed credit risk management impact on commercial banks performance and Adjirackor, Oppong, Agarwal, Akuma and Gagakuma (2016) on their part measured credit risk management strategies of Societe General Bank of Ghana.

However, most of these studies either concentrated on commercial banks or rural banks with no emphasis on microfinance institutions. Hence, there is gap in the literature with regards to credit risk management of microfinance institutions. Accordingly, this work aims to address this hiatus within the literature by investigating the credit risk management of microfinance institutions in Ghana.

1.1.1 Objectives of the Study

The main aim of this research is to investigate the credit risk management of microfinance institutions in Ghana. Specifically, the research seeks to achieve the following;

- To determine the main sources of credit risks microfinance institutions are exposed to in Ghana.
- To identify the credit risk management practices of microfinance institutions in Ghana.
- To assess the microfinance credit risk management policies as against Bank of Ghana credit risk policy.

1.1.2 Literature Review

Credit Risk Management Practices

Authors like Santomero and Babbel (1997), Dowel et al. (2008), and Lindergren (1987) have identified practices such as; clear risk policy and a reporting structure; underwriting authority and loans limit; allocation of responsibility and accountability; prioritization of the lending process and systems; and the timely communication of risk information to top management as the main credit risk management practices that are employed in the banking sector. Equally, other practices such as; effective organizational structure; credit risk identification, credit assessment; credit monitoring and credit administration control have been espoused as some of the credit risk management practices (see for example, Basel, 1999; Greuning & Bratanovic, 2003; IAIS, 2003).

However, a clear look at the practices enlisted by the earlier author as well as the latter scholars seems to be reinforcing each other. For instance, practice such as; credit administration control and that of underwriting authority and loans limit all seem to be talking about the same practice. Likewise, effective organizational structure and reporting structure tends to talk of the same practice as well.

According to Richard, Chijoriga and Kaijage, Peterson and Bohman (2008) credit risk identification is the means of establishing the likely risk factors associated with a borrower or investment decision. This credit risk management practice enables financial institution to identify the possible risks that are associated with its customer's segment vis-á-vis its corporate or individual clients. The Basel II Accord reiterates that under this practice the bank ought to identify all the risks inherent in their organization's products and services. This presupposes that banks operations and services are not in any way similar hence each individual bank should strive to identify risks peculiar to its markets and products. Also, the Basel II Accord expects financial institutions to assess and identify all forms of risks that can be associated to its new products and activities before a bank finally decides to roll them out or add them to its pool of packages.

Another credit risk management practices is credit assessment. Brown and Moles (2014) held that with credit assessment the emphasis is on whether there is a possibility that a borrower may default in full, or in part on its obligation. According to Richard et al. (2008) the credit risk assessment can be done either by the use of qualitative or quantitative approach. The quantitative assessment tools use numerically ratings to establish which factors will be vital in explaining default risk, evaluate the relative degree of importance of the factors and use them to calculate any reserve needed to meet expected future loan losses (Chijoriga, 1997). Nonetheless, the qualitative assessment tools rely on the personal rating of the credit officer and largely based on one's intuition and experience to make the eventual decision about who is likely to default on his or her payment.

Credit Risk Management Policy

According to Brown and Moles (2014) credit policy is a policy document which entails the procedure and processes that govern an institution credit functioning, including its credit terms, processes required for opening new accounts, processing applications, methods and techniques for credit investigation, the creation and dissemination of credit reports, setting lines of credit, and all other factors that are involved in the credit management process.

As posited by the author no two organizations will have the same set of credit risk management policies; nevertheless, as this study seeks to measure the credit risk management of some selected microfinance institutions in Ghana the study will discuss the credit risk policy of the regulator thus, Bank of Ghana to establish how the microfinance institutions policy is comparable to that of the BOG owns. Generally, within the context of Ghana, credit administration is guided by the Borrowers and Lenders Act, 2008 Act 773. Under the Act, credit is defined as a facility where a lender decides to (a) lend stipulated amounts within a specified period or at specified intervals agreed on with the borrower (i) to the borrower, (ii) on behalf of the borrower, or (iii) at the direction of the borrower; and (b) to either (i) defer the borrower's obligation to repay the stipulated amount in paragraph (a) to the lender, (ii) bill the borrower periodically for the amount stipulated in paragraph (a) whether or not a charge, fee or interest is payable to the lender in respect of the arrangements.

Interestingly, the Act clearly espoused all the tenets within the concept credit; an identified amount/resource where a lender decides to provide to a debtor with an agreement that the given amount will be repaid within a certain agreed time between the lender and the borrower. The definition provided by the Act is consistent with the definition given by Sullivan, Warren and Westbrook (2003) thus, credit is a trust which permits a creditor to offer an asset to the creditee where the later party do not have to make payment to the former immediately but rather arranges to return or repay that resource at a later date.

In all, the Borrowers and Lenders Act, 2008 Act 773 has 38 sections, however, a clear look at the entire sections of the Acts reveal 3 thematic areas of the Act; section 13-18 (Borrowers Right), Section 20 (Repayment/Recovery of debt) and 32-35 (Enforcement of borrower's obligation) dealt extensively with credit management (see the Act for the full sections).

Sources of Credit Risk

As argued earlier credit risk is when a borrower fails to meet his obligations at the agreed time of which it subsequently leads to a loan default. Various scholars within the literature have identified series of factors that degenerate into credit risk. For instance, authors like Nijskens and Wagner, (2011), Breuer, Jandacka, Rheinberger and Summer, (2010) as well as Saunders and Allen (2002) established factors such as; poor institutional governance, poor management control, inappropriate laws, limited institutional capacity, inappropriate credit policies, volatile interest rates, low capital and liquidity levels and government interference and inadequate supervision by the central bank as the main sources of credit risk. To the authors most of these sources are interrelated thus; the cause of one factor may degenerate into another cause. For instance, lack of management control may lead to laxity in credit assessment as well poor lending practices on the part of personnel at the credit department.

On the other hand, Apanga et al. (2016) identified different sources of credit risks in their study. To them factors such as; corporate and small business commercial loans, interbank transactions, trade financing and foreign exchange transactions were the main sources of credit risk in Ghanaian commercial banks operations. Interestingly, the sources of risks identified in Apanga et al. (2016) are quite different from the ones provided by the earlier authors. For instance, if you look at the sources espoused in Apanga et al. (2016) work, one could say that they were largely influenced by the banks portfolios thus, the categories of businesses the banks dealt with on the daily basis. However, what the earlier authors identified in a way seems to presents the actions or factors that could be a potential source of credit risks to financial institutions. Nevertheless, whichever way one may decide to identify its sources of credit risk from is valid since all the identified factors have the high possibility of creating potential credit risks.

Equally, other authors like Fukuda (2012), Giesecke and Kim (2011) together with Nijskens Wagner and Marsh (2006) identified systematic risk as one of the sources of credit risk. According to Fakuda (2012) systematic risk is when a borrower fails to meet his obligation repayments hence having consequential effects on other borrowers within an economy. For instance, Giesecke and Kim (2011) and Nijskens and Wagner (2011) established this domino effect in their study when they reported that the mortgage crisis recorded in 2009 made it difficult for mortgage companies to meet their financial obligation hence making it difficult for the banking institution within the US meet their liquidity needs. To the author this in effect spread throughout other sectors of the economy, causing a lockup in liquidity making banks refusing to lend money out for the fear that it may result in defaults.

Evidence from the enumerated studies suggest that there are no universal sources of credit risk. For instance, what may be identified by a bank as its source of credit risk may not be viewed by another bank as its source of credit risk? For example, per the Bank of Ghana regulations Tier 2 banks (i.e. microfinance institutions) are not permitted to trade in foreign exchange transactions. Accordingly, foreign exchange risk identified in Apanga et al. (2016) cannot be a source of credit risk for microfinance institutions. Likewise, the loan portfolios microfinance institutions deal with are relatively small and personal loans hence, its sources of risk will be different from that of commercial banks. These views confirm the claim that sources of credit risks are not universal and largely informed by the industry a bank finds itself or operate in.

Equally, Walker (2009) in his seminal paper identified three major sources of credit risk; business activities, strategic sources and external sources. Walker (2009) further identified the credit risk factors that constitute business activities as, portfolio and product mix, new products and delivery channels and third party originations and target market. Clearly the factors identified under the business activities are consistent with the sources of credit risks Apanga et al. (2016) identified in their study.

1.1.3 Methodology

The study employed a case study as its research design. According to Bryman (2012) case study entails the detailed and intensive analysis of a single case or multiple cases. Though this research design is not without limitation but provide the best means for the study to achieve its study objectives. For instance, Kumar (2011) argued that it is a very relevant design when investigating an area where little is known or where you want to have a wholistic comprehension of the situation, phenomenon or community. Also, case study becomes useful when the focus of a study is on intensively examining and understanding rather than confirming and quantifying. For these assumptions, case study design is the best approach since earlier evidence from the literature suggested that credit risk management within the microfinance sector is less investigated or explored. The study population came from microfinance finance institutions in Ghana. Accordingly, the population for this study constituted all the 467 licensed microfinance institutions within Ghana (i.e. total population derived from the BOG ‘’List of microfinance institution’’, Bank of Ghana, April 2016). Therefore, employees of some selected microfinance institutions in Kumasi formed the study target population. However, since admittedly all the registered microfinance could not be reached in this study, the research employed purposive sampling technique to select the study samples. Hence, institutions that were willing to participate in the study were used as the study sample. On this score the institutions that agreed to participate in the study were Positif microfinance Limited, Global Investment Microfinance (GILF), Money Link microfinance Limited, First Liberty microfinance Limited and Ghabsy microfinance Limited all are located in Kumasi. They have all been duly licensed by the Bank of Ghana and have been operating for close to three years now. The study used questionnaires as its main data collection instrument. The questionnaire had three parts. The first part of the questionnaires dealt with the demographic characteristics of the study respondents. The second section dealt with the main sources of credit risk that microfinance institutions were susceptible to. The third and final section looked at the credit management practices and the credit management policies of the microfinance institutions. The questionnaires were sent out to 9 employees each within the credit departments of the five microfinance institutions to enable the researcher have adequate insight into the problem under investigation.

1.1.4 Analysis and Discussions

With the first research objective, findings from the study show that the main source of credit risk the understudied microfinance institutions were exposed to were corporate and small businesses commercial loans. Equally, a small segment of the respondents identified trade financing as their organization main source of credit risk. Findings from the study suggest that other sources of credit risks such as interbank transactions, trade financing, foreign exchange transaction and derivatives were not identified by the respondents as part of their organization main source of credit risks. Also, it was established that the microfinance institutions were exposed to four main types of credit risks namely; counterparty default risk, securitization, concentration risk and residuals. However, among all these credit risk types, counterparty default was the risk type that was identified by majority of the respondents as the kind of credit risk their organization was mostly susceptible to. Also, concentration risk was the credit risk type that recorded the second highest enumeration by the study respondents.

Interestingly, most microfinance institutions clients’ segments consist of SMEs and individuals working within the informal sector. Hence, as these are the market segments their products and services seek to attract, they mostly find themselves concentrating a significant portion of their banks products to this segment. Admittedly, the difficulty with this approach will be that, when any economic misfortune happens with this segment, it will result to high cases of loans defaults. Hence, its identification by most of the respondents was not all that surprising judging from the market segment most of these microfinance institutions deal with. Nevertheless, among these four credit risk types, securitization and residuals were the forms of risk that were least identified by the respondents as the types of credit risk their banks were normally exposed.

Also, with regards to how the microfinance firms reduced its institutional credit risk types (i.e. counterparty default and concentration risks), it became evident that the microfinance institutions relied on two approaches to minimize these forms of credit risk that is; through collateralization and guarantees. This suggests that in an attempt for the microfinance firms to reduce its exposure against counterparty default they required from the creditee a collateralized asset to mitigate against likely possible default from him or her.

Subsequently, with the next objective, the study found out that with the exception of few of the microfinance institutions that did not have credit departments, almost all of them had credit departments as part of their organizations chain of control. Notwithstanding, this little deviation from few of the microfinance institutions, the high adoption of this practice by most of the microfinance institutions equally prove to be encouraging and hence will need to be replicated across all the other microfinance institutions operating within the country since evidence suggests that credit risk is one of the key forms of risks financial institutions are exposed since loans form huge part of their operations.

Moreover, the high level of existence of credit administration unit within the understudied microfinance institutions suggest that their credit risk management practice was in tandem with the recommendation made by Basel (1999) and IAIS (2003) that financial institutions should have effective organizational structure (i.e. credit department) that will be responsible for the organization's credit administration processes.

Again, findings from the study revealed that, the credit administration function that were largely performed by most of the institutions credit administration unit were, the preparing of various documents such as loans agreements as well as obtaining current financial information about their clients. Equally, it became evident that the credit administration unit of the understudied firms did also ensured that the credit file of their clients or department were up to date. Nevertheless, sending of renewal notices to debtors to remind them of their payment due appear to be least practiced by the microfinance institutions in their credit risk management. Findings from the study suggest that the credit unit of the understudied microfinance institutions performed some key credit management practices aimed at improving their institution credit performance.

Importantly, the practice of ensuring that credit file was always up to date together with obtaining current financial information about their clients are comparable to monitoring practice identified by Derban et al. (2005). For instance, Richard et al. (2008) held that monitoring under credit risk management practice is to establish frequent contact with borrowers in order to gather current information about the borrower' present conditions. This suggests that the understudied microfinance institution had sound monitoring practices in place.

Additionally, it became evident that the microfinance institutions had a series of credit risk measurement methodologies in place. Notably among them were accounting based method and subjective analyses measurement methods. Interestingly, accounting based method was identified by most of the studied microfinance institutions as one of the measurement tools they used to quantify their organization risk exposures. In contrast, expert's assessment method was least used by the microfinance institutions to quantify their credit risk exposures. This suggests that the investigated microfinance institutions used both quantitative and qualitative assessment methods to quantify their credit risk exposures.

Moreover, in reference to the main issues the microfinance institutions credit risk management techniques did considered when giving out loans to its customers, it was established that their credit risk management techniques considered issues such as; the purpose of a loan, the maturity period of a loan, financial conditions of the borrower, current economic situations and firm's business plan when deciding whether to grant a borrower credit request or not. In terms of the intensity of the consideration of these factors, it was revealed that the loan purpose thus, what exactly a borrower was to use the credit facility for was the factor that their credit risk management techniques generally considered most often. Also, it became evident that the financial conditions of the borrower in terms of its accounts balance with the firm as well as his saving history with the bank was another key factor that were equally considered by the credit risk management of these microfinance institutions. On the contrary, the business plan of the borrower was the factor that the microfinance institutions credit management techniques least considered when deciding to approve a borrower's loan request or not.

Findings from the study suggests that the microfinance institutions credit risk management techniques assessed factors likely to cause loan defaults nonetheless, it can be argued that their credit risk management techniques merely considered few factors which in this sense make their assessment not exhaustive to identify all the possible factors likely to cause a borrower defaults such as economy conditions and firms business plan. For instance, Sumon-Das and Shilpi-Das (2007) argued that economic conditions and business plan ought to be adequately considered by a creditor before they agree to lend capital to a borrower since these factors are potential sources of loan default.

With the final research objective, it sought to compare the credit policy manual of the microfinance institutions as against that of the regulator policy manual thus, Bank of Ghana. Findings from the study revealed that most of the microfinance institutions had credit risk policy manual in place that guided their credit administration processes. Evidently, results from the study posited that the microfinance institutions had an array of provisions in their credit risk management policy manual. Specifically, most of the credit policy manual of these firms had in it measures that covered issues such as; loan repayment, ways of enforcing credit arrangements and ways to employ in the course of any contractual litigation issues. Equally, the microfinance institutions credit policy manual had provision on how their organization credit department had to identify their organization's risk, as well as how to report these identified risks factors and equally ways to control the identified risk factors.

Again, it was established that the credit policy manual of these microfinance institutions had in it the stipulated credit range and acceptable levels of risk-reward tradeoff they should entertain. Surprisingly, provision on how to take borrower's record, keep it and share it appear not to widely found in most of the credit policy manuals of these microfinance institutions.

Findings from the study indicate that provisions thus, measures on institutions loan repayment, enforcement and litigation which appear to be largely found in almost all the credit policy manual of the microfinance institutions is consistent with the policy manual of BOG thus, section 20 of the Borrowers and Lenders Act, 2008 Act 773 which dealt extensively with the repayment and recovery of debt. The microfinance policy manual is likewise consistent with provisions in subsection 1 of Section 20 which makes provision on how loan are to be repaid by the borrower. Equally, Section 2 within the same section stipulates that a credit agreement may provide for the terms and conditions of any prepayment and the order in which advance payments are to be applied. Section 20 of the Act enforces borrowers to pay for their credit facility and likewise shows how the lender ought to go about with his recollection.

Section 32 and 33 dealt with enforcement of borrowers' obligations and remedies of a lender on a loan default. Hence, their policy manual equally has in it enforcement and litigation measures. This suggests that their policy manual with regards to enforcement and litigation measures are consistent with the provision in the section of 32 and 33.

Also, the microfinance institution policy manuals which have in it guidelines for risk identification, reporting and control affirm Section 13 of the BOG manual. Under section 13 (1) it explains who can require for credit. However, with subsection 2 under Section 13 it qualifies its initial claim; a lender thus, in this case a microfinance institution may refuse to enter into a credit agreement with a prospective borrower on reasonable commercial grounds consistent with the lender's customary risk management and underwriting practices. With this provision it places maximum responsibility on the microfinance institution to have in place measures that will help its organization to decide whether to grant a borrower loan request informed by the organization's own risk indicators and control system.

Equally, the microfinance institutions credit risk policy manuals have provisions on how to record borrower data, store and share is consistent with Section 17 of the BOG policy which stipulates that, a lender or a person who acts on behalf of a lender shall not disclose information obtained from a borrower unless the information is required under the Credit Reporting Act, 2007 (Act 726) or under any other law or by a court. This section seeks to protect the confidentiality; personal information and borrowers credit records from sneaking out to third parties.

Also the policy manual of the understudied microfinance institution which had provision on how to write credit contract agreement is in tandem with subsection 2 of Section 18 which stipulates how financial institutions are to write their loan or credit agreement.

Moreover, aside the institution credit range, acceptable levels of risk-reward trade off which appear not be in the BOG policy manual all the other provisions found in the microfinance institutions credit policy manuals are consistent with provision made in the BOG credit policy. Findings, from the study suggest that to a large extent the credit policy manual of the understudied microfinance institutions were in tandem to most of the provisions in BOG credit policy document.

1.1.5 Conclusions and Limitations

The study investigated the credit risk management of microfinance institutions in Ghana. The study found out that corporate, individuals and SMEs loans were the main source of credit risks the understudied microfinance institutions were susceptible to due to their nature of business operations. Also, with reference to the main types of credit risks microfinance institutions were exposed to, it was revealed that counterparty default and concentration risks were the main type of credit risks the investigated microfinance institutions were vulnerable to. However, in an effort to reduce these risks exposures, it became evident that the understudied microfinance institutions largely used collateral and guarantees to minimize the risks associated with their borrowers and market segments.

It was also discovered that most of the investigated microfinance institutions had in place credit administration units charged with the responsibilities of preparing credit documents most especially loans agreement. Additionally, it became evident that their credit unit responsibilities included obtaining current financial information about their creditee's and ensuring that their units' credit document were up to date. Again, it was found out that most of the microfinance institutions had in place procedures and information system to monitor the various segment of its borrowers that formed their bank's portfolio. Also, it was established that the microfinance institutions used mostly accounting based method and to some extent subjective analyses to quantify their organization risk exposures. Additionally, it was established that most of the microfinance institutions had credit policy which guided their institutions credit administration processes. Finally, findings from the study revealed that most of these microfinance institutions employed most of the credit risk management practices of their counterparts in the larger sphere of the banking tier thus commercial banks. Though, it can be said to be a good practice nonetheless, merely trying to replicate what exist in the commercial banks setting might not be adequate since their market segment may not necessarily be the same as the universal banks. On this score it will be important for microfinance institutions to critically assess their operations and client type to identify the practices that will enable them to adequately address the risks its market segments possess.

Admittedly, findings from this study provide fresh insight with reference to how microfinance institutions manage their credit risks nonetheless, the study does have some limitations. Case study sample are not generalizable, even to the entire microfinance institutions within the Ashanti region. Again, microfinance institutions were purposively selected based on their willingness to participate in the study hence results from the study may not be a true representation of the credit risk management practices of all the microfinance institutions in Ghana.

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Notes

Table 1. Main Sources of Credit Risks of Microfinance Institutions

Sources	Frequency	Percentage
Corporate and small businesses commercial loans	28	87.5%
Trade financing	4	12.5%
Total	32	100.0%

Table 2. Provisions in the Institutions Credit Risk Management Policy Manual

Provisions	**Frequency**	**Percent**
Guidelines for risk identification, reporting and control	8	25.0%
Provisions on loan repayment, enforcement and litigation	9	28.12%
Provisions on credit range, acceptable levels of risk-reward tradeoff for the granting of credit	6	18.75
Guidelines for writing credit contract agreement	5	15.62%
Provision for borrower's record taking, storage and sharing	4	12.5%
Total	32	100.0%

Table 3. Factors the Microfinance Institutions Credit Risk Management Techniques Looked out for

Factors	**Frequency**	**Percent**
Loan purpose	13	40.6
Loan maturity	5	15.6
Financial conditions	10	31.3
Economic situation	3	9.37
Firm's business plan	1	3.12
Total	32	100.0

Table 4. Credit Risk Measurement Methodologies employed by the microfinance institutions

Measurement methodologies	**Frequency**	**Percent**
Experts	4	12.5
Subjective analyses	7	21.87
Accounting based method	20	62.5
Total	32	100.0

Availability of Credit Risk Management Policy Manuals

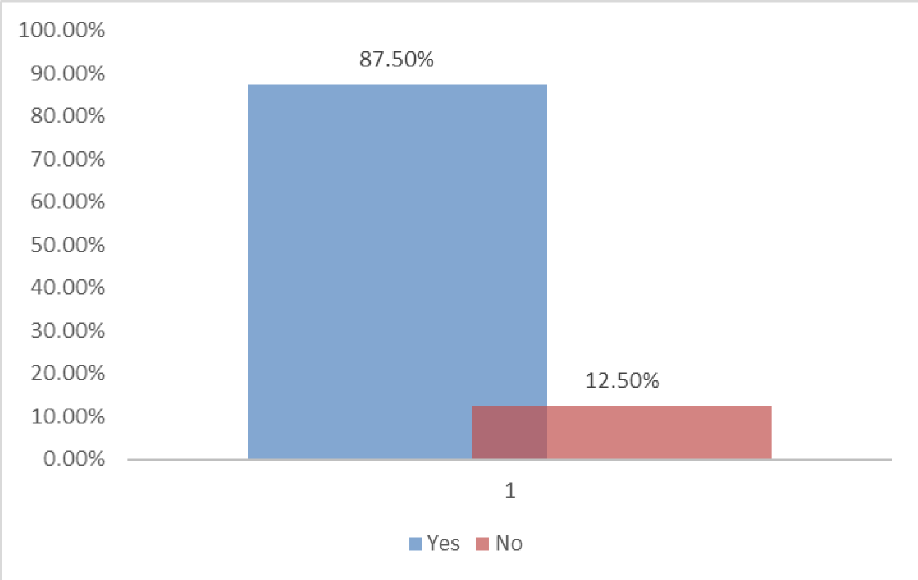

Figure 1. Availability of Credit Risk Management Policy Manuals at the Microfinance institutions

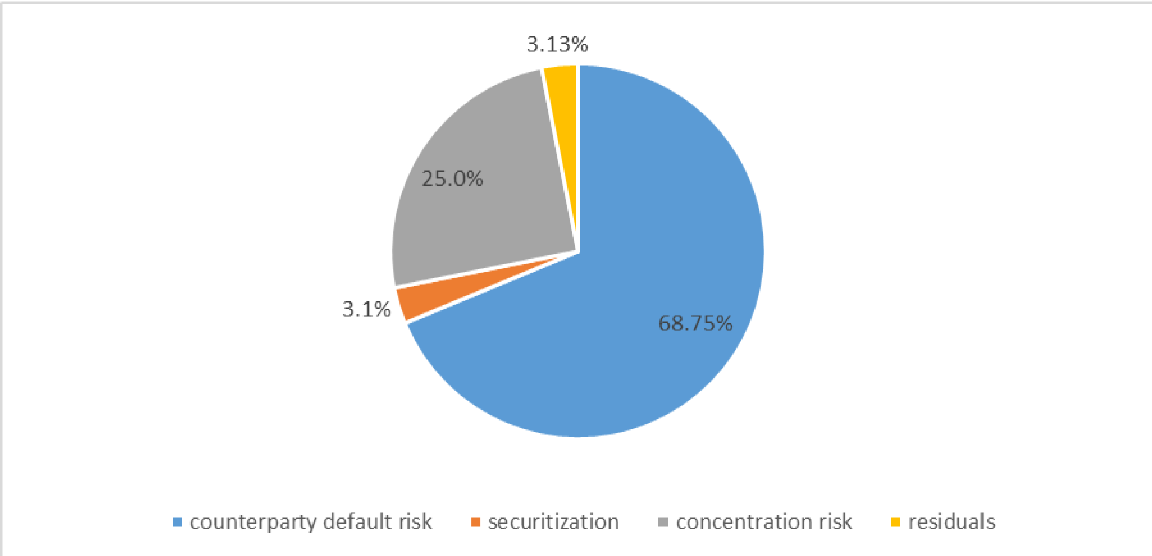

Figure 2. Microfinances Main Types of Credit Risks