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THE IMPACT OF CREDIT MANAGEMENT ON THE FINANCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS

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The financial sector of Ghana is currently faced with many challenges including high incidence of non-performing loans, high cost of borrowing, high default rate, and high credit risk factors. Microfinance institutions play a crucial role in the provision of credit for the expansion of small and medium scale enterprises (SMEs) in the private sector of the economy. It is therefore essential to examine how credit management affects the financial performance of Microfinance institutions in Ghana.

The purpose of this thesis was to examine the impact of credit management on the financial performance of Microfinance Institutions in Ghana. The specific objectives of the study are to examine the credit management practices of uniCredit; to determine the credit policies in Finland; and to examine the impact of credit management practices on the financial performance of uniCredit.

The theoretical framework of this research examined the basic concepts of credit management, credit risks, financial performance, and credit policies etc.

The qualitative case study research method was identified as the most appropriate method to achieve the objectives of the study. Mainly, secondary sources of information were applied in the development and analysis of the research. In order to acquire relevant information on the credit management practices of uniCredit, the Credit Manager of the institution was contacted on telephone to assist the author.

The study revealed that uniCredit’s credit management practices have positive impact on total assets, total deposits, profit before tax, and profit after tax, and return on equity.

**Key words**
Credit management, Credit risk management, Financial performance, Microfinance institutions
ABSTRACT

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1 INTRODUCTION

This thesis seeks to examine the Impact of Credit Management on the Financial Performance of Microfinance Institutions in Ghana. There are five sections in the presentation of this thesis including introduction, knowledge basis, methodology, findings, and conclusion. The introduction section presents a brief background to the study and outlines the aim, research objectives and research questions. The knowledge basis section of the thesis presents all the relevant literature on the research topic and provides the theoretical framework for the thesis. The methodology section presents the ideal research methods to achieve the objectives of the thesis. The findings section presents the results of the thesis and the answers to the research questions. The final section presents the conclusion and recommendations of the thesis.

The aim of this research is to assess how credit management affects the financial performance of microfinance institutions in Ghana as relates with microfinance institutions in Finland. In order to achieve the aim of the thesis, the following specific objectives have been outlined;

1. To examine the credit management practices of uniCredit;
2. To examine the credit policies in Finland;
3. To examine the impact of credit management on the financial performance of MFIs.

The research questions outlined for this thesis include:

1. What credit management practices are implemented by uniCredit?
2. What credit policies are implemented in Finland?
3. What is the impact of credit management on the financial performance of uniCredit?

Credit management is essential to manage and control the risks associated with credit sales. The purpose of credit management is to manage both the financial and political risks associated with credit sales. The policy on credit management comprises systems, guidelines and principles that serve as a blueprint for employees in the credit department in awarding loans and steering the total collection of credit facilities. According to Edwards (2004, 83), "credit means trust and trust has to be based on knowledge for it to have any real meaning". Gathering, analyzing and making informed decisions based on that knowledge is credit management.
To be able to reduce the vulnerabilities associated with non-performing loans, companies must exercise a better understanding of economic capacity of clients, history of customers’ credit rating and varying repayment arrangements. In order to make an intrusion into new markets as well as enroll more clients depends on the competence to rapidly and effortlessly make well-informed credit decisions and set appropriate lines of credit.

It is obvious that the primary functionality of a financial institution is the provision of loan facilities to deserving clients located in their sphere of jurisdiction. Microfinance institutions are in business with the sole aim of making profits and so, they seek to generate profits through giving out loans and investment in other assets. Against this backdrop, loan supply and delivery is part of the core business activities of financial institutions because without giving out credit in the form of loans and advances to individuals and firms, their main objective for being in business would be defeated. It will be a challenge to enact the most favourable credit policy as the best amalgamation of the variables of credit policy is quite arduous to acquire.

An institution might decide to manipulate some of the variables within a period and observe the effect. It should be noted that the firm’s loan guide is greatly influenced by economic conditions (Pandey 2008, 108). The guidelines of the firm on credit management may experience a shift as the prevailing conditions of the economy also metamorphose. The success of lending out credit depends on the methodology applied to evaluate and to award the credit (Ditcher, 2003) and therefore the credit decision should be based on a thorough evaluation of the risk conditions of the lending and the characteristics of the borrower.

Microfinance Institutions play a very critical role in the provision of financial services to people living in poverty and those that cannot access credit from banks. In Finland, only Non-Bank Financial Institutions (NBFI), operating in the form of shareholder companies, registered at the Financial Supervisory Authority are allowed to lend money directly to the public. The provision of microcredit is considered as a financial activity and falls in the scope of general applicable laws on financing, which is regulated by the Crowd Funding Law (2016). Despite the weak economic situation and the challenging market environment, the Finnish financial sector maintained good results and further strengthened its capital adequacy in 2015 (Global Findex, 2016). Strong financial legislation and compliance measures have ensured the improvement of the Finnish financial sector.
I am motivated to embark on this study to examine how microfinance institutions are preparing to mitigate credit risks in the financial sector. The collapse of UT Bank, Capital Bank, and other indigenous financial institutions has cast doubts on the effectiveness of credit management strategies in the industry. It is imperative to consider the activities of MFIs in the Finnish financial sector in order to provide appropriate recommendations to enhance the performance of MFIs in Ghana. The financial sector in Ghana has delivered services to consumers and businesses for many years. Continuing innovation and competition among sector players and new market entrants has allowed for a much wider array of financial products and services for retail and wholesale financial customers.

Haneef et al. (2012) argue that financial institutions are exposed to various risks (declining capital adequacy ratio, high level of insolvency, and high non-performing loans etc.) in pursuit of their business objectives. These risks even become higher because microfinance institutions are in a competitive environment where client acquisition is necessary to sustain the bottom line and improve profitability. The failure of most microfinance institutions (MFIs) to adequately manage these risks exposes financial institutions to not only hampering profitability as their earnings are converting into bad debts but also increasing interest rate and causing economic slowdown, ultimately rendering them unsuccessful in achieving their strategic business objectives (Haneef et al., 2012).

Mwangi (2012) argues that financial institutions carry out credit risk management as a measure of administering credit to borrowers. This is done by having a well-developed credit mechanism and procedure, which includes; credit appraisal, training of staff and setting credit standards and terms to offset the possibility for loss to improve financial performance. However, despite the efforts made to address the poor credit risk management practices, MFIs still have difficulties resulting from rising non-performing loans, poor capital adequacy ratios, and high insolvency.

According to the Bank of Ghana Report, 2016, the total stock of loans that banks fear may go bad have reached close to GH¢8 billion as at June, 2016 (BoG, 2016). The report attributed the increase in total industry non-performing loans (NPL) to energy sector debts and other related expenses. The banking sector indicators revealed that asset quality pointed to deterioration in the loan portfolio between June 2016 and June 2017. The report further indicated that the key risk to the banking industry is the high stock of impaired assets to total loans as measured by the nonperforming loans (NPLs) ratio. Also, profitability in the banking sector declined for the period ending June 2017 compared with the same period in 2016 causing a decline in the return on assets (ROA) and return on equity (ROE).
2 CREDIT MANAGEMENT

This chapter undertakes a review of relevant literature with the aim of establishing the framework for
the study. The first aspect focuses on the theoretical literature including definition and concept of
credit management, credit culture, loan system, principles of lending, credit appraisal techniques,
credit risk, sources of credit risk, credit risk control, credit management policy, and measures of
performance etc. The second aspect focuses on the empirical review of relevant literature

2.1 Credit Management

Credit management is one of the most essential activities in any company and cannot be neglected by
any entity involved in the supply of credit lines no matter the nature of its business. It is the mecha-
nism to ensure that customers will pay for the products delivered or the services rendered. Myers and
Brealey (2003) consider it to be made up of techniques and strategies used by an enterprise to ensure
that an optimal level of credit and its effective management are kept. This is one aspect of monetary
administration including credit examination, credit assessment, and credit scoring and credit reports.
Nelson (2002) considers credit management as apparently the way by which an enterprise superintends
over its credit sales in a manner that creates greater opportunities for making higher profits. This is a
prerequisite for any business engaged in provision of lines of credit since it is not possible to complete-
ly eliminate credit risk default.

The higher the amount of accounts receivables together with a longer duration, the greater the mone-
tary as well as opportunity costs incurred to sustain them. If these debts are not collected promptly and
urgent cash needs surface, a firm may likely resort to borrowing and the opportunity cost translates
into the interest expense paid. Nzotta (2004) opined that credit management greatly influences the suc-
cess or demise of banks and other financial institutions. This is because the failure of microfinance
institutions (MFIs) is determined largely by the quality of credit decisions and thus the quality of the
risky assets. He further notes that, credit management provides a leading indicator of the quality of
MFI credit portfolio. One important precondition for effective credit management is the ability to intel-
ligently and efficiently manage customer credit lines. He continued by stating that to reduce over ex-
posure to bad debts, overbooking and insolvency, financial institutions should have a better under-
standing of the financial strength of customers, credit account history and evolution of payment meth-
ods of clients.
According to Asiedu-Mante (2011) credit management involves the setting up of legal and formal systems and policies that will guarantee that the appropriately designated staff are well-positioned to grant credit, the facility goes to the people with the right credit history, the loan is given out for profitable activities or for businesses which have a strong financial and technical viability, the correct amount of credit is disbursed, the credit can be recovered and the flow of management information is sufficient within the organization to allow for effective monitoring of credit activity. He therefore viewed it as the putting in place of systems that act as a check right from the credit granting process to the point of collection.

Credit Management likewise alludes to the proficient mix of four noteworthy credit approach parameters to ensure convenient collection of advances conceded to clients and in the meantime build their trust in and devotion to the financial organization (Van Horne, 2007). The main variable is an evaluation of the nature of the client's record operation in the establishment. This takes into consideration the correct examination of the capacity of the clients to meet installments promptly. The second strategy variable is that of setting up the right credit period. In this manner, the microfinance institution should give sufficient time to permit loyal customers the chance of deriving the full advantages of the credit. Such period should not be too long to put the financial institution in a distraught position. The third parameter is the rebate given to clients as a way of inspiring them to reimburse their credit facilities on time. Such rebates must be sufficiently appealing before the goal can be accomplished. The last variable looks at the level of expenditure that can be permitted in the recovering of debts. The inference here is that the microfinance institution should not give out credit where the cost to be spent on retrieving the obligation will probably surpass the obligation itself. To mix these variables into a proficient workable framework obliges the establishment of a watchful arrangement, controlling and coordination of all accessible human and material assets Van Horne (2007)

Credit management starts with a sale or the granting of a facility as in the case of a bank and does not stop until the full and final payment has been made. Technically a transaction cannot be termed as complete until full payment has been made. Good lending therefore ensures that the borrower follows the repayment plan set up for him in a timely and prompt manner in order to prevent the total loss of interest that the institution could have earned due to the opportunity cost of the loan, the risk involved and time value of money. Credit management is primarily concerned with the effective management of debtors as well as judicious financing of receivables. The objectives of credit management can therefore be expressively stated as safeguarding the portfolio of the companies’ investments in debtors
and maximizing operational cash flows. Policies and practices ought to be rigorously enforced for granting credit facilities to customers, collection of repayments that are due and limiting the high risk factor of non-payments.

2.2 Credit Management in Finland

According to the Federation of European Credit Management Association (FECMA), credit management can be defined as “the promotion of profitable sales over the shortest possible time with the minimum of ‘bad debt’. Identified as a finance function, credit management involves receivables, assessment of risks, setting of credit terms and credit limits, and collection of resultant debt. It is critical to indicate that the function of the CM is to find a profitable situation to every credit application. This may involve appropriate credit terms, deposits, interim payments, and security. The credit department works with sales department to identify profitable and less-risky business opportunities. The Credit Manager in my opinion is expected to contribute directly to both credit functions and sales functions in order to ensure profitability at the lowest risks. The FECMA indicated that current surveys have confirmed that an inadequately executed credit management is one of the main reasons for the insolvency of companies. In the reverse consequence it is shown that the credit management contributes actively to the maintenance of the company and therefore has to take a due status within the corporate management system (FEMCA 2008)

2.2.1 Credit management process in Finland

A comprehensive assessment of credit management in Finland indicated that the process, procedures and possible ways of decision making shall be documented in a process procedure plan. Also, the process schedule shall be checked regularly and, if required, shall be adjusted. Furthermore, the process schedule shall be available for and familiar to the persons involved and finally, the adherence to the minimum requirements on the processes shall also be guaranteed in case of partial or complete transfer to third parties (FEMCA 2008)
2.2.2 Credit assessment in Finland

The credit assessment policy in Finland was examined and the following were identified; Firstly, the final credit assessment shall be carried out by a function which is independent from sales. Secondly, by means of precise criteria it shall be defined to which extent and on the basis of which information a credit assessment is made. Thirdly, every new customer to whom a supplier’s credit is granted shall undergo a credit assessment according to the regulations. Fourthly, all documents used for the first and current credit assessment shall be systematically stored for a specified period of time and finally, the credit assessment shall be terminated before service provision (FEMCA 2008)

2.2.3 Credit limitation in Finland

In examining credit management in Finland, the allocation of the credit limit shall be made by a function which is independent from sales. Also, a provision regarding the determination of credit limits shall exist and the credit limit shall be stipulated to a maximum amount of the accepted risk. Furthermore, there shall be a regulation concerning the granting of a credit limit to companies or persons affiliated with each other and finally, customers to whom a supplier’s credit was granted shall be provided with a credit limit (FEMCA 2008)

2.3 Credit Culture

According to Kamath et al (2010) credit culture can be defined as a financial institution’s approach to all issues correlated to the administration of credit risk. He continued by stating that if it is to attain a healthy credit risk portfolio, it must be synchronized with the strategic direction and organizational culture of the financial institution. The culture must have the capacity to deliver the service required by the institution to meet the needs of its clients in a timely manner. It can only do this if it is in harmony with the overall strategic direction of the financial institution and is pioneered by the top echelon of the financial institution. Because the credit culture ought to maintain a balance between assuming new risks and imposing limits on the amount of risk at the same time, it is bound to run into all of kinds of resistance. Top management is the only source that can ensure that the culture not only supports appropriate credit standards, but is also profitable enough not to cause the MFI to lose out on good business.
Solid credit standards, according to Rouse (2002), will unavoidably cost the bank some business, which in retrospect would have been beneficial. However, when the decision is being contemplated on, hindsight is unavailable. Credit culture which is an integral part of credit management takes into consideration the fact that there is some business the bank has to be willing to lose and so it becomes imperative for an agreement to be sought and a consensus reached as to the yardstick to be applied in determining which business to do away with throughout the bank. This policy has to be established by management and should articulate the type and level of risk the bank is ready to accommodate and the return it expects from taking on stated risk levels, both at the customer and portfolio level.

In the view of Gallinger and Ifflander (2002), credit standards translate the culture into actions. They should consider the terrain of the bank’s operations, its arrangement and the character and the level of preparedness of staff involved in credit decisions. This enables an effective credit management system to be implemented buoyed by a strong culture that is able to convert policies into proven results.

2.4 The Loan System

Before endorsing any credit facility, it behooves the MFI to ensure that the debtor has a practical and viable proposal. However, the marketability of a loan proposition does not depend all together on the quantum of collateral provided by the borrower. The financial intermediary needs to establish the amount of credit risk latent in the credit proposal and within the boundaries of that risk, a decision has to be made whether to accept or reject the proposal. An effective credit management system provides the right framework for such decisions to be made (Puri and Poli, 2013).

For any provision of credit line within the retail sector for instance, a borrower must have a preexisting capacity to repay the loan either from his/her salary or income from self employed business or profession. But financing in the commercial sector is somewhat different. A borrower is not always required to have a pre-existing capacity to repay a working capital or a term loan that he or she seeks from the MFI. As the borrower’s business expands, incremental cash flows are generated from which the debt can be serviced and repaid as per agreement. Growth of business in the right direction supported by the credit drives the cash flow of the business upwards. It is the assessment of incremental cash flows which helps the lender to determine the repayment capacity of the borrower to meet loan obligations in a timely manner (Poli and Puri, 2013).
2.4.1 Principles of lending

Gaurav (2010) pinpointed certain criteria which are universally adhered to by most financial institutions in appraising credit propositions as follows:

The banker must guarantee that the amount granted by him reaches the legitimate debtor and is appropriated in a manner that will make it secure at the time of giving as well as remain so throughout the period, and subsequent to fulfilling a valuable need in the business where it is utilized, is reimbursed with premium. Again, the debtor ought to be in the capacity to make payments within a feasible time frame after a notice of repayment is sent. This is termed as the grace period and failure to meet it usually attracts a penalty. Furthermore, the objective ought to be monetarily compensating so that the cash stays secured as well as provide an ensured well-spring of monetary streams to meet reimbursement plans. Moreso, the MFI should be able to obtain some reasonable profit from the loan and ensure full security is considered as a protection or coverage to fall back upon in the event of a crisis. Finally, the financial institution must ensure that advances are spread across a broader spectrum of economic activities.

2.4.2 Credit appraisal techniques

Credit facilities should be expanded within targeted markets and as well as the ambits of the lending strategy of the institution. Before allowing a credit facility, the bank must carry out an assessment of risk profile of the customer/transaction. This may include; credit analysis of the borrower’s industry, and macro-economic factors; the sole aim of the credit and source of repayment; the performance / repayment history of borrower; assessment / evaluation of the repayment capability of debtor; the proposed terms and conditions as well as covenants; perfection and enforceability of collateral assignments; and approval from appropriate authority (Gaurav, 2010)

All these components aid in the easy identification of any inherent risks which can provide solid information that eventually facilitates the evaluation of the customer’s application as well as provide the necessary platform for an effective profiling of clients.
Essentially, problems arise because lenders are not well informed about the peculiarities of would be debtors, and so it becomes impracticable, for financial institutions to know which customers are good and which ones are not (Fraser 2012). According to Ahmad et al (2004) there is no system that can provide a hundred percent protection against bad loans as situations can sometimes overturn the best credit strategies of borrowers. This implies that no amount of credit management measures put in place to forestall delinquencies can ensure a zero default rate. However, they can aid in ensuring that defaults are brought to the barest minimum thereby leading to a healthy loan portfolio.

2.4.3 Credit risk

Credit can occur for various reasons: bank mortgages (or home loans), motor vehicle purchase finances, credit card purchases, instalment purchases, and so on. Credit loans and finances have risk of being defaulted (Nafula, 2009). To understand risk levels of credit users, credit providers normally collect vast amount of information on borrowers. Statistical predictive analytic techniques can be used to analyse or to determine risk levels involved in credits, finances, and loans, i.e., default risk levels.

Personal credit scores are normally computed from information available in credit reports collected by external credit bureaus and ratings agencies. Credit scores may indicate personal financial history and current situation. However, it does not tell you exactly what constitutes a "good" score from a "bad" score. More specifically, it does not tell you the level of risk for the lending you may be considering (Mwisho, 2011). Internal credit scoring methods described in this page address the problem. It is noted that internal credit scoring techniques can be applied to commercial credits as well.

Credit is the trust which allows one party to provide resources to another party where that second party does not reimburse the first party immediately (thereby generating a debt), but instead arranges either to repay or return those resources (or other material of equal value) at a later date (Sullivan et al., 2003). The resources provided may either be financial (e.g. granting of loans), or they may consist of goods or services (e.g. consumer credit). Therefore, credit encompasses any form of deferred payment which is extended by a creditor, also known as the lender, to a debtor also known as a borrower.
2.4.4 Sources of credit risk

There are two main sources of credit risk factors. These are external and internal risk factors. The risk factors are discussed below as follows:

In examining the economic conditions of credit risk, it is imperative to indicate that any changes in national income and the level of unemployment will have an impact on credit risk as a result of the change in business sequence, exchange rate, interest rate, credit availability and credit quality. Liquidity crunch or financial problems has the ability to impact borrowers’ ability to fulfill their obligation. In addition, legal and regulatory change could cause financial institutions to change how they manage a transaction, as well as the quality and ability of debt collection. Stiglits (1987) is of the view that interest rates on loans or credit facilities should be higher, if the probability of default is higher. The higher the risk of probable loss the higher the interest rate would attract. Businesses whose operations increases risk of loan default therefore attract higher interest rates.

Competition among financial institutions in terms of growth, profitability and the desire to be a market leader have the ability to cause financial institutions to lower their standards or improperly price their loan products. This could result in higher cost of increasing non-performing loans.

Underwriting standards is a process to determine what type of, to whom, for what purpose and when credit should be granted. Proper credit approval process should comprise proper guidelines on both form and methodology in evaluating borrowers’ credit worthiness, setting up of credit line and interest rate appropriate to borrowers’ risk and credits. Indulgent credit underwriting can incur losses to financial institutions especially when debt repayment cannot be demanded or collateral cannot be seized in time. Many credit risks arise from deficiency in underwriting standards and credit monitoring.

Credit officers who do not possess the appropriate proficiency in the activities they are responsible for, be it credits, investment, management of trouble assets or new products, can lead to poor lending practice, ineffective administration, and eventually, loss to financial institutions. A sound credit decision relies on the knowledge, skills and foresight of the credit manager and other officers in their various branches. McNaughton (1999) stressed that credit activities drive financial intermediation and plays a significant role in banking operations, whilst remaining highly risky at the same time. This situation makes lending activities very challenging to most MFI's in the country since a slight
negligence can cause financial loss. Therefore, persons with the right attitude, skills and knowledge are to be charged to manage lending activities.

Risk will increase if management does not regularly receive accurate and timely reports on credits. The reports shall comprise important information relating to underwriting process such as economic trends, change in the structure of industry, or market share, commodity prices, exchange rates, including past due credits, credit concentrations, and analysis of problem loans. Casu et al. (2006) indicated that banks must thoroughly assess the state of borrowers’ ability to honor repayment of loans before, during and after the facilities had been granted. Monitoring is a vital step towards recovery because it gives firsthand information on situations that may eventually lead to arrears and subsequent default (Casu et al., 2006)

2.4.5 Credit risk control

Credit risk is the probability that the return supposed to be earned on an investment or risky asset extended will depart from that, which was expected. Coyle (2000) characterizes credit risk as debts emerging from the unwillingness or failure of loan clients to meet their commitment of what is outstanding in full and on time. The major sources of credit risk include limitation in institutional capacities, unsuitable guidelines on loan management, high interest rates, lack of effective supervision of credit lines, unsuitable laws, low levels of capital & liquidity, poor loan underwriting, reckless lending, poor credit appraisal, poor practices of lending, interference by government and the inability to enforce oversight responsibility over financial institutions by the central bank.

The objective of credit risk control is to reduce the effects of different kinds of risks related to a preselected domain to the level accepted by society. It may refer to numerous types of threats caused by environment, technology, humans, organizations and politics. It is obvious that there are a number of risks and uncertainties in the banking industry viz-a-viz a more stringent regulatory framework, deregulation, increasing competition, increasing customer sophistication and generally harsh economic environment. These drivers make the adoption of effective credit risk management strategies important.

Risk can be classified as systematic and unsystematic. Systematic risk is associated with the overall market or the economy, whereas unsystematic risk is related to a specific asset or firm. Some of the
systematic risks can be reduced through the use of risk mitigation and transmission techniques. In this regard Oldfield and Santomero (1997) refer to three generic risk-mitigation strategies:

1. Eliminate or avoid risks through simple business practices;
2. Transfer risks to other participants; and
3. Actively manage risks at the bank level (acceptance of risk).

2.5 Credit management policy

Credit management policy is defined as the tenets and systems set up by top administration that oversee the organization's credit division and investigates execution in the augmentation of credit benefits against set down procedures (Jim Franklin, 2010). It is essentially a situated composition of rules intended to minimize expenses connected with credit while expanding advantages from it (McNaughton, 1996). Credit administration arrangements involve the credit strategies, credit measures and credit terms. This policy becomes the blueprint which guides the conduct and expectations of all employees entrusted with the responsibility of granting credit and also acts as a benchmark by which performance can be measured against standards set. To accomplish the great objectives of credit administration strategy, Franklin (2010) instructed the endorsement and utilization of credit strategies. To Franklin, credit methods are particular routes in which top administration imposes expectations on the credit division to accomplish the credit administration policies. The credit systems incorporate guidelines on what information to be utilized for credit examination and investigation procedure, provide information regarding procedure, account supervision and cases needing administration's notice. Such credit gathering endeavours incorporate the utilization of reminders, adoption of insurance, the application of legal procedures, the factoring of debtors and final write-offs.

2.5.1 Credit management variables

Credit management variables are critical in determining the effectiveness of credit portfolios of financial institutions. The variables are outlined as follows;

The initial phase in restricting the risk involved in granting a loan facility includes screening customers to guarantee that they have the readiness and capacity to reimburse the advance. A lot of financial institutions tend to utilize the 5Cs model of credit also known as credit standards to appraise a customer
as a potential borrower (Abedi, 2000). The 5Cs act as a guide for financial institutions to improve loan portfolio, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and condition.

This assesses the client's qualities in order to examine the willingness of the prospective client to meet the credit commitments. Kakuru (2000) highlighted the accompanying variables to consider when investigating applicant's character. This is carried out by factoring the client's savings conduct from the bank records, the level of training, mental status, occupation dependability, contact, connection to government offices and the past dealings with bank. The borrower who seeks to be a loan beneficiary of cash endowed to the bank by its depositors must be very honest someone who will keep their word and who can be trusted.

This assesses the client's capacity to pay the obligation when given in the obliged time period. This is fundamental, particularly for business, regardless of whether advances are included. This is determined by assessing the estimation of client's capital and resource offered as guarantee against the advance. The borrower must be, in any event, capable, if not a specialist at their employment or in their calling and should be able to produce strong evidence to support the viability or otherwise of the business (Kakuru 2000)

This alludes to the general state of the organization. “This is ascertained by the analysis of the financial statements with special emphasis on the risks and the debt-equity ratios and also evaluating the customer’s firm working capital positions” according to Floucks (2001). The budgetary supervisor can likewise survey the accounting report to discover how much the proprietor has put into the business as his own stake (BPP, 2000). A decent dependable guideline would be that a bank would not wish to put in more cash than the borrower.

This alludes to properties like lands, houses, business and private bequests or whatever other property of quality offered as security of the estimation of the credit given out to the borrower (Kakuru, 2001). It is obtained by a lender as a claim on the borrower and on the asset that is secured, and provides a recourse that is available to a bank should the terms of the loan be breached by the borrower. The collateral ought to be secure, readily merchantable and that its quality ought to have the capacity to meet the obligation when sold off in the event that the borrower defaults in payment (Van Horne, 2007)
2.6 Measures of performance

According to Hermes and Lensink (2007), the financial systems approach, which emphasizes the importance of financial sustainable microfinance programs, is likely to prevail over the poverty lending approach. The argument is that microfinance institutions have to be financially sustainable in order to guarantee a large-scale outreach to the poor on a long-term basis. Measuring and comparing the performance of MFIs has been difficult due to both a lack of publicly available financial information and differences in reporting in a mostly non-regulated industry (Michael and Miles, 2007).

A myriad of financial ratios are available for assessing the performance of MFIs (CGAP 2003). Although it is difficult to synchronize the different interpretations of all the ratios, they provide alternative perspectives in assessing the performance of MFIs for each of the domains namely, profitability, default rates, interest income, and recovery rate. In interpreting the determinants of MFIs’ financial performance due cognizance should be taken of the precise focus of each ratio.

2.6.1 Profitability

Essentially, profitability is determined by the weighing of incomes against expenditure. Income is the returns generated from the various operations of the enterprise for instance, the interest revenue generated on advance commitments. Expense are the costs incurred in providing those operations carried out by the firm. Examples of some of the costs include the cost of deferred consumption on the loaned amount otherwise known as the opportunity costs since they are locked up in the hands of debtors, the costs of recurring expenditure of credit activities, the expenses incurred in collecting non-performing debts and the costs involved in recovering bad loans (Leong, 2009)

Profitability can be defined in terms of accounting or economic profits. Accounting benefits is the surplus income left after derivation of all costs. For a financial organization to run, it must be making gains. Then again, a single non-benefit monetary year may not cause any significant loss to the institution, however when the firm continues posting misfortunes in resulting years, this may jeopardize the suitability of that business (Don, 2009)

Economic profit is computed by subtracting the opportunity cost from the net revenue (Graham, 1996). The opportunity cost includes the funds, the effort and the managerial resources directed towards the
control and administration of credit processes. The essence of economic profits is to provide the business with a prospect in the long-term to superintend its continuous operation of activities. Some of the measures of profitability include return on capital employed (ROCE), Gross margins and net profit margins.

2.6.2 Default rates

Credit default refers to the lack of capacity of a borrower to meet his or her advance commitment at the agreed time as per the loan agreement. As noted by Baku and Smith (1998) the expenses incurred as a result of the failure to meet commitment imposed on the loan customer would be felt by both counterparties. The loan firm ends up acquiring costs produced as a result of nonpayment situations, including wiped-off returns on risky assets, opportunity expense of primary, legal charges and related expenses. For the borrower, the choice to default is symmetry between the relinquishments in lost reputation from default as against the opportunity cost of foregoing investments because of the repayment of the current credit facility. The borrower consequently needs to weigh the alternatives precisely and settle on the right choice that will support the circumstances in which he discovers himself. Defaults therefore ought to be managed in a manner that makes it difficult for such situations to arise through the establishment of prudent credit management processes that seek to safeguard loan assets against inherent default risks.

2.6.3 Interest income

It is generally a term used by companies on their income statements for reporting the interest accrued on cash temporarily held in savings accounts, certificates of deposits or other investments. Because the interest wasn't part of the original investment, they record it separately, as interest income. It is also the difference between the revenue that is generated from a bank's assets and the expenses associated with paying out its liabilities. A typical bank's assets are made up of all forms of personal and commercial loans, mortgages and securities. The liabilities are, of course, the customer deposits. The residual revenue that is generated from the spread between interest paid out on deposits and interest earned on assets is the net interest income.
2.6.4 Recovery rate

One critical element of a strong risk management system is a bank’s ability to evaluate the potential losses on its investments. One factor that determines the extent of losses is the recovery rate on advances and securities that are in default. The recovery rate measures the extent to which the creditor recovers the principal and accumulated interest due on a defaulted obligation. While financial companies, their regulators, and researchers commonly assume that the recovery rate is constant, in practice, actual recovery rates vary significantly. The recovery rates are inversely related to the default rates and this is due to the fact that both indicators are usually strongly influenced by the economic environment of a country.

2.7 Relationship between Credit management and Profitability levels

The forwarding of credit to prospective customers suggests that the funds of a firm are locked up somewhere else whose installment will be some place within a reasonable time frame. Considering the way the future is characterized by an extraordinary level of uncertainty, the accessibility of credit is disproportionately related to profits on the grounds that it is hard to figure out if these obligations would be recuperated from customers, and so most often the organizations utilize the funds for sustainability rather than embarking on risky investments and expansion of scale of operations (Sharpele, 2000)

On the other hand, if the firm all the more so a bank chooses to restrict its credit lines, it causes a decrease on its level of profits (Don, 2009). This is on account of the fact that such monetary organizations generate returns singularly on the premiums that accrue based on the repayment of loans. These reduced gains may likewise be because of different components including lower levels of investments and misapplication of variable inputs (Brigham, 1997). In this manner, it is necessary to have a proficient credit administration strategy that decreases the expenses included in credit arrangements while at the same time expanding the profits from such endeavors. In order to do achieve that, there has to be a way of determining how credit management and the various processes involved affect the performance in terms of not only profitability but loan portfolio quality, recovery rates and how these have a larger impact on the overall value of the company in terms of the maximization of shareholders’ wealth or value which is the real determinant of the value and performance of a company.
An effectual structure that ensures settlement of loans by borrowers is significant in addressing asymmetric information problems and in reducing the level of loan losses, thus the long-term success of any financial institution (Basel, 1999; IAIS, 2003). Effective Credit Risk Management involves the establishment of suitable credit risk atmosphere; operating within conducive credit granting process; maintaining a proper credit administration that involves monitoring process as well as adequate controls over credit risk (Basel, 1999; Greuning and Bratanovic, 2003; IAIS, 2003). Top management is expected to make sure that good and clear guidelines in managing credit risk are correctly communicated throughout the organization; and that everybody involved in Credit Risk Management (CRM) understands them.

Considerations that form the basis for sound CRM system include: policy and strategies (guidelines) that clearly outline the scope and allocation of a bank credit facilities and the manner in which a credit portfolio is managed, i.e. how loans are originated, appraised, supervised and collected (Basel, 1999; Greuning and Bratanovic, 2003). Screening borrowers is an activity that has widely been recommended by, among others, Derban et al (2005). The recommendation has been widely put to use in the banking sector in the form of credit assessment. According to the asymmetric information theory, a collection of reliable information from prospective borrowers becomes critical in accomplishing effective screening.

The assessment of borrowers can be performed through the use of qualitative as well as quantitative techniques. One major challenge of using qualitative models is their subjective nature (Bryant, 1999; Chijoriga, 1997). However, borrowers attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold. This technique is termed as “credit scoring” (Heffernan, 1996; Uyemura and Deventer, 1993)

The technique does not only minimize processing costs but also reduce subjective judgments and possible biases (Bluhm et al., 2003; Derban et al., 2005). The rating systems if meaningful should signal changes in expected level of loan loss (Santomero, 1997). Chijoriga (1997) concluded that quantitative models make it possible to, among others, numerically establish which factors are important in explaining default risk, evaluate the relative degree of importance of the factors, improve the pricing of default risk, be more able to screen out bad loan applicants and be in a better position to calculate any reserve needed to meet expected future loan losses. Clear established process for approving new credits and extending the existing credits have been observed to be very important while managing credit risk (Heffernan, 1996)
Further, monitoring of borrowers is very important as current and potential exposures change with both the passage of time and the movements in the underlying variables (Donaldson, 1994; Mwisho, 2001), and also very important in dealing with moral hazard problem (Derban et al., 2005). Monitoring should include frequent contact with borrowers in order to create an environment that the MFI can be seen as a solver of problems and trusted adviser; develop the culture of being supportive to borrowers whenever they are recognized to be in difficulties and are striving to deal with the situation; monitoring the flow of borrower’s business through the bank’s account; regular review of the borrower’s reports as well as an on-site visit; updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time the credit was granted (Donaldson, 1994; Treacy and Carey, 1998; Tummala and Burchett, 1999; Basel, 1999; Mwisho, 2001)
3 METHODS AND MATERIAL

This chapter discusses the methods and materials that were employed to achieve the objectives of the study. Specifically, it outlines the research design, data collection, reliability and validity, data analysis, and ethical considerations.

3.1 Research Design

The suitable methodology to address the identified research objectives, questions and hypothesis of a study is said to be research strategy (Bouma and Atkinson, 1995). Qualitative research emphasizes the ways of understanding social theories by stressing on the linkage between the study area and the researcher in question. Berg (2001) opined that, qualitative research is subjective in nature because it seeks the views of people by observation, descriptions and making implied meanings into a concept. Qualitative case study research served as the main methodology for this study. Stake (1995) described case study methodology as a strategy of inquiry in which the researcher explores in-depth a program, process or one or more individuals. Mugenda and Mugenda (2005) explain that the case study method is appropriate for studies with specific issues seeking variation in ideas and opinions. This study seeks to examine impact of credit management on the financial performance of MFIs in Ghana with specific focus on credit management policies in Ghana and Finland. Cases are bound by time and activity, and researchers collect detailed information using a variety of data collection procedures over a sustained period of time.

3.2 Data collection

Green, Camilli, & Elmore (2006), echoing Yin (2009), stated that a carefully conducted case study benefits from having multiple sources of evidence, which ensure that the study is as robust as possible. The concept of methods refers in general to the appropriate use of techniques of data collection and analysis (Prasad, 2005). In a case study, it is important to converge sources of data, also known as triangulation, as a means to ensure comprehensive results that reflect the participants’ understandings as accurately as possible. Yin (2009) and Stake (2000) concur that triangulation is crucial to performing a case study reliably. The study adopts both primary and secondary sources of relevant
data in order to achieve the set objectives. Primary data was collected through verbal conversation with managers at uniCredit Ghana Ltd. I called the Credit Risk Manager and had asked a few questions on the credit management practices, credit policies, and how credit management practices have impacted on the financial performance of the company. The secondary sources of information includes financial reports, online resources, statistical information, websites, newspapers, articles, journals, bulletins, and corporate financial documents. A comprehensive document review will be used to clarify the findings from the primary data (Glaser & Strauss, 1967). The following documents were reviewed:

2. 2015 / 2016 financial statement of uniCredit
3. 2016 / 2017 financial statement of uniCredit
4. uniCredit loan application form
5. uniCredit Annual Report 2016
6. uniCredit Annual Report 2017
7. Forward Looking Financial Sector Report 2017

The reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials. Although unreliability is always present to a certain extent, there will generally be a good deal of consistency in the results of a quality instrument gathered at different times. The tendency toward consistency found in repeated measurements is referred to as reliability (Carmines and Zeller, 1979)

According to Mouton (2005, 275) scientific research is characterised by two elements, namely reliability and validity. Reliability implies that the same matter that is researched continuously by the same or different persons must render the same result. The questionnaire method complies with this criterion to a satisfactory degree, but is not infallible, as it is not possible to control the environment in which the questionnaire is answered. A simple language was used in the development of the questionnaire to ensure that employees at all levels understood the questions and provided appropriate responses.

Mouton (2005, 276) further states that the second characteristic of scientific research, namely validity, implies that the research should be able to measure that which it is supposed to measure. The questions formulated for the study enabled the researcher collect the relevant data for analysis.
3.3 Data analysis

Qualitative research studies involves a continuous interplay between data collection and data analysis (Strauss & Corbin, 1994). For this reason, I began analyzing data following the first telephone conversation to begin identifying patterns, and to facilitate subsequent data collection (Strauss & Corbin, 1998). Qualitative analysis is a form of intellectual craftsmanship. There is no single way to accomplish qualitative research, since data analysis is a process of making meaningful and objective conclusions from raw data. It is a creative process, not a mechanical one (Denzin & Lincoln, 2000). Similarly, a qualitative study capitalizes on ordinary ways of making sense (Stake, 1995). Stake reminds qualitative researchers that, “there is no particular moment when data analysis begins. Analysis, he explains, “essentially means taking something apart” (p. 71), which in this case, not only means understanding the impact of credit management on the financial performance of MFIs, but also identifying and defining the patterns that emerged from that process. Qualitative data analysis, then, gives meaning to first impressions and final compilations.

Methodologically, Esterberg (2002) suggests, “getting intimate with data” (p. 157), and describes the main objective of immersing oneself in interview transcripts to “load up your memory” with the collected data. This study followed the data analysis and coding procedures suggested by Creswell (2009) and Esterberg (2002). Specifically, Esterberg (2002) suggested that open coding is a process where “you work intensively with your data, line by line, identifying themes and categories that seem of interest” (p. 158). Additionally, Creswell (2009) mandated the traditional approach in the social sciences that allows the codes to emerge during the data analysis (p. 187).

3.4 Ethical Considerations

Because qualitative research entails the researcher taking an active role in the collection and interpretation of others’ meaning making, to be credible, qualitative researchers must be good and trustworthy. Stake (1995) cautioned qualitative researchers against narrow thinking, and instead suggested that researchers learn to understand their research as their participants do, rather than impose their own assumptions. In qualitative research, these protocols come under the name of, “triangulation” (Stake 1995, 109). All researchers attempt to design and implement good or ethical and trustworthy studies. Indeed, qualitative researchers believe that if a study is credible, it has to be good in the ethical sense and be trustworthy. A sound case study is significant and complete, utilizes alternative
perspectives and sufficient evidence and is reported in an engaging manner (Yin, 2009). According to Merriam (2002), researchers need to follow additional strategies in order to be ethical and trustworthy, including reflexivity; engagement; maximum variation; audit trail; and rich description.

3.5 Limitations and Delimitations

There are limitations and delimitations to this study. Although the study tries to compare the MFIs in Ghana and Finland, there was limited time to engage participants in both countries to acquire more accurate data as opposed to gaining insight from secondary sources. The scope of this study is limited to research at only one MFI and, therefore, results may not be applied to similar contexts. The ability to acquire the needed information on time was another major constraint of this study. Some data was simply not readily available to assist the researcher in conducting effective analysis.

Since the respondent pool and the participants were limited to Credit risk managers at uniCredit, larger sample including other employees, personal and SME clients, and regulatory officials could have given additional insight into the overall credit activities, or processes, by adding information according to their respective understanding.

Having conducted the case study in only uniCredit Ghana Ltd could be viewed as a delimitation. Although the researcher tries to compare credit policies in Ghana to Finland, it was not comprehensively done due to monetary and time constraints. The credit management policies of uniCredit may vary slightly from other non-bank financial institutions in Ghana and therefore any speculation that this study’s findings would be similar to another financial institution should be discouraged. Another possible delimitation is the fact that the study focused on the impact of credit management on the financial performance of uniCredit. A broader scope of assessment may have given more insight into the impact of credit management on the financial performance of selected MFIs in Ghana.
4 FINDINGS

This chapter comprises the presentation and discussion of the findings in view of the research ques-
tions and objectives outlined. A brief profile of uniCredit Ghana is presented and an assessment of
the credit management activities of the company is done. This section also tries to outline the perfor-
man ce of Ghana’s financial sector in relation with the Finnish financial sector.

4.1 Profile of uniCredit Ghana

uniCredit Ghana Limited is one of the leading Savings & Loans Companies in Ghana, licensed by the
Bank of Ghana under the Non-Bank Financial Institutions Act 2008 (Act 774). The company is head-
quartered at No. 3 North Ridge Lane, Accra within the capital’s cosmopolitan area. Since 2007, the
footprints of uniCredit on the financial and banking landscape of Ghana have been progressively dis-
tinct, with growing number of fully-networked branches spread across the country.

uniCredit envisions becoming the most efficient and effective Savings and Loans Company operating
in the SME Banking market. In furtherance of this, the company seeks to provide its esteemed cus-
tomers with convenient, tailored and reliable banking products and services through its state-of-the-art
IT infrastructure and dedicated team of professionals deployed across all branches and business units.
uniCredit offers a range of personal, business and institutional financial solutions that are designed to
deliver optimum value to customers.

uniCredit is also committed to distinguishing itself through excellence, as is evidenced by its listing on
the Ghana Club 100 as a member of the prestigious group of the current top 100 companies in Ghana.
Again, uniCredit was adjudged the best non-bank financial institution of the year (2015) at the 2016
Made in Ghana Products and Services Award. These recognitions of the institution’s performance
validate its focus on ensuring both productivity and operational vigilance to secure customers’ inter-
est s.

With growing balance sheet, increasing customer base, an aggressive branch expansion drive and the
introduction of robust IT infrastructure, uniCredit gives customers several reasons to own any of its
deposit and credit products. The company keeps to its brand promise in going the extra mile to delight
its esteemed customers through a responsive and proactive approach to handling personal and business needs. The products and services offered by uniCredit to its cherished personal and business clients include:

1. Business Advisory Services
2. Business planning
3. Financial planning
4. Stock management,
5. Cash flow forecasts, and
6. Remittance services.

The mission of uniCredit Ghana is to develop financial products and services and make them easily accessible to its target market. The vision of uniCredit Ghana is to be the most efficient and effective Savings and Loans Company operating in the SME Banking Market. uniCredit’s core values include caring, flexibility, efficiency, integrity, teamwork, accountability, and professionalism.

4.2 Credit Management Practices in uniCredit

The first objective of this study was to examine the credit management practices being implemented at uniCredit Ghana Ltd. The Credit Manager of uniCredit indicated that client appraisal is a viable credit management practice. It was established that the availability of collateral is considered while appraising clients; failure to assess customers’ capacity to repay results in higher credit defaults; there is critical consideration of customers’ character during credit appraisal; and that uniCredit has competent personnel to carry out effective client appraisal.

Again, the researcher observed that uniCredit uses credit risk control in its credit management process. According to the Credit Manager, limit on loans is a viable credit management strategy that ensures that credits do not exceed a minimum threshold. He also stated that flexible repayment periods reduce the rate of credit default; penalty for late payment enhances customers’ commitment to loan repayment schedules; use of customer credit application forms improves monitoring and evaluation of loan portfolios; interest rates charged affect the performance of loans in MFI.

Furthermore, the study revealed that uniCredit uses collection policy in its credit management to effectively recover loans from clients. The Credit Manager indicated that formulation of collection policies
has not been a major challenge in the credit management process and as well, enforcement of guarantee policies provides better opportunities for loan recovery in case of loan defaults. Proper staff incentive is recognized as an effective tool in improving recovery of delinquent loans, and a stringent credit policy is more effective in debt recovery than a lenient policy. Also, he indicated that the credit department conducts regular reviews on collection policies to improve state of credit management, and finally that available collection policies have assisted in achieving effective credit management. An assessment of the 2017 financial statement (Appendix 1/2) of uniCredit Ghana shows that the company sought approval from the Bank of Ghana (BoG) to write off a whooping GH¢8,566,616 (€1,577,645.67) bad debts, which caused a 47.17% decline in pre-tax profit.

Additional credit management processes that are adopted currently by the institution include: the background check for full disclosure of information for appraisal purposes, granting of concessionary rate to good customers, extension of loan duration from 12 to 24 months, pre and post disbursement monitoring, insurance of loan products, and quarterly recovery and monitoring. Others include, reduction in processing fees and days of contribution as a procedure for accessing susu loan products, taking cash collateral for all loan facilities, inspection of businesses/homes of borrowers, policies on loan graduation based on client's loan repayment performance, using the risk department to recover bad loans and expired loans, inter branch monitoring and recovery teams formed to make loan recovery effective.

4.3 Credit Policies in Finland

As in any financial institution, the primary criterion for obtaining a loan or credit facility is ability to repay the debt. Steady income is one of the critical variables MFIs consider before advancing credit, although temporary job is not necessarily an obstacle to obtaining a loan if the applicant proves to be credit worthy. According to the Forward-Looking Financial Sector (FLFS Report, 2017), the Finnish financial sector has remained a strong and responsible builder of economic progress and general well-being. The Finnish financial sector operates responsibly through adherence to sustainable development principles and the good practices collectively established by the sector. In addition to legislative compliance, the financial sector also always considers the social, economic and environmental impact of its operations. The report further indicates that, the sector invests in loss prevention and promotes responsible investing and lending, electronic services, and wellbeing of the sector’s employees.
The sector and its customers together annually contribute about €4.5 billion in taxes. The Federation of Finnish Financial Services has made two commitments to sustainable development with the objective of improving the society’s use of resources and reducing carbon footprints. The financial sector’s commitments are part of Commitment 2050, a nationwide project launched by the Finnish National Commission on Sustainable Development (FLFS Report, 2017).

Examining the report further revealed the following as the credit policies adopted and practiced in the Finnish financial sector. The assessment of credit applicants’ ability to repay is based on interest rates significantly higher than the current interest rate level. Revised banking regulation has resulted in stricter terms in lending. Finnish banks engaged in microfinance activities have improved their credit risk management activities by adopting correct risk pricing methods. This has contributed to Finland achieving a 1.6% rate of non-performing loans, which is the fourth lowest rate from banks in EU countries at the end of September 2016. The report shows that Sweden (1.0%) is the country with lowest ratio of banks’ non-performing loans, followed by Luxembourg (1.2%), and Estonia (1.4%) (European Banking Authority, 2016). It can therefore be concluded that the Finnish financial sector has a very good debt recovery rate and that the Finnish people pay their debts or loans dutifully. The figure below depicts the ratio of banks’ non-performing loans in Europe with specific focus on Finland.

![Figure 1: Ratio of banks’ non-performing loans](image)

There is a comprehensive toolkit to prevent the excessive indebtedness of businesses and households. The Finnish Financial Supervisory Authority (FIN-FSA) has decided to set a floor to the average risk.
weight of certain banks’ home loan and other loan portfolios by July 2017 (FLFS Report, 2017). Businesses have good access to financing from banks and other financial institutions. Financial institutions are able and willing to finance all profitable and sensible projects that companies approach them with. However, the application of stringent credit management policies makes it difficult for some companies to acquire adequate financing despite their attempts. Finnish financial sector institutions ensure that clients have adequate collateral and equity in order to ensure the credit is risk-free.

### 4.4 Effect of Credit Management on Financial Performance

The financial performance of uniCredit is assessed using key indicators including total assets, total deposits, loans and advances, return on equity, profit before tax, and profit after tax. The researcher examines uniCredit’s performance over a five year period from 2013 to 2017. According to uniCredit’s 2017 Annual Report, pre-tax profit declined from GH¢13,779,182 in 2016 to GH¢7,280,141 in 2017 representing a 47.17% decline as a result of the approval received from Bank of Ghana to write off GH¢8,566,616 bad debts. After a provision of GH¢1,317,898 was transferred to Income Surplus whiles GH¢2,445,966 was transferred from the Income Surplus Account to the Statutory Reserve Fund in compliance with section 34 of the Banks and Specialized Deposit Taking Act, 2016 (Act 930).

#### 4.4.1 Total asset

The concept of asset quality in financial management involves the process of evaluating asset of organizations or financial institutions, which facilitates the measurement of their size and level of credit risk linked to operations. The meaning of asset quality and loan quality are essentially same and their management can be very essential as far as financial sector performance is concerned (Adeolu, 2014). More often, a financial institution’s loans tend to generate more share income among the entire assets of the organization. On the other hand, financial institutions tend to generate more income from loan portfolios than other assets (Dang, 2011). Figure 2 below depicts the total asset situation of uniCredit over the past five years.
Figure 2: Total Asset (uniCredit Annual Report, 2017)

Figure 2 above shows that asset quality has been improving from 2013 to 2017 with 201/2017 recording the lowest percentage increase in total assets. Asset increased by 29.86% for the period between 2013 / 2014, increasing further to 61.24% between 2014 / 2015. Although assets increase for the period between 2015 / 2016, the rate of increase reduced from 61.24% to 48.65%. Total asset increased by 27.2% from GH₵488,182 in 2016 to GH₵622,529 in 2017. It can be inferred from the information presented in Fig 2 that, uniCredit has a strong asset position which is a measure of good financial performance. It also indicates that the company has quality asset/loan position meaning that the credit management practices are effective.

4.4.2 Total deposits

Figure 3: Total Deposits (uniCredit Annual Report, 2017)
Figure 3 shows that deposits increased by 32% from GH¢123,201 in 2013 to GH¢243,261 in 2014 and increased by 49.58% between 2014 and 2015. Again, deposits increased by 46.13% between 2015 / 2016, and increase by 21.89% between 2016 and 2017. It can be inferred from the information above that uniCredit has a good financial position with consistent increase in depositors’ funds. Again, an increase in deposits point to the fact that uniCredit is well capitalized and that appropriate banking principles are being applied including credit management strategies.

4.4.3 Loans and advances

The figure presented below depicts the performance of uniCredit based on its loans and advances for the period 2013 to 2017.

![Loans & Advances](uniCredit Annual Report, 2017)

From figure 4 above, uniCredit’s loans portfolio witnessed a marginal increase from GH¢94,389,000 in 2016 to GH¢95,918 in 2017 representing a 1.62% which marked a turnaround from the downward trend of the previous years. Loans and advances increased from GH¢82,103,000 in 2013 to GH¢86,734 in 2014 representing 5.6%. Again, loans and advances increased substantially from GH¢86,734 in 2014 to GH¢101,597,000 in 2015 representing 17.14%. It can be inferred from the analysis above that uniCredit’s performance is good in terms of its growing loans and advances portfolio. This shows that uniCredit’s credit management activities have been effective although the compa-
ny had to write-off GH¢8,566,616 in 2017. According to Brown, Fazzari and Petersen (2009), the allowing of loans is a noteworthy business for most widespread financial institutions. Loan portfolio regularly shapes the assets of financial institutions and ensures increase in income and profit margins. One of the ways of improving profitability levels is to be able to recover more bad debts and this is essential for institutional performance. A critical delinquency management method involves cultivating an institutional culture that embraces zero tolerance of arrears and immediate follow up on all late payments. If more debts are going bad, it means that more funds are getting locked up in the hands of debtors which can have an effect on the capitalization of the institution and lead to more serious liquidity concerns.

4.4.4 Profit before tax

Profit before tax (PBT) is a measure that examines a company’s profits before the company has to pay corporate income tax. It is calculated by deducting all expenses from revenue including interest expenses and operating expenses except for income tax. Profit before tax holds much value in providing internal management and external users of financial data with a company’s operating performance.

![Profit before tax (GH¢'000)](image)

**Figure 5: Profit before tax** (uniCredit Annual Report, 2017)

From figure 5 above, it is clear that profit before tax increased from GH¢2,998,000 in 2013 to GH¢4,262,000 in 2014 representing 42.16%. Again, PBT increased from GH¢4,262,000 in 2014 to
GH₵9,468,000 in 2015 representing 122.15%. PBT further increased to GH₵13,799,000 in 2016 representing 45.74% before declining to GH₵7,280,000 in 2017 representing 47.24% decrease. The decline in PBT for 2017 was largely attributed to uniCredit’s request to the BoG to write-off GH₵8,566,616. It can be concluded that PBT continued to show marginal to substantive increase from 2013 to 2016 and a marginal decrease in 2017. High PBT is a measure of good performance and an indicator of strong net profit of profit after tax position. It can also be inferred from the above information that uniCredit’s credit management practices have positive impact on the financial performance of the company. This means that if credit management procedures are improved, more revenue can be generated from increased interest income leading to higher profits since interest income are generated directly from performing loans. If more loans are performing, it means the institution can generate more interest income from a healthy loan portfolio.

4.4.5 Profit after tax

Profit after tax (PAT) is a financial performance indicator representing the net profit earned by a company after deducting all expenses like interest, depreciation and tax. PAT can be fully retained by a company to be used in the business. The strength of PAT often determines how much is paid to shareholders when dividend is declared. A strong PAT position ensures that there is high return-on-capital employed, which will enable the company to invest a larger chunk of its profits back into the business in order to enhance the benefits of shareholders.

![Profit after tax (GH₵'000)](image)

Figure 6: Profit after tax (uniCredit Annual Report, 2017)

From figure 6 above, it is clear that profit after tax increased from GH₵2,294,000 in 2013 to GH₵3,216,000 in 2014 representing 40.19%. Also, PAT more than doubled from GH₵3,216,000 in
2014 to GH¢8,240,000 in 2015 representing 156.22%. PAT further increased marginally to GH¢10,354,000 in 2016 representing 25.66% before declining sharply to GH¢4,892,000 in 2017 representing 52.75%. It can be concluded from the information presented above that although uniCredit recorded its highest profit after tax in 2016; the best performance in terms of profit margin was recorded during the 2014 / 2015 financial year. Again, a good PAT position means that there will be high return-on-capital employed enhancing shareholders’ benefit.

4.4.6 Return on equity

Return-on-equity is defined by Investopedia.com as “the amount of net income returned as a percentage of shareholders’ equity. Return on equity measures MFIs’ profitability by revealing how much profit they generate with the money shareholders have invested.

Figure 7: Return on Equity (uniCredit Annual Report, 2017)

Figure 7 shows the financial performance of uniCredit based on its return-on-equity. The year 2013 showed a good return-on-equity of 12.5% declining slightly to 10.6% in 2014. Again, ROE increased marginally from 10.6% in 2014 to 11.6% in 2015, increasing further to 12.7% in 2016 before declining sharply to 5.4% in 2017. ROE is perhaps the most widely used overall measure of corporate financial performance (Rappaport, 1986, p. 31). This assertion was confirmed by Monteiro (2006, p. 3) who stated that ROE is the most important ratio an investor should consider. The fact that ROE represents
the end result of structure financial ratio analysis contributes towards its popularity among analysts, financial managers, and shareholders (Westerfield & Jordan, 2004, p. 67)

This section of the research work has tried to answer the research questions as much as possible in order to achieve the set objectives. The credit management practices of uniCredit Ghana Ltd was examined and outlined in this section. Also, an examination of the Finnish Microfinance Sector was done to ascertain the credit policies being implemented. The author found that the Finnish financial sector is streamlined with appropriate monetary policies and banking regulations to ensure that banks that offer microfinance services do that in a strong financial environment. Finally, an assessment of the financial performance of uniCredit is conducted. Performance indicators used include total assets, total deposits, loans and advances, profit before tax, profit after tax, and return-on-equity.
5 CONCLUSION

The aim of this study was to examine the effect of credit management on the financial performance of uniCredit Ghana Ltd. In order to achieve the broad aim of the study, the author sought to identify the credit management practice of the company; examine credit policies in Finland; and examine the impact of credit management on the financial performance of the company. The qualitative case study research method was identified as the most appropriate method to achieve the objectives of the study with limited time and financial resources. Mainly, secondary sources of information were applied in the development and analysis of the research. In order to acquire relevant information on the credit management practices of uniCredit, the Credit Manager of the institution was contacted on telephone to assist the author. Although it was quite difficult to reach the manager on phone, he finally responded to the call and provided the requisite information for the analysis. The manager also provided the 2013 to 2017 financial statements of the institution to assist the author in making informed conclusions on the financial performance of uniCredit. The problem identified for this study is the rising incidence of business collapses in the financial sector due to high non-performing loans, poor asset quality, and poor credit management policies and practices.

The study revealed that uniCredit applies client appraisal in its credit management process through background check for full disclosure of information, granting of concessionary rate to good customers, extension of loan duration from 12 to 24 months, pre and post disbursement monitoring, insurance of loan products, and quarterly recovery and monitoring. Others include, reduction in processing fees and days of contribution as a procedure for accessing susu loan products, taking cash collateral for all loan facilities, inspection of businesses/homes of borrowers, policies on loan graduation based on client's loan repayment performance, using the risk department to recover bad loans and expired loans, inter branch monitoring and recovery teams formed to make loan recovery effective.

The study also revealed that the Finnish financial sector is a robust one and that all banks are regulated with stringent monetary policy standards. Some banks in Finland have been given the authority to provide microfinance services to selected clients. The striking difference between the Finnish and Ghanaian financial sectors is that in Finland some selected banks have been licensed to provide microfinance services to individuals and institutions, whereas in Ghana MFIs are registered and licensed separately and do not operate as banks. Whereas the Finnish financial sector is properly streamlined
with strong uniform credit policies, MFIs in Ghana tend to adopt different credit policies to suit their different circumstances, a situation that has caused major challenges in debt management.

Furthermore, the study revealed that although the financial sector of Ghana is generally unstable, and many MFIs have collapsed in the past two years, uniCredit has a strong financial position as represented by its total assets, loans and advances, PAT and PBT, high return-on-capital employed (ROCE), and fairly good return on equity (ROE). It was concluded therefore that the credit management practices of uniCredit seem to be effective in controlling its total impaired loans, which has positively impacted on total assets and profits. However, uniCredit must take measures to control its total loans going bad in order to prevent huge bad debt write-offs as the one involving some GH¢8,566,616 in 2017.

This research was unable to thoroughly assess the industry opportunities and threats of both the Finnish and Ghanaian financial sectors. It is therefore recommended for further research that a comprehensive assessment of both sectors be conducted to establish how each sector enhances the performance of industry players. Both qualitative and quantitative research methods should be applied to collect relevant primary and secondary information for more reliable and valid analysis.

I have learned through this research that, strong financial sector regulation can enhance the performance of sector players, reduce non-performing loans and improve asset quality. I have also learned that streamlined financial management systems can create a solid financial sector and ensure fair competition. Finally, I have learned that benchmarking and collaboration are two very important elements that shape the competition and enhance performance. This has made the Finnish financial sector the strongest in terms of Capital Adequacy Ratio (ECB, Banks’ common equity Tier 1 (CET1) ratios in Europe, 30 June 2016).
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APPENDIX 1
### APPENDIX 1

**UNICREDIT GHANA LIMITED**  
(SAVINGS AND LOANS COMPANY)  

#### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
For the year ended 31 December 2017  

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>79,847,530</td>
<td>72,502,992</td>
<td>10.0%</td>
</tr>
<tr>
<td>Interest expense</td>
<td>7,497,946</td>
<td>7,398,632</td>
<td>1.3%</td>
</tr>
<tr>
<td>Net interest income</td>
<td>72,349,584</td>
<td>65,104,360</td>
<td>11.0%</td>
</tr>
<tr>
<td>Fees and commissions</td>
<td>3,015,952</td>
<td>3,187,852</td>
<td>-5.7%</td>
</tr>
<tr>
<td>Other income</td>
<td>924,532</td>
<td>977,922</td>
<td>-5.5%</td>
</tr>
<tr>
<td>Operating income</td>
<td>76,290,068</td>
<td>69,169,034</td>
<td>10.5%</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>41,240,652</td>
<td>36,381,017</td>
<td>13.3%</td>
</tr>
<tr>
<td>Income tax</td>
<td>1,407,364</td>
<td>1,556,688</td>
<td>-9.6%</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>42,648,018</td>
<td>34,824,329</td>
<td>23.2%</td>
</tr>
</tbody>
</table>

#### STATEMENT OF CASH FLOWS  
For the year ended 31 December 2017  

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before tax</td>
<td>41,240,652</td>
<td>36,381,017</td>
<td>13.3%</td>
</tr>
<tr>
<td>Income tax (Benefit)</td>
<td>1,407,364</td>
<td>1,556,688</td>
<td>-9.6%</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cash flows from operating activities</td>
<td>42,648,018</td>
<td>34,824,329</td>
<td>23.2%</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property, plant &amp; equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from disposal of property</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cash flows from investing activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cash flows</td>
<td>42,648,018</td>
<td>34,824,329</td>
<td>23.2%</td>
</tr>
</tbody>
</table>

#### DIRECTORS' REPORT  
For the year ended 31 December 2017  

**The Directors do not recommend the payment of dividend for the year ended 31 December 2017.**  

#### INDEPENDENT AUDITORS’ REPORT  
On the summary financial statements  

**We have audited the summary financial statements of Unicredit Ghana Limited, which comprise the summary financial statements as at 31 December 2017, the summary financial statements of the parent company and the consolidated financial statements of the Group for the year then ended.**  

**In our opinion, the summary financial statements are consistent with the audited financial statements.**  

#### 2. Profitability  
Profitability ratio of the company was in line with the guidelines and there were no material changes in profitability ratios of the company during the year.