YANGON UNIVERSITY OF ECONOMICS
DEPARTMENT OF MANAGEMENT STUDIES
MBA PROGRAMME

A STUDY ON EFFECT OF CREDIT MANAGEMENT ON FINANCIAL PERFORMANCE OF MYANMAR FINANCE INTERNATIONAL LIMITED

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March, 2022

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A thesis submitted to the Board of Examiners in partial fulfillment of the requirements for the degree of Master of Business Administration (MBA)

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ACCEPTANCE

This is to certify that this thesis entitled "**A Study on Effect of Credit Management on Financial Performance of Myanmar Finance International Limited**" has been accepted by the Board of Examiners for awarding Master of Business Administration (MBA).

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March, 2022

ABSTRACT

This study aims to analyze the factors influencing credit management in Myanmar Finance International Limited and to examine the effect of credit management on the financial performance of Myanmar Finance International Limited. In particular, this study highlighted the vital of credit management, namely credit policy, collection policy, and credit control, in a microfinance institution such as Myanmar Finance International Limited. The primary data were collected through questionnaires and samples drawn 110 from 144 managerial level managers of Myanmar Finance International Limited. The secondary data is gathered from previous papers, text books, and documents of Myanmar Finance International Limited. The preceding factors has the significant effect on credit management. The findings also point out that credit management has a positive significant effect on financial performance. The finding also points out that among the credit management practices, credit control has a positive significant effect on financial performance. However, credit policy and collection policy have not significant concerning the financial performance.

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LIST OF ABBREVIATIONS

MFIL	Myanmar Finance International Limited
MFI	Microfinance Institutions
MMSE	Myanmar Microfinance Supervisory Enterprise
FRD	Financial Regulatory Department
DTMFI	Deposit Taking Microfinance Institution
CGAP	Consultative Group to Assist the Poor
IFC	Internal Finance Corporation
MIS	Management Information System
SPI4	Social Performance Indicators 4
PAR	Portfolio at Risk
IT	Information Technology
GDP	Gross Demotics Product
KYC	Know Your Customer

CHAPTER 1

INTRODUCTION

Credit is one of the factors used by businesses to leverage their efficiency and business growth. It can be a powerful instrument that helps to improve business finance. The correct way of managing credit contributes to the triple bottom line of business. The process of granting credit, setting credit product features, defining payment terms, recovering payment, and ensuring borrowers and employees comply with the company's credit policy is called credit management.

Credit management is a core activity of the lending process in microfinance. Microfinance is essential to ensure credit management along with the entire loan term. A strong credit policy, functional loan tracking system, competent staff, and credit management-oriented organization characteristics are essential to get an effective credit management process. Through a loan monitoring system and credit management control, a microfinance institution can achieve its financial goals and also the sustainability.

Myanmar is one of the developing countries in South East Asia. Financial institutions are facing unstable inflation, interest rate intervention, and fluctuation of the exchange rate. The financial sector dominates by 5 state-owned banks and 19 private banks. No foreign banks are not allowed in the last decade (Myanmar’s Financial Sector A Challenging Environment Banks, 2013). Less than 20 percent of the population has access to formal financial services. The majority of the population are not able to access financial service, especially credit product, from banks, and have to deal with an informal loan shark from the markets.

President Thein Sein’s public endorsement of the development of a microfinance sector in May 2011 has opened the door to formalizing microfinance. In November 2011, the government adopted a new Microfinance Law, and it is allowed local and foreign investors to establish fully privately owned Microfinance Institutions (MFIs). The microfinance supervisory enterprise has been tasked to license and supervise microfinance institutions despite its limited experience in supervising financial institutions. Although microfinance law has been issued, no credit bureaus exist in Myanmar for microfinance institutions.

Loan quality and credit management play a vital role to be a successful microfinance institution. The main services of microfinance are lending small loans, taking a small deposits, and other basic financial services to the poor. Due to the nature of small loans and savings, the term “micro” helps to differentiate from other financial institutions, such as banks, and finance companies. Microfinance in Myanmar has not allowed getting collateral for lending, and unsecured loans, which is showing that credit risk is a particular concern for microfinance. Target customers are grass root and middle-class income makers, who are not able to reach formal banking services or the one who has few or no proper assets for keeping collateral for borrowing. On the other side, banks are not allowed to extend credit products and services without keeping collateral. Therefore, microfinance has a very attractive market to lend out micro and small loans to required persons, however, there are a lot of potential risks inherent in lending unsecured loans.

Microfinance in Myanmar develops its credit scoring and credit appraisal guide to verify the creditworthiness of the borrower. There is no centralized credit bureau available for microfinance in Myanmar. This is highlighting crucial of credit management and its role in the lending process. Credit management is critical to obtaining organization performance and maintaining a good loan portfolio in microfinance. Therefore, this study introduces the preceding factors of credit management, credit management practices, and the effect of credit management on the financial performance of Myanmar Finance International Limited (MFIL).

1.1 Rationale of the Study

Identification of creditworthiness and client capacity is very important for microfinance companies. A weak credit management system may lead to lower liquidity levels, financial distress, and decreased cash flow efficiency of the company. According to Scheduler (2002), in today’s business environment risk management and improvement of cash flows are very challenging.

The probability of losses and bankruptcy in microfinance has risen due to the high level of the underperforming loan. The external economic environment, business practices, and political instability are bringing underperforming loans through lower on-time payments rates. The cost of delinquency is very high for the microfinance company; therefore, microfinance experts always finding opportunities to adopt the best practices of

credit management. The best credit management practice shields the company from common pitfalls and bankruptcy. Thus, microfinance companies have to focus on credit management and its preceding factors such as technology, staff competence, and company characteristics that can improve financial performance. Credit management is the key to get the financial performance and organizational sustainability.

Credit management plays a vital role in the lending process of microfinance and finance companies. The sustainability and stability of microfinance depend on the quality of its credit management system. The highest risk of microfinancing business is no repayment after loan disbursement. The main difference between the credit product of banks and the credit product of microfinance is whether secure or unsecured lending. Microfinance is not permitted to take collateral for its credit product. Therefore, microfinance is more careful to perform credit management for granting credit, and credit management, than banks. Microfinance plays a vital role in financial inclusion in Myanmar. According to Myanmar's Financial Sector A Challenging Environment Banks Report (2013), less than 20 percent of the population has access to formal financial services. It shows that 80 percent of the population cannot access formal financial services. The microfinance sector plays an important role, especially in a society where formal financial services and banks are not available. To sustain microfinance and increase its client outreach, microfinance must have proper credit management practices and strong credit control, which may also help to control borrower's over-indebtedness.

This paper sought to determine the effect of credit management on the financial performance of Myanmar Finance International Limited (MFIL), 1st joint venture microfinance in Myanmar (Source:

Directorate of Investment and Company Administration Myanmar). This study focuses on the effect of credit management on the financial performance of Myanmar Finance International Limited (MFIL). MFIL includes in the top 20 microfinance institutions such as Pact Global Microfinance, LOLC Microfinance, Sathapana Microfinance, etc. MFIL is a granted microfinance for offering deposit products to the public, which is known as micro-deposit-taking microfinance (Source: Financial Regulatory Department; Ministry of Planning and Finance Myanmar). This study established a relationship between the financial performance of MFIL and credit extension policy, credit control and monitoring, and debt collection policy. Moreover, the study

established that credit management significantly influences the financial performance of MFIL. The study recommends that MFIL should enhance its credit management by adopting a more stringent policy to a lenient policy for effective debt recovery.

1.2 Objectives of the Study

There are two objectives in this study.

1. To analyze the factors influencing credit management in Myanmar Finance International Limited.
2. To examine the effect of credit management on the financial performance of Myanmar Finance International Limited.

1.3 Scope and Method of the Study

This study focuses mainly on the preceding factors of credit management, credit management, and financial performance. This study examines the credit management practices of Myanmar Finance International Limited. Simple statistical techniques and multiple regression analysis are used in this research. The primary data is obtained from a survey of employees from MFIL with structured questionnaires. The questionnaires are set and distributed to all of the managerial level staff, the total population is 144 in terms of number. A total of 110 respondents take part in this study. This study applies simple random sampling method. A five-point Likert-scales questionnaire is used. The sample size of the study is calculated by Raosoft formula at 90% confidence level.

The research paper analyzes the credit management process of MFIL based on collected data and information. The study focuses on the time from January 2021 until December 2021 for collecting relevant data and reaching its objectives. The specialization point of this paper is credit management practices, credit extension policy, credit control and monitoring, and debt collection policy in MFIL.

1.4 Organization of the Study

This study organizes into five chapters, Chapter one is the introduction; it includes the rationale of the study, the objective of the study, the scope, and method of the study, and

the organization of the study. Chapter two involves the theoretical background of credit management, the meaning of credit risk, and the credit management practices. Chapter three includes the profile and credit management practices of MFIL, credit extension policy, credit control, and monitoring, debt collection policy of MFIL. Chapter four is the analysis of the effect of credit management on the financial performance of MFIL. Chapter five is the part of the finding, recommendation of the study, and limitations and need for further research.

CHAPTER 2

THEORITICAL BACKGROUND

This chapter is about the theoretical background of credit management of Microfinance Companies. Therefore, this chapter includes the meaning of credit management, credit management practices such as credit policy, collection policy and credit control practicing in Microfinance Company. This chapter also presents the conceptual framework of this study.

2.1 Resource Dependence Theory

The present corporate structure is complex and wider stakeholder base; for that reason, there is an associated governance responsibility to manage them (McKinnon, 1973). This would require directors and senior management to recognize the multiple needs of the multiple stakeholders and strategically manage them (Christopher, 2010). Directors must be equipped with the skills, knowledge, and expertise to be able to build effective external relationships and secure adequate resources to address the interest of these multiple stakeholders and wider environmental impacts under current operation conditions (Shaw, 1973). This package of skills, experience, and effectiveness qualities of board members in dealing with external contingencies arising from the impact of wider influencing. Forces or "board capital" as it is referred to are ignored by agency theory as it mainly concentrates on the board's monitoring role and its incentive to monitor (Pfeffer & Salancik, 1978).

The resource dependence theory essentially posits that the ability of organizations to operate under an environment of complexity associated with its wider interdependencies is directly related to the quality and effectiveness of the directors who make up the board or its board capital (Pfeffer & Salancik, 1978). This theory further suggests that corporate boards are governance mechanisms for managing such external and internal environmental influences and reducing uncertainty in such an environment (Gales & Kesner, 1994). The effect of this theory is to improve the overall efficiency of the organization and reduce costs (Hillman, Cannella, & Paetzold, 2000).

Empirical studies have shown a positive relationship between board capital and firm performance (Christopher, 2010; Hillman et al., 2000; Pfeffer & Salancik, 1978; Young et al., 2001). The resource dependence theory to corporate governance state that successful organizations process internal structures that match environmental demand, which links to board size and composition is as a rational organizational response to the conditions of the external environment.

2.2 Credit Management Practices

Credit management is the process of granting credit to a borrower and ensuring customers and employees comply with the company's credit policy. Credit risk exposure in microfinance companies calculates by the sum of overdue outstanding divided by total loan outstanding; which shows how much is in the list of loss exposure namely portfolio at risk (PAR). Additionally, the other two ratios use for robust testing which helps to indicate credit risk exposure. The write-off ratios help to see a percentage of uncollectible loans over the average gross loan portfolio. The risk cover ratios are measured as the loan loss provision and loan loss reserve. This helps to indicate the potential expenses of loan loss on the non-performing or idle loan portfolio. Norell (2001) studied in Accra Ghana sought to establish the various methodologies that MFIS in that country had adopted to reduce outstanding debt. The study found that to reduce the debtor's outstanding credit officers should monitor debt on a continuous and as well have flexible credit policies which should be updated regularly before being enforced, educate clients frequently before issuing any loan and entice the credit officers since they spend most of their time in the field. Key credit management in microfinance is mentioned below.

2.2.1 Credit Policy

Credit product design is included in a vital part of credit management and delinquency management. Credit product features include loan size, loan tenure, interest rate, fees and charges, repayment schedule, compulsory deposit, and other special terms. A credit product is intended for a specific purpose and should have been designed to mitigate credit-related risk.

Client orientation plays an important role in the process of communication between borrowers and microfinance. It will help a borrower to understand the product and process of microfinance before the borrower gets the loan from microfinance. Client orientation can help to know your client well. Through the client orientation program and training, the client knows about the product and process of lending. Clients from urban areas may be aware of loan interest, payment styles, and loan schedules. However, clients from rural areas may not be familiar with formal lending terms and nature. The delinquency rate may increase due to the client's literacy of credit products and the lending process. Microfinance from developing countries train about their product and repayment process to the client their clients before loan disbursement.

2.2.2 Collection Policy

One of the policies that ensure effective credit management is the collection policy. Lack of collection policy on enforcement of on-time payment will bring the poor portfolio performance. Some customers are delayed on repayment while others are not paying at all. The collection effort should therefore aim at accelerating collections from slow payers and reducing bad debt losses (Kariuki, 2010).

In order to continue serving their clients with microcredit facilities. The lending institutes need to effectively manage their loan portfolios. Microfinance portfolio management is the driving force to enable sustainable financial performance. Microfinance institutions that experience a high risk in their loan portfolio, are an indication of high delinquency from customers. This may lead to underperformance of its loan portfolio thus threatening the ability to continue in operation in the long-term (Ledgerwood, 1999). Microfinance institutions need to manage portfolio quality effective strategy in credit control and collection processes. An efficient credit collection policy helps the credit management process be the effective and timely collection.

Loan rescheduling is essential for the borrower who has the willingness without the capacity to repay due to uncertain events such as income is going down due to seasonal market, business downturn, economic and political instability. Structured microfinance should have rescheduling, restructuring, and refinancing to help the vulnerable borrower. This need to be carefully determined to avoid negative consequences from the existing

borrowers, especially in group loan. It can be under extreme conditions by extending the loan term and/or reducing repayment installment size.

2.2.3 Credit Control

The first step in limiting credit management involves screening clients to ensure that they have the willingness and ability to repay a loan. Microfinance Institutions use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000). 5Cs include the character of the client, the capacity of repayment, collateral strength, the capital of business, and the condition of the client. This helps to maintain and promote loan performance within the loan portfolio construction.

The character stands for credit behavior of borrowers such as credit history, and attitude towards the repaying debts. The second C is capacity and the borrower can repay a loan with his/her income. Assets and liabilities portions of business and household are essential to check under the capital. Strong collateral assures the get the loan back from the grantor compared with an unsecured loan. The last C is the condition, and it is a kind of examining the stability of the borrower.

The credit committee plays a vital role to reduce credit risk and ghost clients (fraud). The committee makes the loan decision on the baseline data such as client information and loan information. By using a loan originating system, committees are more efficient to select and approve qualified loan disbursement.

A high level of delinquency rate has adverse effects on individual microfinance and also the industry. Delinquency comes along with compensating for loan delinquency losses for operating expenses increase. Causes of loan default include lack of willingness to pay loans coupled with diversion of funds by borrowers, willful negligence, and improper appraisal by credit officers (Ahmard, 1997). Loan disbursement lag and high-interest rates can significantly increase borrowing transaction costs and can also adversely affect repayment performance (Olomola, 1999).

Delinquency management can help minimize credit loss by chasing and following up on the late payment. Proactive management will start from the credit creation and end up with write-off collections.

2.3 Preceding Factors of Credit Management

Credit management is a vital process of a microfinance institution as it directly influences the firm's liquidity, profitability, and growth of the microfinance institution. There are numerous preceding factors affecting credit management. This study also sought to determine distinct preceding factors such as the effect of technology, staff competence, and company characteristics on the credit management of a microfinance institution.

2.3.1 Technology

Advances in information technology allow firms to structure the information sharing process with varying degrees of customized reporting, real-time access, data access frequency, access levels, and software integration. The software enables automated, integrated, and collaborative processes for receivables management (Makori & Aagongo, 2013). Credit management departs can then better manage collection and disputes, repayment schedules, and lower credit risk. The technology ensures real-time insights, credit limits could be set in the system, and risks monitored. Ramaswamy, Shanmugam, Velu, Rengarajan, and Larsson (2011) carried out a study on the impact of information technology innovations on financial transaction processing including account receivables management. The study found that with information technology innovations there was the movement of information without hindrance across corporate boundaries, time zones, and systems. The study also found that automating all processes beginning with when a purchase order is generated to when payment is ultimately received creates both new efficiencies and reduced costs by providing better visibility of all aspects of financial transaction processing.

The back-office management information system is the backbone of any information system solution and yet it has not received much attention. Microfinance institutions, whether large or small, need to have a strong back-office management information system before attempting to deploy any advanced front-end applications or delivery channels. These would before worthless without having a strong and flexible back-office management information system in place (Ali Ahmad, 2003). While a few microfinance institutions are making good use of technology, the majority are facing difficulties in getting the right solutions reason for this include insufficient organizational resources and human capacity, unavailability of suitable management information system

applications for microfinance, diversity in business processes, and frequent changes in procedures, risk of failure of the management information system, diversity of geography and language, unavailability of vendors and their capacity to implement and support IT solutions, high cost of IT solutions for microfinance institutions, lack of commitment of management and key decision-makers within a microfinance institution, and lack of awareness about the importance of IT.

2.3.2 Staff Competence

Competency is measured in terms of academic level, experience, skill, and the effort of staff for continuous professional development and determines the efficiency of the staff in setting a systematic and disciplined approach to evaluate and improve the effectiveness of accounts management, control, and governance process (Enzhu, 2008). Nurturing a loan officer or credit officer is very important to get a good loan portfolio and higher organizational performance. The microfinance business is a labor-intensive business. Understanding on lending process and credit assessment is an essential competence for a loan officer. Competency defines as the total of observable and demonstrated skills, knowledge, and behaviors that lead to superior performance. Lack of knowledge of the lending process and credit assessment has drawn the whole organization. Due to this factor, most microfinance uses a lot of budget and emphasis on staff training and development. Invoices sent out with incorrect information force the company to either accept the incorrect information or asked the customers for more money. To keep accurate records, the staff should be trained to follow exact procedures in the accounts receivable department (Makori & Aagongo, 2013).

Through the staff incentive scheme, microfinance should create an environment for staff involvement for discouraging delinquency. Microfinance institutions should penalize borrowers for late payments. The system of discouraging delinquency should include penalty calculation on late days, limiting access to rollover loans, and subscribing further services and products.

2.3.3 Company Characteristics

Company characteristics refer to the unique attributes that make an organization distinguish and stand out above others in a particular industry or market (Golan etal., 2003). These are structure-related which includes size, age, and ownership; market-related which includes market orientation and diversification and capital-related which entails capital that plays an important role in business success. As earlier stated, this entails size, age, and ownership. Larger microfinances are more likely to have more layers of management, the greater number of departments, increased specialization of skills and functions, greater formalization, greater centralization, and greater bureaucracy than smaller microfinance (Daft, 1995).

Larger microfinances are more likely to have more layers of management, organized across functional lines, have long-standing barriers between functional departments, and have a bigger and entrenched bureaucracy and more inertia to change compared to smaller microfinances. The size of a firm is one of the major drivers of operational costs. Gonzalez (2007) points out large microfinances are more productive in terms of average cost per borrower and also have better write-off ratios. Usman and Zahid (2011) found that larger microfinances have a higher return on assets, return on equities, and operation self-sufficiency.

Small microfinance not only find it difficult to compete with larger microfinance institutions in the market but they also face problems in obtaining finance, thereby hampering their ability to grow. They have easy access to credit for investment and a range of human capital that is qualified. They are also likely to attain greater strategic diversification (Yang & Chen, 2009). The large pool of customers with an old microfinance institution and the resulting efficiency is, therefore, likely to make it achieve higher growth in outreach and higher return on assets and financial self-sufficiency.

2.4 Financial Performance

Financial performance is the measure of an organization's achievement of the goals, policies, and operations stipulated in monetary terms. It involves the financial and can compare similar firms in the same industry. The main aim of every micro-finance institution is to have operations that are profitable in order to maintain stability and improve

sustainability and growth (Agola, 2014). Financial performance is the ability of the organization to keep on going towards its objectives. Efficiency in expense management should ensure more effective use of MFIs' loanable resources, which may enhance MFIs' profitability. Financial performance can be measured through various financial measures such as profit after tax, return on assets, return on equity, earnings per share, and any market value ratio that is generally accepted (Yenesew, 2014). MFI with inadequate liquidity might be less immune to future uncertainty, the time delay of refinancing, disruption in meeting growth projections, and increased portfolio at risk (Brom, 2009).

In the microfinance business, there are a lot of ratios and indicators to trace the financial performance of an organization. The different ratios used by microfinance institutions to keep track of the institution's financial performance over time. The microfinance institution analyzes financial statements for decision making, adjust for inflation and subsidies, measure portfolio quality, efficiency, and profitability, and choose strategies to reach sustainability. The financial performance of microfinance can be measured in terms of return on assets, return on equities, sales growth, liquidity, sustainability and profitability, and portfolio quality.

The ratios categorize into three groups that are using in microfinance institutions and they are sustainability and profitability, portfolio quality, and asset/liability management. The ratios called operational self-sufficiency, financial self-sufficiency, return on assets, adjusted return on assets, return on equity and adjusted return on equity exists under the category of sustainability and profitability. The portfolio quality category includes portfolio-at-risk ratio, adjusted portfolio-at-risk ratio, write-off ratio, adjusted write-off ratio, risk coverage ratio, and adjusted risk coverage ratio. Asset and liability management is an important subject in microfinance and it can be indicated by the yield on a gross portfolio, portfolio to assets, cost of funds ratio, adjusted cost of funds ratio, debt to equity, adjusted debt to equity, and liquidity ratio. However, one ratio or indicator cannot tell a real intrinsic performance of a microfinance institution. The analysis is based on financial statements that reflect management's needs for clear, organized financial information. This study focused on the relationship between credit management and financial performance.

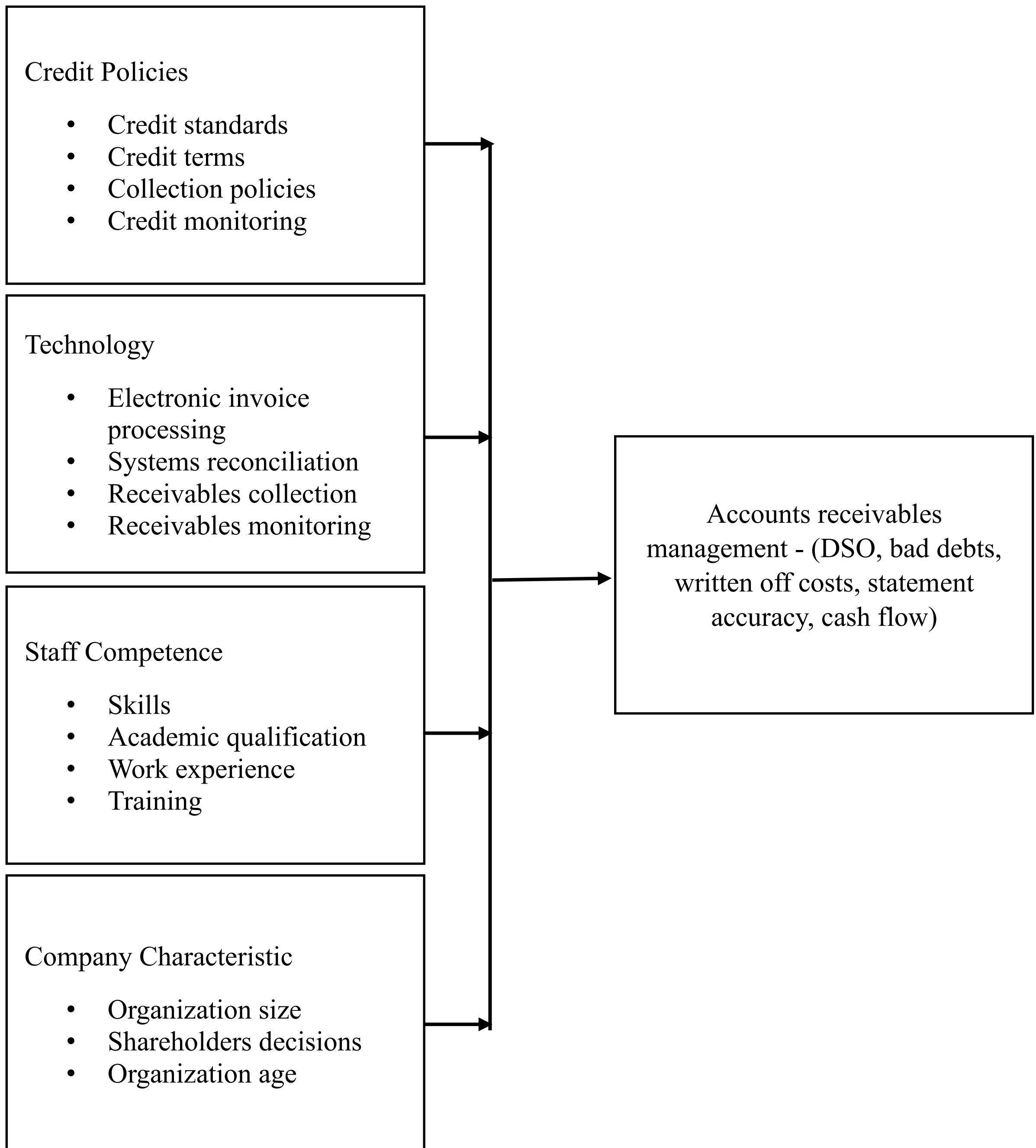
2.5 Previous Studies

Credit management is vital for financial institutions, especially banks and microfinance. Poor credit management may harm the overall quality of the loan portfolio and cause poor financial performance. Financial inclusion is a buzzword in today's financial culture. Individuals and businesses should have access to useful and affordable financial products and services. Without having the proper policies and guidelines about credit, financial institutions are not able to reach their desired financial inclusion goals.

Mbembe, Mutegi, and Were (2017) did a study about the factors affecting accounts receivables management in 2017. The conceptual framework is developed from previous papers and created as its own compilation. According to their study, credit policies, technology, staff competence, and company characteristics have a positive influence on account receivable management.

Their study examined the influences of credit policies, technology, staff competence, and company characteristics on accounts receivables management. Data were collected from 258 pharmaceutical distributors. The study concludes that credit policy affects accounts receivable management positively and to a great extent among pharmaceutical distributor in Nairobi Couty. The study also concludes that technology has appositive effect to a great extent on accounts receivable management among pharmaceutical distributors in Nairobi County.

Figure (2.1) Conceptual Framework of Mbembe, Mutegi &Were



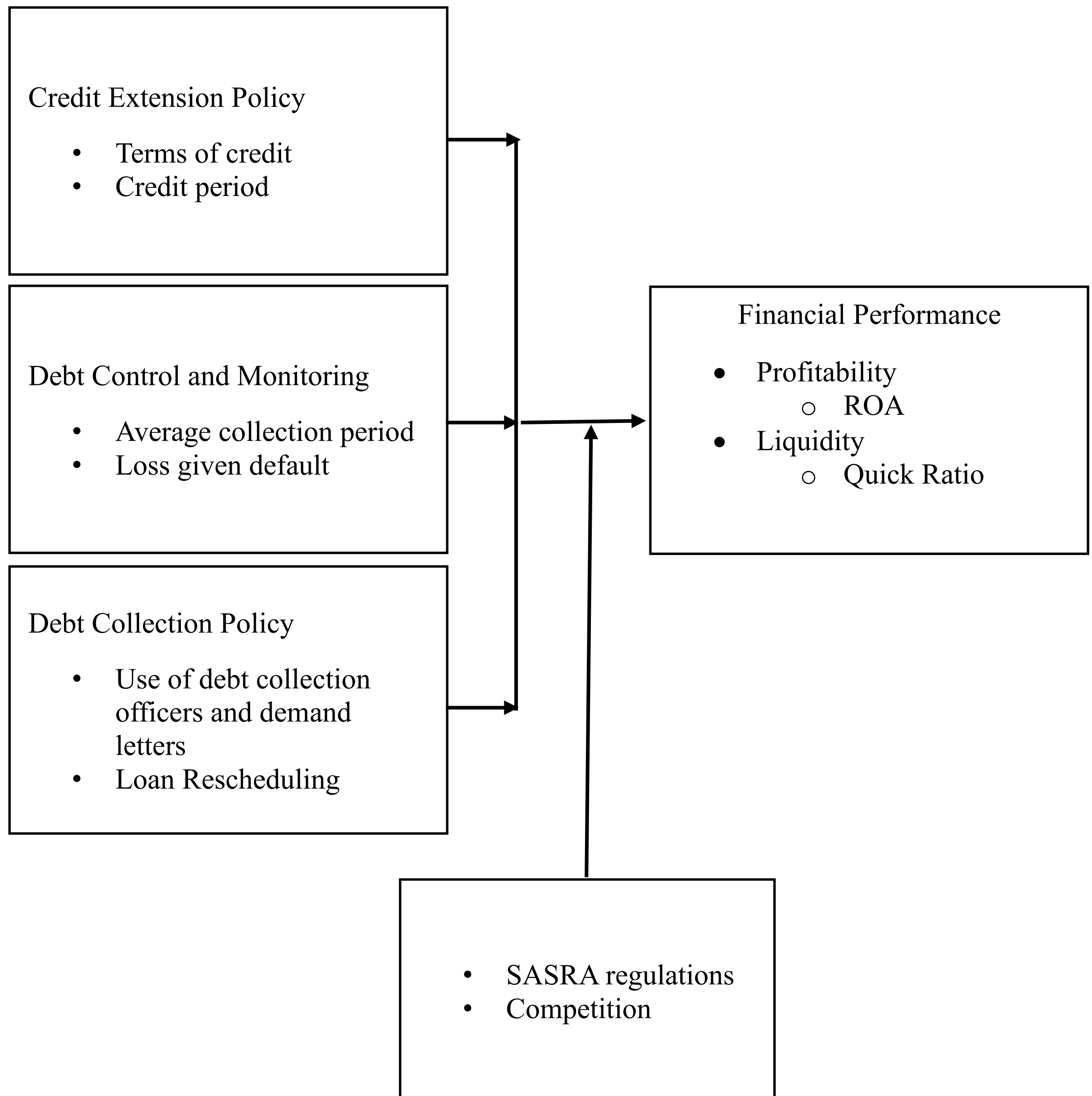
Source: Mbembe, Mutegi & Were (2017)

The study further concludes that staff competence has a positive influence on accounts receivable management among pharmaceutical distributors in Nairobi County. The study also concludes that company characteristics have a positive influence on accounts receivable management among pharmaceutical distributors in Nairobi County.

The study of Irene Nyawira (2019) conducted a descriptive research survey to examine the effect of the credit extension policy, debt control and monitoring, and

collection policy on the financial performance of microfinance institutions in Nyeri county, Kenya. The conceptual framework of this study was shown in the figure below.

Figure (2.2) Conceptual Framework of Nyawira



Source: Nyawira (2019)

The study of Irene Nyawira (2019) used the variable called credit extension policy, debt control and monitoring, and debt collection policy to indicate the effect of debtor management on financial performance. The study of Irene Nyawira (2019) is the same concept as the study of Sophia Machengo Mbembe, Doreen Mutegi, and Mlizabeth Were (2017). Sophia Machengo Mbembe, Doreen Mutegi, and Mlizabeth Were did a study about

the factors affecting accounts receivables management in 2017. In addition, the term debtor management and credit management have the same nature and it is used vice versa in the Ph.D. study of Moses Wanjala Namisi Wekesa (2018) called Effect of Debtors' Management Practices on Growth of Small and Medium-Sized Enterprises in Kenya.

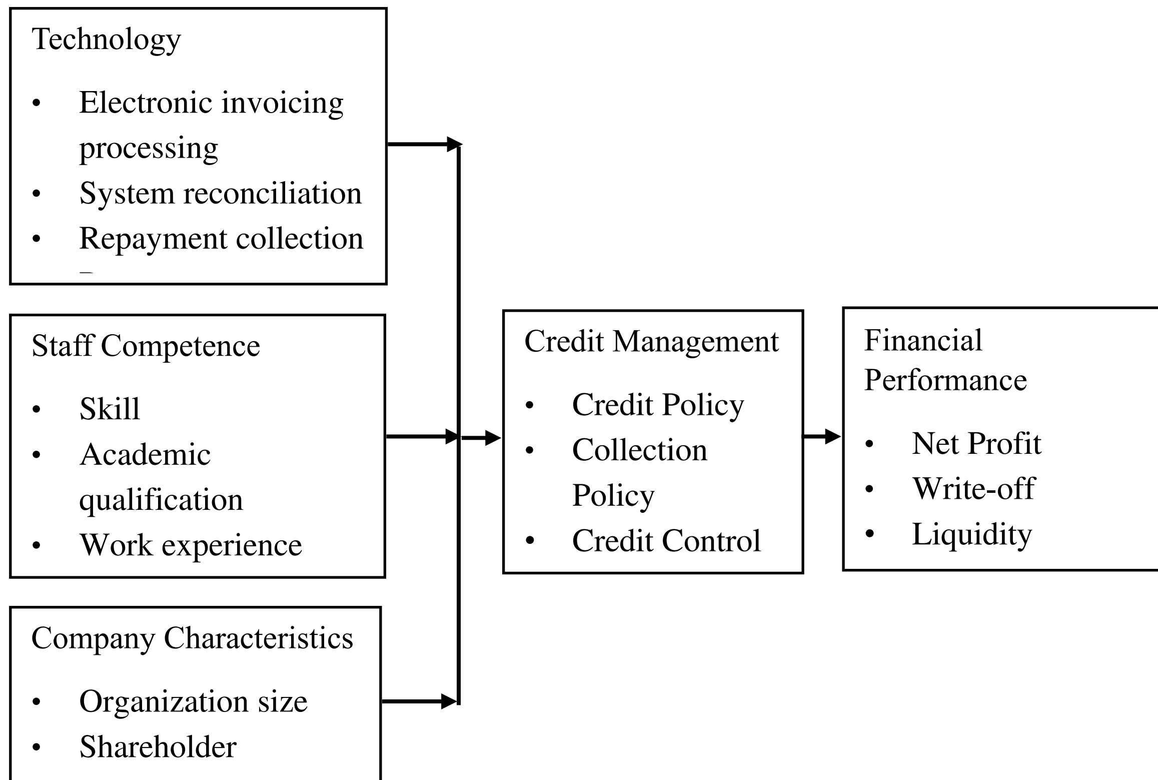
The study examined the relationship between the independent variable of debtors management and the dependent variable financial performance of MFIs in Nyeri County, Kenya. Data were collected from 70 respondents with the various position; operations manager, finance manager, and debt collection officers from eight different microfinance institutions.

The study concludes the influence of credit extension policy, debt control, and monitoring, debt collection policy influence the financial performance of MFIs in Nyeri County. The study found that credit extension was not statistically significant in explaining the financial performance of MFIs. This means that credit extension had a negative relationship with financial performance. In addition, debt collection policy was statistically significant in explaining the financial performance of MFIs. This implied that the debt collection policy had a significant association with the financial performance of the MFIs in Nyeri County. Finally, the study established that debt control and monitoring were statistically significant in explaining the financial performance of MFIs studied. The study concludes that a positive increase in debt control and monitoring would lead to an increase in the financial performance of microfinance institutions.

2.6 Conceptual Framework

This study focused on the relationship between credit management and the financial performance of MFIL. It also examines the credit management practices of MFIL.

Figure (2.3) Conceptual Framework



Source: Own Compilation (2021)

The conceptual frame was developed after reviewing related literature on the study variable. The model shown in the figure above examines the relationship between credit management and financial performance. This conceptual framework is an own compilation based on the two previous studies mentioned previously.

As shown in Figure (2.3), the conceptual framework of this study. This framework consists of three parts: the first three preceding factors of credit management and the second, the outcome of credit management, and the third financial performance of the organization. The first component of the proposed model suggests three dimensions of credit management's preceding factors, namely technology, staff competency, and

company characteristics, and how these preceding influence credit management. The second component of the model is credit management which measures credit policy, collection policy, and credit control. It also describes how credit management affects the financial performance of the organization as the result. Having strong preceding factors will lead to effective credit management and having both variables improve the financial performance of the organization.

CHAPTER 3

PROFILE AND CREDIT MANAGEMENT PRACTICES OF MYANMAR FINANCE INTERNATIONAL LIMITED

This chapter consider the background of MFIL, and it credit management practices. Under the credit management practices, this chapter considers on credit extension policy, credit control policy and debt collection policy of MFIL.

3.1 The Role of Microfinance

Microfinance is a business delivering financial services to low-income households and individuals for the purpose of income generation and overall development. Microfinance in Myanmar has grown significantly in the last few years to become an important sector of financial service providers targeting the low-income population excluded from the regular financial system. 189 Microfinance institutions in Myanmar have been providing micro and small loans to 5 million clients and $1.2 billion in outstanding loans as of September 2019 (International Finance Corporation, December 2020).

The definition of Microfinance institutions (MFIs) has numerous interpretations by different scholars and international organizations. Microfinance refers to the provision of small-scale financial services like microcredit, saving, payment services, micro-insurance, and other services to rural and urban poor clients who haven't access to banking services on a sustainable basis (Parker, 2000). Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their micro-enterprises (Asian Development Bank, 2000). The World Bank suggested a little bit different definition for microfinance by linking it with development.

According to the Myanmar Finscope study, 70 percent of the adult population is financially excluded or only informally served. Only 6 percent of the population uses more than one financial product and only 5 percent of adults have a bank account (Finscope, 2013). The microfinance law was enacted in November 2011 and issued by the former Microfinance Supervisory Enterprise (MMSE), currently the Financial Regulatory

Department (FRD), under the Ministry of Finance. The Government gives an important role to it and more comprehensibly to Inclusive Finance as a means to reduce poverty. In 2016 FRD issued several new directives to improve the environment for commercial microfinance after the Myanmar Microfinance Association submitted a policy reform paper with recommendations. The reform to the law included directives such as the possibility for MFIs to carry out microfinance activities in rural and urban areas based on their business models. Before the 2016 reforms, MFIs had to have at least 50 percent of their loan portfolio and members in rural areas. The possibility to provide Saving products/services by applying for an official Deposit-taking license issued by the Microfinance Supervisory Committee Notification. Microfinance Supervisory Committee issued DTMFI licenses to 6 MFIs. The policy reform paper mentions that compulsory savings may not exceed 5 percent of the size of a loan received. The policy reform paper approach allows microfinance institutions to get permitted the borrowing from local and foreign financial intuitions. Moreover, the policy reform paper mentioned the collateral is not to allowed and limited the maximum loan amount to 10 million Kyats (Myanmar Microfinance Association, 2016).

Many microfinance institutions use the Grameen model and provide group grantee loans to low and middle-level income makers. Microfinance provides group loans and individual loans to income-generating businesses in Myanmar. Very few microfinances deliver loans for personal use like education loans, home improvement loans, and consumer loans. According to Myanmar Microfinance Law 2011, microfinance institutions in Myanmar need to follow the objectives set in the law. The microfinance business law has the vision to reduce the poverty of the basic class people, to cause to develop social, education, health, and economic conditions of the basic class people, create job opportunities, to nurture and cultivate the habit of being economical and saving, to encourage the emergence of new small-scale businesses, to create and to extend the cottage business, to assist the basic class people with other means which may obtain income in addition to agriculture and livestock breeding, and to obtain and distribute technologies from local and abroad (The Microfinance Business Law Myanmar, 2011).

Development of family and social life of households is a goal of microfinance business. In the last decades, microfinance businesses mainly targeted low-income households for social life development. Microfinance institutions learned the art of sustainability from their past experiences and developmental perspective. In other words,

it is a balance between financial performance and social performance. It is seventy percent of the population lives in rural areas far to get easy access to formal banking services.

Microfinance institution plays a vital role in the financial inclusion of Myanmar. Finance plays a key role in stimulating sustainable economic growth. Due to microfinance, the production of goods and services increases which increase GDP and contribute to the economic growth of the country (Sharif Mohd, 2010). The microfinance sector in Myanmar has experienced significant growth in the last few years. Microfinance institutions (MFIs) were serving almost 5 million clients through about $1.2 billion in outstanding loans as of end-September 2019, up from $800 million in loans served to four million borrowers at the end of 2018. One hundred and eighty-nine MFIs operated in the country as of July 2019, up from 120 in 2011 (IFC, 2020).

Myanmar microfinance institutions have been providing micro and small loans without collateral, saving programs, social-welfare programs, financial literacy training, and vocational training for income-generating. Providing unsecured loans is very risky. One of the factors that differentiate microfinance institutions (MFIs) in Myanmar's financial ecosystem is that, uniquely, they are free to lend without demanding collateral (Turnell, S. ,2017). Client orientation training and a sound credit management system are required for microfinance to mitigate the credit risk. A borrower can get a small loan in the first loan cycle. Borrowers can get a higher loan size depending on the borrower's repayment capacity, coordination, and corporation with group members within the entire loan terms, which is an observation of the client's attitude toward credit and creditworthiness. Microfinance institution cultivates the saving habits of its borrower through loan-linked compulsory saving and voluntary saving programs. The compulsorily saving links with the loan amount while voluntary has no limitation. Through the saving programs of microfinance institutions, a borrower can get interest income from their saving. They can manage their saving balance for any emergency use without subscribing to additional loans from others.

Some microfinance delivers client welfare programs or social welfare funds to their clients. This kind of program enables assurance for the client and the borrower's family. Some programs perform like credit insurance in the circumstances of business catastrophic, death, or natural disasters loan outstanding can be writing-off. Microfinance institutions (MFIs) generally aim at improving the access of the poor to financial services while at the

same time being financially sustainable (Niels Hermes, Marek Hudon, 2018). Most microfinance institutions adopted social performance practices in their organizations to help the development of the area and social status of their clients. Due to the complexity of the concept, we argue that social performance should only be assessed by using a multidimensional perspective. This can be done either by applying recent and holistic social performance measures such as the SPI4, or at least by using a combination of proxies, such as outreach, gender, and rural measures (Niels Hermes, Marek Hudon, 2018). Under the social performance programs, microfinance institutions deliver financial literacy training, personal finance training, small business management training, vocational training, and training for small business setup.

3.2 Profile of Myanmar Finance International Limited

Myanmar Finance International Limited is a joint venture microfinance company founded in 2014. Initially, it was a local company called "Myanmar Finance Company Limited" and began operations in 2012 when Myanmar passed the Microfinance Law. In 2014 Myanmar Finance Company Limited got equity investment from foreign companies and reestablished it as a joint venture with the name of "Myanmar Finance International Limited". It is noteworthy that Myanmar Finance Company Limited is the first joint venture microfinance in Myanmar. Its sole purpose establishment was to be a leading trustworthy financial institution by providing microfinance products to local communities. Over the year, MFIL has progressed with the economic development within the country and the financial requirement of small and medium businesses.

The vision of MFIL is to be a leading and trustworthy financial institution in Myanmar providing value-adding financial services to micro, small and medium-size clients. MFIL commits to credit creation that addresses and fulfill the need of the local community and its mission portray what is a clear indication of the company on it. MFIL has the mission to provide reliable and inclusive financial services, create a transparent and innovative environment, achieve mutual sustainability in all responsible ways, improve the standard of living of economically active households, provide the best service to clients and ensure their protection, fulfill all responsibilities and obligations to all stakeholders.

MFIL's management office is situated in Yangon and provides a variety of micro and small credit products through eighteen branches in Yangon division, Bago division, Ayawaddy division, and Mon State. In the earliest years, Myanmar Finance International focused on the Yangon division and Bago division. Later on, it has further grown with the opening of new branches in other states and divisions. To expand the outreach and provide microfinancing to the customer who lived in various parts of the country, MFIL opened other branches in Pyay, Paungde, Bago, Taungoo, Hmawbi, South Okkalapa, Mawlamyaing, Thatone, and Pathein.

3.3 Credit Management Practices of Myanmar Finance International Limited

MFIL has complied with the essentials of corporate governance on credit risk forecasting and credit management through the credit management department.

3.3.1 Credit Policy

Microfinance institutions in Myanmar create differential credit products in the market due to the interest rate capped. In terms of the lending methodology, MFIL offers individual and group loan products in the market. The credit management department of MFIL is responsible for developing credit products for different target customers. Diversification is required in the portfolio in terms of loan size, target client, area, loan product, and borrowers' business sectors to avoid systemic risk. The credit management department needs to monitor the portfolio concentration to avoid shortfall exposure. At the time of product creation, the credit management department tries to test and develop the least exposure to default risk.

The role of a loan officer is essential in field activities. Loan officers of MFIL plays important role in client orientation. MFIL recruit loan officer from its operation area, native loan officer can help a lot with the area expansions and better view of potential area selection. At the time of area expansion, the loan officer is responsible for client orientation and member recruitment. In the very initial stage, the loan officer and respective supervisor pay a visit and conduct the company introduction to local authorities, and explain the company profile, objective, product, and process of the company. After the introduction meeting with local authorities, the loan officer arranges a meeting with the local community

for the purpose of marketing and sharing information with the community. In the meeting with the local community, loan officers share the information about products and services of MFIL through the seminar, wall poster, and pamphlet.

The loan officer is responsible to collect the prospect client info in the meeting with the local community for the loan application process. Moreover, the loan officer has to provide client orientation training to a potential borrower to get a full understanding of the company vision, financial services what the company is providing, client eligibility criteria, credit product features, loan application, loan disbursement, and loan repayment processes.

3.3.2 Collection Policy

Debt collection is one of the main functions of microfinance. Repayment collection is the most important function after the disbursement. MFIL practices field collection, checkpoint collection, office collection, and mobile money agent collection. Depending on the negotiation between borrower and loan office collection can be defined before taking out the loan from the company. The loan officer needs to set the date or day on which the client grantee to pay an installment on time.

Loan officers are responsible for collecting at the field and checkpoint. Field collection means the loan officer directly visits the client's place and collects the loan repayment. This is the most convenient way of collecting for the client and the most effective way to get the on-time collection from the client. However, time-consuming traveling to a client place is not attractive for microfinance. MFIL set up a place near to client area as a checkpoint collection place for clients' convenience and collection efficiency. This can be a private place, where is a place company rents, or a public place, such as a monastery, or social gathering place. Office cashier responsible for office collection at the office cash counter. Normally, borrower comes to the office to pay their repayment over the counter. The fastest and the most convenient payment channel for the company is the mobile money agent channel. MFIL partner with a mobile money service provider for the collection and let the borrower makes a payment through an agent of the mobile money company or borrower's own e-wallet. This is more favorable for most microfinance companies; however, the client may bear transaction fees and charges depending on the repayment amount or the mobile money channels they used for repayment.

MFIL allowed several collection days methods such as days of the week, fixed calendar dates for the collection day. Depending on the loan product type, repayment intervals have been set. Some products are required to collect weekly, some collect bi-weekly, and some are monthly. If collection day falls on a holiday or weekend, collection day will move to the following working day.

Easy to know the collection day, MFIL generated a loan repayment schedule from the loan management system. At the time of disbursement, the company provides a loan repayment schedule to the borrower. At the time of collection day, a borrower can repay the loan through convenience channels. Prepayments are acceptable through any payment channels except mobile money payment. MFIL does not encourage partial payment to avoid further delayed payment and unfavorable repayment practices. A receipt is essentially to provide the client after receiving the cash from the borrower for repayment.

MFIL allowed the client to earn three days grace period on each installment. Loan officers from MFIL have to follow up with borrowers who filed to repay timely, within three days after the scheduled collection date.

In the case of a client who has no ability to pay an on-time payment, the loan officer must approach grantors and need to encourage them to make a payment on behalf of the client. Grantors are the second line to get back the on-time collection and to avoid the unnecessary credit risk.

Loan tenure and repayment frequency are key variables in a loan agreement. MFIL understands well and opens flexible loan tenure for the borrower while other microfinance is using fixed loan terms. The credit department mainly focuses on the capacity of the borrower and their income flow for a loan decision. Loan tenure should be flexible enough to meet with borrower capacity, this is a way to reduce the delayed payment or default.

The credit management department of MFIL is responsible for loan monitoring and repayment performance of each loan. According to the loan loss impairment policy, we have to book expenses as the provision for loan loss depends on the aging. It is regulatory equipment defined by the government supervision body name as Financial Regulatory Department. Loans are to be classified as normal below normal, low quality, potential loss, and loss on the basis of the outstanding loan term.

Table (3.1) Loan Loss Classification for Potential Loan Loss

Aging	Classification	Rate (%)
Current	Normal	2
Up to 30 days	Below normal	10
From 31 to 60 days	Low quality	50
From 61 to 90 days	Potential loss	75
91 days and above	Loss	100

Source: The Microfinance Business Law (2011)

Loan recovery is a unit under the credit management department and is responsible for repayment negotiation with late borrowers, collection from delayed repayment loans, and write-off loans. According to loan classification, MFIL needs to make a hundred percent loan loss provision for 91 days and above loan late. Due to this, MFIL allowed the borrower to get loan extensions, depending on the critical level of their business. In some cases, indicate the extreme cases and consider a loan extension. Under the loan extension, there are several rescheduling methods to generate ease and convenient payment. The credit department reviews the past repayment performance and can be allowed to choose loan extension, moratorium period, payment holiday, lesser repayment, deferred payments, and loan restructuring. Re-assessment is a requirement before the process of loan rescheduling. The credit management department needs to review the borrower's income and expenditure like a new loan application. Depending on the borrower's financial hardship, use one or a combination of the method for negotiation with the borrower and allow to extend or reschedule that is fit for the borrowers.

The method of loan extension allowed the borrower to get an extra loan term after the maturity which has been mentioned in the loan agreement. Interest is calculated on the balance of the loan outstanding and no extra fees are collected. It is applicable for the loan which is over the maturity date.

The method of the moratorium period allowed the borrower to stop principal or interest in the moratoria period. No extra interest is calculated, and no extra fees are collected. It is applicable for an immature loan.

The method of deferred payment allowed the borrower to stop making payments of principal or interest or both for a specific period. Interest is calculated based on the loan outstanding period, and no extra fees are collected. It is applicable for an immature loan.

The payment holiday method allowed the borrower to stop making payments of principal and interest for the specific period without calculating additional interest on the loan outstanding. No extra fees are collected. It is applicable for an immature loan.

The lesser repayment method allowed the borrower to change the scheduled principal to a lesser amount to ease payments. However, maturity is the same, and the borrower needs to settle the loan balance at the maturity date. Interest on loan balance is calculated on outstanding. No extra fees are collected. It is applicable for an immature loan.

Loan Restructuring is the method that allowed the borrower to apply new loan repayment schedule. All outstanding amounts will be treated as a new loan and generate a new repayment schedule as per negotiation with the client and repayment capacity. It is applicable to any loan.

3.3.3 Credit Control

Loan appraisal is the most important process to mitigate credit risk. The respective loan officer or credit officer needs to check the client's identity, the address of the client, suitability of loan size, co-borrower condition, loan grantor condition, income, and expenditures of business and household. The loan officer needs to collect the data at the client's place and collect loan-related information. Loan officers need to perform the verification process while they are collecting data at the client's place. After the data collection and ground verification, loan applications have been submitted to the respective loan committee. The loan committee reviewed and allowed suitable size of loan and loan tenure for each loan application based on the internal credit scorings methods. Loan appraisers from MFIL essentially follow the 5Cs models of credit to evaluate borrower capacity, conditions, and character.

The credit committee of MFIL has the responsibility for approving and evaluating loan applications that have been collected by the loan officers. The committee ensures the quality of the loan before disbursing it to the borrower. The committee shall consist of no

fewer than three members. MFIL separates 3 different tiers of credit committee based on the loan approval limited. They are Head Office Level Credit Committee, Regional Level Credit Committee, and Branch Level Credit Committee. The members of the committee shall be a Head of Credit, Credit Manager, Regional Manager, Branch Manager, and chief loan officer. Committee meetings are essentially conducted on weekly basis. The credit management department shall review and reassess the adequacy of the credit committee charter annually and recommend any proposed changes to the board of directors for approval.

Credit control and monitoring at MFIL is the response by the credit management department. The credit management department is mainly responsible for credit product development, loan default monitoring, loan default analysis, loan recovery, and legal affairs. Credit control and monitoring are important functions for mitigating the overall credit risk. The income of microfinance is interest on the loan and it is mainly received from the performing loan.

The delinquent loan is a business risk for the lending business. MFIL has a clear written definition of delinquency and classification by the late days of aging. Delinquency stands for the loans which failed to pay on time. The cost of delinquency is very high if we compare it with other expenditure figures for microfinance. A higher delinquency rate may threaten the sustainability of microfinance. Numerous reasons can cause delinquency. They are poor loan assessment, poor product design, lack of staff competence, poor collection policy, lack of loan extension policy, economic downturn, disasters, and political instability. The credit management department needs to perform a market survey before creating a new credit product to meet client requirements and better design for mitigating the risk of default. The credit management department develops internal policies for debt collection and loan extension. The credit management department delivers, coordinating with the training department, the data collection techniques, verification, collection mindset, and delinquency reduction techniques. Moreover, the credit management department needs to develop ad-hoc policies for maintaining a good loan portfolio in the case of extra charges such as natural disasters, economic downturns, and political instability.

The credit management department monitors delinquent loans from the perspective of Portfolio at Risk. Portfolio at Risk is the most famous tool to monitor the delinquency

loan in microfinance. A portfolio at Risk is a percentage of the gross loan portfolio that is at risk. In general, it measures by the aging buckets such as PAR 30, PAR 60, and PAR 90. 90 days and above loans are considered bad loans in general. Moreover, Myanmar Finance International state provision for loan loss in written and conditions when the company should writing-off a bad loan.

Loan officers from Myanmar Finance International are responsible for monitoring all the loans under their name in the loan management system. They need to communicate with borrowers within three days after their scheduled date in the case of partial or no payments. If a client is late 30 days for payment, the loan has classified as below normal, 31-60 days late loan has classified as low quality, 61-90 days late loan has classified as a potential loss, and above 90 days are classified as loss. The relative provisional expenses are required to book for each aging category according to the law. The credit management department has a role in monitoring the loan default situation and days of late. The credit management department formulates strategies to reduce bad loans from loan portfolios and trains loan officers for repayment negotiation. The strategy which addresses the portfolio at risk can be defined into two. They are overdue amount reduction and aging reduction. If the client agrees with the negotiation and makes a payment for the overdue loan. A loan can re-perform if it is not overdue. In the case of a client cannot effort for all overdue, loan officers' effort to collect the overdue amount by its gaining, under the strategy of aging reduction. It helps to reduce higher risk to lower risk status in the loan classification and reduces the provision expenses for loan loss.

In addition, MFIL hire lawyers at the company and found a legal department. Legal departments help with all the legal affairs related to the company including a lawsuit against the bad client who does run away from their obligation in the loan contract. The credit management department has to send the list of clients to need to send to the court.

3.4 Preceding Factors on Credit Management Practices of MFIL

There are numerous preceding factors on the credit management practices of a microfinance institution. As earlier highlighted this study sought to determine the most distinct preceding credit management practices of MFIL.

3.4.1 Technology

Information Communications and Technologies (ICT) can be a strategic tool for microfinance institutions to get more efficient and effective. MFIL implemented a management information system for client onboarding, loan generating, monitoring, and reporting loan and client-related data. MFIL can make higher reach out, and better loan monitoring and credit management system. The credit management department and operation department have a better view of credit management by analyzing demographic data, loan transaction data, and payment behavior.

Integrating ICT strategy into business strategy, MFIL partners with numerous mobile payment companies and banks for collecting client repayment via mobile banking, email wallet, bank counters, and agent counters. This contributes a lot to on-time repayment without lunching small offices near the client area. MFIL uses Myanmar Credit Info Exchange (MCIX) for checking credit history and shares credit-related information for the good sake of industry improvement and reduction of over-indebtedness.

3.4.2 Staff Competence

Microfinance business is a labor-intensive business and the set of values and habits of staff, especially front-line staff, represent an organization's foundation of performance and quality. MFIL provides mandatory training for field staff competence such as product training, refresh training, selling skills, and delinquency management training. The human resources department is responsible for job description and job specification development by coordinating with other departments. The interview board composes of the department manager, human resources manager, and department directors and is mainly responsible for recruiting skilled personnel from the market. Setting requirements for qualities and values of recruits also helps organizational development. The training and development department takes care of the orientation programs and hard-skill development for newly recruited staff. MFIL provides newcomer training to staff for understanding values, missions, products, processes, and services. All new staff is required to complete it. MFIL trains its staff eventually through the learning management platform. MFIL allows staff to subscribe to courses uploaded by the training and development department in the learning management platform. Staff can study several subjects in twenty-four-seven through the learning management platform for personal and professional development.

3.4.3 Company Characteristics

MFIL is a microfinance institution that specializes in providing financial services to micro, small and medium business at large. MFIL operates in three divisions and one state through eighteen branches. The organizational structure of MFIL has been designed by the requirement of organizational efficiency to improve credit creation and credit services. The management office has nine departments and three main levels; directors, senior management, supporting officers, and staff. Altogether nine departments run daily operations effectively and efficiently. All departments provide the assistance that essentially delivers to customers in terms of products and services. Altogether four hundred and seventy-five staff working under nine different departments.

One of the departments is mainly responsible for credit quality assurance and loan late recovery called the credit management department. The credit management department develops credit products design to meet market needs. The credit management department defines the credit committee charter appoint credit committee members for loan approval and loan decision. Upon the requirement, the credit management department maintains and amend the parameters of the credit committee charter from time to time and is further consistent with the company's legal and regulatory requirements. The loan recovery process is one of the main functions of the credit management department and focuses on bad debt collection and legal things. MFIL formulated a good credit policy and carried out for all levels of lending-related positions within the organization.

3.5 Financial Measurement of Myanmar Finance International Limited

The financial performance of microfinance involves measuring the result of policies and operations in monetary terms. MFIL uses three types of ratios to monitor financial performance. They are sustainability and profitability ratios, asset and liability management ratios, and portfolio quality ratios. Sustainability and profitability ratios include operational self-sufficiency, financial self-sufficiency, return on assets, return on equity. Under asset and liability management, MFIL analyzes yield on the gross portfolio, portfolio to assets, cost of fund, debt to equity, and liquidity. Portfolio quality ratios include portfolio-at-risk, write-off ratio, risk coverage ratio. These ratios are reflected in the organization's return on investment, return on assets, and value-added.

Financial capacity is the ability to grow; in addition, to indicating resilience, it also shows resilience to all adverse challenges arising from the portfolio. Credit management is the method of collecting and controlling the payments from borrowers. A good credit management system will reduce underperforming portfolios and the possibility of getting into loan write-off. This study aims to understand the effect of credit management on the financial performance of MFIL. Although there are numerous key performance ratios to monitor and manage the financial performance of the company, this study will concentrate on financial self-sufficiency from sustainability and profitability ratios, liquidity from asset and liability ratios, and write-off from portfolio quality ratios to show the relationship between credit management practices and financial performance MFIL. In this study, the main spotlight of focused ratios is based on the results of the expected target of MFIL.

CHAPTER 4

ANALYSIS CREDIT MANAGEMENT ON FINANCIAL PERFORMANCE OF MYANMAR FINANCE INTERNATIONAL LIMITED

This chapter introduced data analysis and presentation following the research objectives. The general purpose of this study was to study the effect of credit management on the financial performance of MFIL. This is due to the fact that financial performance has been at an optimal level. This study uses a Likert scale questionnaire to ensure the collection of data from respondents within a short time. The data collected were analyzed using the statistical package of the social scientist (SPSS). This study used a sample size of 110 and questionnaires were issued to the managerial and managerial level staff of MFIL.

This chapter consists of five main sections. The first section is to examine the preceding factors on the credit management of MFIL. The second section is to explore the credit management of MFIL. In the third part, the effect of preceding factors on the credit management of MFIL is analyzed. The fourth part is to analyze the financial performance of MFIL. Finally, the effect of credit management on financial performance MFIL is analyzed.

4.1. Demographic Profile of Respondents

Out of 110 questionnaires distributed and able to collect the full percentage of it which was deemed sufficient. Table (4.1) shows a summary of the respondents' demographic data in terms of gender, age, level of education, number of years worked in the organization, and the percentage represented of total respondents.

Table (4.1) Respondents of Demographic Data

Demographic Data	Classification Factors	Frequency	Percentage
Respondents	Managerial Level Staff	110	100
Gender	Male	42	38.18
	Female	68	61.82
Age	Under 25	7	6.36
	25 to 30	41	37.27
	31 to 40	59	53.64
	Over 40	3	2.73
Level of Education	Undergraduate	13	11.81
	Bachelor Degree	93	84.55
	Master Degree	4	3.64
Work Experience	Under 2 years	12	10.91
	2 to 5 years	56	50.91
	Over 5 years	42	38.18

Source: Survey Data (2021)

From the Table (4.1), the majority 61.82 percent of the respondents were female while the rest 38.18 percent were female implying that the majority of microfinance is managed by females. On the experience of respondents, 50.91 percent had worked in the organization for over two years and above, and 38.18 percent had worked in the organization for over five years. It is implying that the respondents were knowledgeable about credit management and the financial performance of microfinance. Higher experience and higher competency levels contribute to credit management and credit decision-making within the organization. The majority, 53.64 percent of the respondents were aged between 31-40 years which shows a good aging population in the organization. It also implies that the experienced.

Microfinance business has separate operations terminology in its daily operations which is one of the differences from ordinary business. Staff from microfinance must have suitable academic qualifications to understand and observe the day-to-day operations terminology and calculations. From the Table (4.1), 11.82 percent of the respondents had

undergraduate, 84.55 percent had bachelor's degrees, and 3.64 percent had master's degrees. Academic education is an essential factor to get the staff competency and a higher level of education will contribute to promoting staff competence.

4.2. Reliability Test

The Cronbach's alpha test or the reliability coefficient was used to determine the internal consistency between the multiple dimensions of a variable in a questionnaire. Sekaran (2000) defined that all questions of each variable are needed to measure the reliability which may apply Cronbach's coefficient alpha scale. If the result of the calculation of the alpha test is above 0.6 or equal to 0.6, all questions are consistent and reliable to be applied as the research instrument for this study. (Sekaran and Bougie, 2000).

Cronbach's alpha ranges in value from 0 to 1 and is used to describe the reliability of factors of extract from questionnaires. According to Gliem and Gliem (2003), the closer Cronbach's alpha coefficient to 1.0 the greater the internal consistency of the items in the scale (Sekaran, 2000). If alpha is less than 0.6 which means the results are unreliable. The result 0.6 or 0.7 indicates that the data resulted is reliable. Table (4.2) describes the reliability of the research instruments and the Cronbach's alpha found in the study of preceding factors on credit management, and the relationship between credit management and financial performance.

Table (4.2) Reliability Test

Variable	Alpha (a-test)	No. of Questions
Technology	0.72	6
Staff Competency	0.81	6
Company Characteristic	0.78	4
Credit Policy	0.80	7
Collection Policy	0.71	7
Credit Control	0.76	6

Source: Survey Data (2021)

The Table (4.2) shows that the values of the reliability analysis which are tested the Cronbach's alpha outcome. Alpha values for all the variables are more than 0.6, and which indicates all the questions are reliable and suitable to apply as the research instrument for this study.

4.3. Preceding Factors of Credit Management

Descriptive statistics such as means and standard deviations were used to present the quantitative data with the use of a statistical package for social sciences SPSS. In this study, approaches to the preceding factors consist of 16 questions on a five-point Likert scale was used to examine the preceding factors on credit management. Three preceding factors approaches were explored by questionnaires that included technology, staff competence, and company characteristics.

4.3.1. Technology

MFIL integrates a management information system for tracking and monitoring client information, loan information, saving information, and payment transactions. Loan-related documents such as contracts, disbursement receipts, collection receipts, saving withdrawal receipts, and portfolio reports are generated by the system. Moreover, MFIL partnerships with mobile money payment service providers for accepting loan repayment and saving deposit collection. The managerial level staff were asked to indicate the effect of technology on the credit management of MFIL.

Table (4.3) Technology

Sr.	Descriptions	Mean	Std. Deviation
1	Getting more accurate information provided by Management Information System.	4.33	0.847
2	Ensuring the balance accuracy and timely collection by the use of technology in maintaining client loan accounts.	4.63	0.572
3	Reconciliation of repayment collection and aging by the system are important.	4.65	0.517
4	Availability of systems data assist for granting credit to creditworthy customers.	4.46	0.750
5	System data assist in faster loan disbursement and loan committee decisions.	4.35	0.874
6	Collection improvement by the use of emails and phone.	3.96	1.022
	Overall Mean	4.40	

Source: Survey Data (2021)

From the survey outcomes, the respondents strongly agreed that the use of technology for systems aging and reconciliation of repayment collection are important in credit management as shown by a mean of 4.65. The respondents also strongly agree with a mean of 4.63 that the use of technology for maintaining client loan accounts ensures balance accuracy and timely collections. With a mean of 4.46, the respondents agreed that the availability of systems data for loan management assists in the process of granting credit to creditworthy customers. The respondents strongly agreed with a mean of 4.35 that system data assist in faster loan disbursement and loan committee decisions and with a mean of 4.33 that management Information System helps to get more accurate information for credit management. The respondents further nightery agree nor disagree with the mean of 3.96 that the use of emails and phones improves loan collections in your microfinance business.

4.3.2. Staff Competence

MFIL has a structured curriculum for building up the staff capacity in the microfinance domain knowledge. Training and development department are responsible for delivering newcome training, product training, refresher training, and soft skills training. The recruitment board of MFIL ensures the microfinance domain knowledge and previous experience to get qualified staff. The managerial level staff were asked to indicate their level of management with the various effects of staff competence on credit management of MFIL.

Table (4.4) Staff Competence

Sr.	Descriptions	Mean	Std. Deviation
1	Understanding of the staff on credit policies.	4.02	0.78
2	Assessing repayment capacity is important in credit management.	4.10	0.81
3	Effectiveness of managing loan with the staff who completed credit management training	4.25	0.67
4	Interpersonal skills matter a lot in credit management.	4.31	0.67
5	Sufficient experience in loan processing of staff.	4.27	0.74
6	Positive effect on credit management by adequate training on collection	4.10	0.81
Overall Mean		4.17	

Source: Survey Data (2021)

From the survey outcomes, the respondents strongly agreed that interpersonal skills matter a lot in credit management as shown by a mean of 4.31. The respondents also strongly agreed with a mean of 4.27 that the staff has sufficient experience in loan processing. The respondents also strongly agreed with a mean of 4.25 that the staff with credit management training are more effective in managing loans. In addition, the respondents strongly agreed with a mean of 4.10 that the repayment capacity assessment is important in credit management and the adequate training of staff on collection skills has a positive effect on credit management. Further, the respondents strongly agreed with a mean of 4.02 that the staff has an understanding of the credit policies.

4.3.3. Company Characteristics

MFIL has the appropriate company structure for credit management. The direct control company has a credit management department, and a loan recovery unit exists under the credit this department. For credit appraisal and loan quality control, the company has three tiers of credit committees. They are head office level, regional level, and branch level. Shareholders commit to new credit products and procedures review to be in line with organizational goals. The managerial level staff were asked to indicate the effect of the company characteristics on the credit management of MFIL.

Table (4.5) Company Characteristics

Sr.	Descriptions	Mean	Std. Deviation
1	Appropriateness of company structure for credit management.	4.19	0.70
2	Involvement of shareholders in credit policy-making.	4.26	0.93
3	Comparing the last long of company with to the most.	4.14	0.83
4	Constructing good loan portfolio by credit committee.	4.16	0.80
	Overall Mean	4.19	

Source: Survey Data (2021)

From the findings, the respondents strongly agreed with a mean of 4.26 that the shareholders are involved in the credit policy-making of MFIL. The respondents also agreed with a mean of 4.19 that the company structure is appropriate for credit management. With a mean of 4.16 the respondents indicate that the credit committee enables to construct of a good loan portfolio. The respondents also strongly agreed that the company is last long compared with most microfinance in Myanmar.

4.4. Credit Management

Descriptive statistics such as means and standard deviations were used to present the quantitative data with the use of a statistical package for social sciences SPSS. In this study, approaches to credit management consist of 20 questions on a five-point Likert scale was used to examine credit management on financial performance. Three credit

management approaches were explored by questionnaires that included credit policy, collection policy, and credit control.

4.2.1. Credit Policy

The credit policy of MFIL is developed by the credit management department and it has mentioned day-to-day credit management processes and standard operations procedures in detail. MFIL has defined loan product templates, and standard loan-related documents such as client information, loan application, loan contract, disbursement receipt, collection receipts, and bad loan collection receipts. Loan-related information is mentioned under each loan product template, such as loan amount, interest rate, tenure, grantor requirement, saving requirement, grace period, and repayment capacity requirement. The managerial level staff were asked to indicate the effect of the credit policy on the financial performance of MFIL.

Table (4.6) Credit Policy

Sr.	Descriptions	Mean	Std. Deviation
1	Standardized loan forms of institution.	4.64	0.59
2	Assessing the borrower's financial position in regular.	4.45	0.79
3	Giving maximum period to borrowers to repay the loans.	4.63	0.69
4	Eligibility of client for the loan after compulsory savings.	4.75	0.65
5	Evaluating credit terms before credit extension.	4.75	0.50
6	Evaluating credit history before extending credit.	4.80	0.45
7	Considering the credit extension terms and conditions before a credit policy change.	4.63	0.68
	Overall Mean	4.66	

Source: Survey Data (2021)

Most of the item means were above average given that they were measured out of a maximum of 5. This means that the respondents were mostly in agreement with

statements, an indication that the credit policy is implemented by MFIL as mentioned by the statements. An examination of the information continued on the Table (4.6), revealing that the standard deviations of the items were relatively low as they ranged 0.45 to 0.79. The low standard deviation implies that there were narrow variations in responses of the items. Some respondents strongly agreed with the statements and those strongly disagreed with them. This is an indication that there were narrow variations in terms of how MFIL handles credit policy. Generally, as evidenced by the mean number, all are strongly agreed with the statements of credit policy.

4.2.2. Collection Policy

The credit policy of MFIL is developed by the credit management department and it has mentioned day-to-day credit collection processes and standard operations procedures in detail. Type of repayment style, calculating payment frequency, payment channels, grace period, and interest on late repayment are mentioned in detail. Moreover, it mentioned on-time payment and loan classification according to aging. Negotiation with late loan clients and type of loan extension and loan rescheduling are included in this policy. The managerial level staff were asked to indicate the effect of the collection policy on the financial performance of MFIL.

Table (4.7) Collection Policy

Sr.	Descriptions	Mean	Std. Deviation
1	Getting on-time payment due to the collection policy	4.52	0.67
2	Applying collection policies to all borrowers irrespective of their social standing.	4.76	0.56
3	Daily delinquency monitoring system of the company.	4.73	0.52
4	Having system of follow-up actions on late repayment.	4.55	0.64
5	Planning to have a sufficient number of staff, depending on loan account quantity.	4.35	0.79
6	Cracking down by policy on corruption in the process of collecting money.	4.85	0.38
7	Arranging transportation in loan collection for convenient.	4.29	0.85
Overall Mean		4.58	

Source: Survey Data (2021)

The results of the Table (4.7) shows that the item means were high given the maximum was 5, the majority of respondents are strongly agreed with the statement implying that MFIL has adopted a collection policy as a credit management practice. Generally, no one would have a disagreement on the statements which are showing the collection policy of MFIL. An examination of the collection policy of MFIL, revealed that the standard deviations of the items were relatively low as they ranged 0.38 to 0.85. The low standard deviation implies that there were narrow variations in responses of the items. Some respondents strongly agreed with the statements and those strongly disagreed with them. This is an indication that there were narrow variations in terms of how MFIL handles collection policy. Generally, as evidenced by the mean number, all are strongly agreed with the statements about collection policy.

4.2.3. Credit Control

Credit control is mainly about how MFIL handles to improve the loan quality. The credit management department of MFIL ensures credit quality through credit policies. Credit management departments define standard benches that borrowers should have and targeted client types to achieve the credit quality goals. The managerial level staff were asked to indicate the effect of the credit control on the financial performance of MFIL.

Table (4.8) Credit Control

Sr.	Descriptions	Mean	Std. Deviation
1	Verification of loan documents through the internal audit.	4.64	0.62
2	Monitoring timely repayment by the institution.	4.66	0.56
3	Tracing the payments by using the portfolio at risk method.	4.74	0.52
4	Reminding frequently to borrowers about the loan outstanding.	4.48	0.83
5	Allocating of adequate annual budget for debt monitoring.	4.16	0.83
6	Educating clients on borrowing terms and conditions in regular.	4.44	0.89
Overall Mean		4.52	

Source: Survey Data (2021)

Table (4.8) shows that the means ranged were very high. The high means is an indication that MFIL considers credit control and monitoring a fundamental aspect of its financial performance. An examination of the result in the table shows that most of the item means were high given that they were out of a maximum of 5. These results suggest that credit control and monitoring are done particularly well by MFIL. The result also reveals that the standard deviations of the items were generally low and ranged between 0.52 and 0.89. A low standard deviation is an indication of similarity in responses of subjects to an item while a high standard deviation means inconsistency in responses of subjects to an item.

4.2.4. Summary of Credit Management

Strong credit management can increase the bottom line of the organizational financial situation. Strong credit management is a vital part of the lending process for microfinance institutions. It can only achieve through proactively managing the credit and continuously focusing on preceding factors.

Table (4.9) Credit Management

Sr.	Descriptions	Mean	Std. Deviation
1	Credit Policy	4.66	0.42
2	Collection Policy	4.58	0.39
3	Credit control	4.52	0.49
	Overall Mean	4.59	

Source: Survey Data (2021)

The distribution of average scores of the credit management is given in the Table (4.9). This shows that most respondents strongly agreed that MFIL is implementing good credit management practices. Credit Policy has the highest mean score is 4.66 among the three criteria which indicates that the company has a strong credit policy and which helps to promote the financial performance of MFIL. The second highest means value is 4.58 and it indicates the role of collection policy in credit management of MFIL and which enables the higher liquidity of a firm. The last is credit control and it has the least mean score 4.52. This indicates the organization's commitment to proactive credit management. As a result, there is a good credit management system in MFIL and makes more meaningful contributions to higher financial performance.

4.5. Financial Performance

In this study, the financial performance of microfinance in MFIL is analyzed. Profit related to credit management practices and its preceding factors. The respondents give an average score of 3.97 according to Table (4.10). Therefore, if the score is greater than 3, respondents feel that the financial performance of the company is increased and profitable. Among all, they are highly satisfied that the net profit of the firm in 2020 positively relates

to expectations and the collection rate of the firm in 2020 positively relates to the expectations with the mean value of 4.01. Moreover, the liquidity of the firm in 2020 positively relates to the expectations get the mean value of 4.0.

Table (4.10) Financial Performance

Sr.	Descriptions	Mean	Std. Deviation
1	Net profit of the firm in 2020 positively relate to expectations.	4.01	1.10
2	The disbursement rate of the firm in 2020 positively relate to the expectations.	3.99	1.04
3	The collection rate of the firm in 2020 positively relate to the expectations.	4.01	0.91
4	The write-off ratio of the firm in 2020 positively relate to the expectations.	3.85	1.02
5	The liquidity of the firm in 2020 positively relate to the expectations.	4.00	1.04
Overall Mean		3.97	

Source: Survey Data (2021)

According to the results shown in the Table (4.10), all indicators of the financial performance of MFIL have a positive relationship with credit management. It shows that the financial performance of MFIL has increased over time as a result of strong credit management. Financial performance is one of the major important topics to discuss to credit management.

4.6. Analysis on the Effect of Preceding Factors on Credit Management

In this study, the three indicators of the preceding factors are used to measure the credit management of MFIL. The multiple linear regression analysis is applied to examine the impact of independent variables of the preceding factors on a single dependent variable of credit management. Results from the regression between credit management and its preceding factors such as technology, staff competence, and company characteristic are shown in the Table (4.11).

According to the Table (4.11), R square is at 50.2 percent, and adjusted R square is 48.8 percent. This indicates that the model can explain 48.8 percent about the variance of the dependent variable (credit management) with the independent variable (technology, staff competence, company characteristics). Durbin-Watson value is 1.675(nearly 2). It indicates that there are no auto correlations in the sample. All the VIF (variance inflation factor) of independent variables are less than 10. Thus, there is no problem with multicollinearity (correlation between independent variables) in this study. The value of F-test, the overall significance of model, turned out highly significant at the 1 percent level.

There is a positive relationship between technology and credit management which is positively significant at 99 percent confidence interval. It can be said that taking all other independent variables at zero. One unit increase technology would result in 0.283 unit increase in credit management. According to the outcome, technology in microfinance has to be strong enough to improve credit management. It shows that microfinance can achieve data accuracy, strong credit controls, and higher client outreach by leveraging technology in business operations. With the database connection with the credit bureau and microfinance data exchange systems, microfinance can perform a prior review of the creditworthiness of potential borrowers before releasing the loan. Although microfinance knows the effect of technology cannot rely much on the technology. Due to poor ICT infrastructure and telecommunications systems, microfinance still needs a competent workforce for rural and semi-urban operating areas.

According to the regression analysis, there is a positive relationship between staff competence and credit management which is positively significant at 99 percent confidence interval. It can be said that taking all other independent variables at zero. One unit increase staff competence would result in 0.188 unit increase in credit management. According to the outcome, staff competence has a positive contribution to credit management. In the microfinance business, client verification and checking repayment capacity are vital processes before releasing the loan. Staff competence plays an important role in such kind of process. Staff from microfinance must have the ability to understand the financial terminology and the ability to deal with numbers. It shows academic qualifications are a matter of consideration for staff competence. Microfinance can improve credit management and default solving by recruiting better experiences and qualified staff.

Table (4.11) The Effect of Preceding Factors on Credit Management

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.904	.264		7.206	.000		
Technology	***.283	.065	.369	4.337	.000	.650	1.538
Staff Competence	***.188	.056	.260	3.356	.001	.782	1.279
Company Characteristics	***.156	.051	.253	3.050	.003	.681	1.467
R	.708[a]						
R Square	.502						
Adjusted R Square	.488						
F-value	***35.601						
Durbin-Watson	1.675						

Note: *** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

a. Dependent Variable: Credit Management

Source: Survey Data (2021)

In addition, there is a positive relationship between company characteristics and credit management which is positively significant at 95 percent confidence interval. It can be said that taking all other independent variables at zero. One unit increase company characteristics would result in 0.156 unit increase in credit management. The microfinance business is not like the other ordinary business. Although the size of the organization, and the age of the organization are smaller than the competitors, microfinance still can compete with major market players by improving the technology part.

Regarding to the Table (4.11), the technology and staff competence has relatively larger contribution to the effect on credit management of MFIL. Company characteristics also have a relatively weak positive contribution towards credit management following other two factors.

4.7. Analysis on the Effect of Credit Management on Financial Performance

This study analyzes the impact of credit management on the financial performance of MFIL. Multiple linear regression analysis is applied to investigate the impact of the independent variable of credit management on a single dependent variable of financial performance.

According to the Table (4.12), R square is at 26.0 percent and adjusted R square is 24.0 percent. This indicates that the model can explain 24.0 percent about the variance of the dependent variable (financial performance) with the independent variable (credit policy, collection policy, credit control). Durbin-Watson value is 1.463 (nearly 2). It indicates that there is no auto correlation in the sample. The VIF (variance inflation factor) of the independent variable is less than 10. Thus, there is no problem with multicollinearity (correlation between independent variables) in this study. The value of F-test, the overall significance of the model, turned out highly significant at 1 percent level. It can be said that there is a positive relationship between credit management and the financial performance of MFIL. Strong credit management gives the best financial performance, along with its preceding factors such as integrating technology in business strategy, capacity building for staff competence, and formulating company structure in line with credit management strategies.

According to the Table (4.12), credit control is statistically significant in explaining financial performance. This shows that credit control had positive relationship with financial performance and positively significant at 90 percent confidence interval. This is an indication the one unit increase in credit management would result in 0.470 unit increase in financial performance. According to the outcomes, credit control has a positive contribution to financial performance. In the microfinance business, credit control ensures the portfolio quality and on-time repayment by controlling the neglected loan approval and chasing overdue payments. Common credit control can be categorized into three groups. They are before disbursement, after disbursement, and beyond the agreed terms. Before the disbursement stage mainly focus on the KYC of the borrower and the creditworthiness of the borrower. The credit committee appraises the loan and makes the credit decision upon the borrower's situation. In the stage after disbursement, microfinance performs the collection effort according to the agreement between borrower and lender. Creating multi-repayment channels for convivence payments, and informing borrowers on their payment

frequency and the amount is essential for on-time repayment. In the case of borrower broke the agreement and fail to pay back their loan, respective staff needs to chase the borrower and gently remind for starting paying overdue payment. By initially explaining company policy step-by-step policy when collecting outstanding debts. The best tactic in most cases is therefore mediation. Only if this approach doesn't work should legal action be considered, beginning with a Letter. In the case of low repayment capacity, microfinance used loan extension, rescheduling, and repayment moratorium period for ease of payment.

Table (4.12) The Effect of Credit Management on the Financial Performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-1.522	.958		-1.588	.115		
Credit Policy	.249	.267	.114	.931	.354	.464	2.154
Collection Policy	.482	.324	.204	1.490	.139	.373	2.679
Debt Control	*.470	.251	.247	1.874	.064	.402	2.486
R	.510[a]						
R Square	.260						
Adjusted R Square	.240						
F-value	***12.444						
Durbin-Watson	1.463						

Note: *** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

a. Dependent Variable: Financial Performance

Source: Survey Data (2021)

The outcomes of the Table (4.12) shows credit policy and collection policy are not statistically significant in predicting. This study shows credit policy and collection policy are not contributing to financial performance improvement. According to the outcomes, the company should review the existing credit policy and collection policy to be a

comprehensive policy. The policy requires to be suitable for the current operations in terms of organization size and total manpower. It is pointing out not to ignore the understanding of staff on the existing policy. The company is required to design sound credit management with the optimum level of control for current operations and lending activities.

Credit management is a core activity of the microfinance business. Microfinance requires a strong credit control mechanism to avoid negligent loan disbursement. Microfinance should have proactive procedures to control improper loan releases. Moreover, a collection policy should exist to get the on-time collection. Understanding credit management practices is essential for all staff. In other words, credit control is not only the responsibility of the credit management depart of microfinance. Employees under the microfinance institution must have an understanding of credits management practices. Credit control helps to improve the financial performance of the company.

From this analysis, it is evident that the respondents were well informed on credit management and its effect on the financial performance of MFIL. Management should more focus on credit management, such as credit policy, collection policy, and credit control, to improve the financial performance of the company. It shows a positive increase in credit management would increase the financial performance of Myanmar Finance International Limited.

CHAPTER 5

CONCLUSION

This chapter introduced the overall study and summarizes meaningful findings based on the preceding factors of credit management, credit management and the financial performance of MFIL. This chapter has three main sections. The first section is an overview and discussion of the findings of this study, and the second section contains suggestions and recommendations. The third section consists of additional research needs for this study.

5.1. Findings and Discussions

MFIL aims to be a leading and trustworthy financial institution in Myanmar providing value-adding financial services to micro, small and medium-size clients according to its vision and mission statement. MFIL ensures its services and products get a higher reach out in its operating area, especially to individual and business who needs financial assistance to grow the existing business size and revenue. On the other side, MFIL commits the promoting the social economy live and mitigating over-indebtedness by controlling and managing credit through its credit management practices.

The study is based on the preceding factors of credit management, credit management, and financial performance of MFIL. Researchers collected structured questionnaires from 110 managerial level staff who are performing in the daily credit management process. In this study, analytical and qualitative methods are carried out. Simple statistical techniques and multiple regression analysis are used to determine the impact of technology, staff competence, and company characteristics on credit management, and the impact of credit management on the financial performance of MFIL.

The findings revealed a significant relationship between credit management and its preceding factors. Although the economy goes slow due to the COVID-19 pandemic's effect, this was confirmed by the finding on the selected dimensions of credit management practices, thus, credit policy, collection policy, and credit control.

In the demographic profile of management level positions, the majority of respondents are graduated and almost 88 percent of respondents have more than two years

of experience in MFIL. In terms of the age level, over 90 percent of respondents are the age below forty. This shows company might have good retention in terms of human resources. Microfinance business is a labor-intensive business and human capital can enable numerous advantages for organization growth. To maintain qualified staff, the company shoulder considers career pipeline and career development for existing staff.

There are two main objectives in this study. The first objective is to analyze the factors influencing credit management in Myanmar Finance International Limited. The study explored the preceding factors by focusing on technology, staff competence and company characteristic. For the achievement of the first objective, it firstly explored the mean value of preceding factors (technology, staff competence, company characteristics). From the survey, results technology has the highest overall mean score value among of preceding factors. The overall mean value of other preceding factors is a satisfactory level. Therefore, the management of the company understands and integrates technology into business strategies. In addition, the company also keeps a high level of data accuracy and decision support systems for its daily operations, such as system-generated customized reporting templates and subsystems.

The findings revealed a significant relationship between the preceding factors (technology, staff competence, company characteristics) of credit management and credit management. Therefore, organizations should pay attention to adopting a core system to monitor and manage the credit which helps to make a better credit decision and credit scoring internally. Strong back-end systems help to get a better view of credit controlling and monitoring in twenty-four seven. Microfinance business includes the type of labor-intensive business. Hence, the organization can breakthrough to get better financial performance by leveraging the capacity of human resources. Credit control and management training should conduct regularly to get good loan portfolios. Moreover, the organizational structure and composition of branches must have a flexible structure with strong credit controlling authority to get efficiency in the credit management process. Depending on the staff headcount quantity and potential client quantity or vice versa, branch and department size should be scalable to achieve the business and financial goals shortly. A significant relationship was observed for the relationship between credit management and financial performance which were further noted to be positively related.

The finding revealed a significant and positive relationship between preceding factors (technology, staff competence, company characteristics) and credit management (credit policy, collection policy, credit control) was observed. It is confirmation that the credit management process will be robust, by enabling technology in business strategy, capacity building of existing staff, and flexibility structure, this would promote the growth of microfinance in terms of profit and market share.

The conclusion of the study was made in accordance with the study objectives. According to the findings, it was revealed that there was a significant positive relationship between preceding factors (technology, staff competence, company characteristics) and credit management. It is confirmation that better loan quality and lower write-off rates are so much dependent on the robustness of the existing structures of the microfinance company, staff competence, and technology infrastructure.

The second objective is to examine the effect of credit management on the financial performance of Myanmar Finance International Limited. The study explores credit management by focusing on credit policy, collection policy and credit control. For the achievement of the second objective, it firstly explored the mean value of credit management (credit policy, collection policy, credit control). From the survey results credit policy has the highest overall mean score value among of credit management factors. The overall mean value of other preceding factors is satisfactory level. Therefore, the management of the company understands and integrates credit management and credit control in day-to-day lending operations. In addition, the company also reviews and updates the credit related policies and the features of credit products. The finding revealed a significant and positive relationship between credit management and financial performance was observed. This is confirmation that the financial performance will be improved, by managing credit properly and defining the policies in a correct way.

From the view of regression analysis between the credit management on financial performance, credit control is significant and it has positive impact on financial performance of the company. If the company has a strong credit control system and framework, it will help the improvement of the financial performance of the company. Credit management can improve the financial performance of the company. According to the findings, correlation results showed a significant and positive relationship between credit management and financial performance. In addition, to improve credit management,

the management should more effort into credit control. According to the outcomes of regression analysis, credit policy and collection policy are not significant. Therefore, the management needs to review the credit policy and collection policy. This is evidence that the less risky the microfinance's operations are in regard to credit control, this would enhance the financial performance and growth of the microfinance company.

5.2. Suggestions and Recommendations

According to research results, technology, staff competence, and company characteristic are related to credit management. Integrating technology strategies into business strategies will promote data accuracy and support the day-to-day decisions about credit management. A competent workforce is essential to delivering the company product and service to the target client in a microfinance institution. The company structure must have a suitable design for internal control and credit management.

The company has all kinds of preceding factors of credit management that have been analyzed in this study, such as technology integrated into the credit management process, staff who are certain level of competence in credit management, and suitable company characteristics for credit management. However, the company should have a regular review of credit management practices and try to translate organizational signals. To access a better credit scoring system, higher outreach of operating areas, the management should integrate a system that can capable of running twenty-four seven along with an internal credit scoring algorithm. The company should regular training and refresher training for credit management, this will enable to achieve the company's financial and business goals through highly capable human resources.

Secondly, there is a relationship between credit management and financial performance. Credit management practices can affect the financial performance of the company. Credit management practices (credit policy, collection policy, credit control) in all microfinance institution has a positive correlation with organizational financial performance.

Among of three preceding factors, technology and staff competence are more significant than company characteristics, managers should focus more on technology and staff competence to get improvement in credit management. Hence the company

characteristics are included as the least significant, the manager should consider improving the financial performance through the company characteristics. As mentioned above, there is a relationship between credit management and financial performance. The study concludes that a positive increase in credit management would lead to an increase in the financial performance of the company. According to the outcomes, credit management is significant and managers should consider improving credit management to achieve in the financial performance of the company.

Finally, if a microfinance institution wants to be successful, the institution must have clear values and document standard operating procedures of credit management. The credit management-related document and practices should have been reviewed regularly for achieving both the short-term and the long-term goals of the institution. Management of the company should explore the deficiency point of existing credit policy and collection and should update with the optimum level of controls and parameters. Neither tight nor loose policy will help to achieve the required goals. Policy and guidelines must reflect the current size of the organization, and the resources exists. Consistency helps an institution develop a set of steps to create an internal control system for credit management. In conclusion, the company's managerial level staff must focus on credit control and credit management to improve the financial performance for the long-term success of the organization.

5.3. Needs for Further Research

Every study has its limitation and boundaries for defining a way for further research. In this study, in terms of positive results. The study suggests that further studies be done on other microfinance in Myanmar as each institution has its credit management techniques and policies and would influence financial performance differently. Factors influencing the financial performance of microfinance such as credit risk management could also be researched, credit management in the rural area would require a thorough review. An in-depth interview would be needed to determine how the effectiveness of credit management could be measured. Also, a study should be done to determine the influence of regulators, law, pandemics, and political situations. Finally, further studies can be done on the effectiveness of credit policy, collection policy, and credit control.

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APPENDIX A: SURVEY QUESTIONNAIRE

This questionnaire is designed to solicit the relevant information for the research carried out on the topic "The Effect of Credit Management on the Financial Performance of Myanmar Finance International Limited". The purpose of this survey questionnaire is to measure the effect of credit management on financial performance. This study is conducted for academic purposes for partial fulfillment of the requirements of Master of Business Administration at Yangon University of Economics.

Hence, you are being requested to participate in a survey to provide information related to the above topic. Participation in this survey is voluntary and your responses will be kept confidential. The soundness and the validity of the findings. Highly depends on your kind and genuine response. Therefore, I kindly request you to fill out the questionnaires carefully and truthfully. I would like to thank you for your cooperation.

Questionnaire

The Effect of Credit Management on Financial Performance of Myanmar Finance International Limited

I. Personal Data

Gender □ Male □ Female

The highest level of education attained
□ Bachelor Degree □ Master Degree □ Others

Duration with organization/department
□ Under 2 years □ 2 to 5 years □ Over 5 years

Age of respondent
□ Under 25 □ 25 to 30 □ 31 to 40 □ Over 40

II. Preceding Factors

a. Technology

Tick where appropriate. Strongly Agree = 5, Agree = 4 , Neutral = 3, Disagree = 2, Strongly Disagree = 1	**1**	**2**	**3**	**4**	**5**
Management Information System helps to get more accurate information for credit management					
The use of technology for maintaining client loan accounts ensures balance accuracy and timely collections					
Systems aging and reconciliation of repayment collection is important in credit management					
Availability of systems data for loan management assist in the process of granting credit to creditworthy customers					
System data assist in faster loan disbursement and loan committee decision					
The use of emails and phones improve loan collections in your microfinance business					

b. Staff Competence

Tick where appropriate. Strongly Agree = 5, Agree = 4 , Neutral = 3, Disagree = 2, Strongly Disagree = 1	**1**	**2**	**3**	**4**	**5**
Staff have understanding of the credit policies.					
Repayment capacity assessment is important in credit management					
Staff with credit management training are more effective in managing loans					
Interpersonal skills matter a lot in credit management					
Staff have sufficient experience in loan processing					
Adequate training of staff on collection skills has a positive effect on credit management					

c. Company Characteristics

Tick where appropriate. Strongly Agree = 5, Agree = 4 , Neutral = 3, Disagree = 2, Strongly Disagree = 1	**1**	**2**	**3**	**4**	**5**
The company structure is appropriate for credit management.					
Shareholders are involved in credit policy-making.					
The company is last long compare with to the most.					
Credit committee enables to construct good loan portfolio					

III. Credit Management

a. Credit Policy

Tick where appropriate. Strongly Agree = 5, Agree = 4 , Neutral = 3, Disagree = 2, Strongly Disagree = 1	**1**	**2**	**3**	**4**	**5**
The institution has standardized loan forms					
There is a regular assessment of the borrower's financial position					
A maximum period is given to borrowers to repay their loans					
Clients are eligible for the loan after compulsory savings					
The credit terms are evaluated before credit extension					
The credit history of a borrower is always evaluated before extending credit					
The credit extension terms and conditions are taken into consideration before a credit policy change					

b. Collection Policy

Tick where appropriate. Strongly Agree = 5, Agree = 4 , Neutral = 3, Disagree = 2, Strongly Disagree = 1	**1**	**2**	**3**	**4**	**5**
Collection policy helps to get on-time payment					
Collection policies apply equally to all borrowers irrespective of their social standing					
The company has a daily delinquency monitoring system					
Has a system of follow-up actions on late payment.					
A plan to have a sufficient number of staff, depending on loan account quantity.					
Policies are in place to crack down on corruption while collecting money.					
It is arranged to be convenient for transportation in loan collection.					

c. Debt Control

Tick where appropriate. Strongly Agree = 5, Agree = 4 , Neutral = 3, Disagree = 2, Strongly Disagree = 1	**1**	**2**	**3**	**4**	**5**
The internal audit does a verification of the loan documents					
The institution monitors timely repayments for loans					
The institution keeps track of payments using the portfolio at risk method					
The institution frequently reminds borrowers of their outstanding amount					
There is an adequate annual budget allocation for debt monitoring					
The institution regularly educates clients on borrowing terms and conditions					

IV. Financial Performance

Tick where appropriate. Strongly Agree = 5, Agree = 4 , Neutral = 3, Disagree = 2, Strongly Disagree = 1	**1**	**2**	**3**	**4**	**5**
Net profit of the firm in 2020 positively relate to expectations					
The disbursement rate of the firm in 2020 positively relate to the expectations					
The collection rate of the firm in 2020 positively relate to the expectations					
The write-off ratio of the firm in 2020 positively relate to the expectations					

The liquidity of the firm in 2020 positively relate to the expectations					

APPENDIX B: STATISTICAL OUTPUTS

1. Regression Analysis of Preceding Factors on Credit Management

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.708[a]	.502	.488	.27791	1.675

a. Predictors: (Constant), Company Characteristics Mean, Staff Competence Mean, Technology Mean
b. Dependent Variable: Credit Management Mean

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.249	3	2.750	35.601	.000[b]
	Residual	8.187	106	.077		
	Total	16.436	109			

a. Dependent Variable: Credit Management Mean
b. Predictors: (Constant), Company Characteristics Mean, Staff Competence Mean, Technology Mean

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.904	.264		7.206	.000		
	Technology Mean	.283	.065	.369	4.337	.000	.650	1.538
	Staff Competence Mean	.188	.056	.260	3.356	.001	.782	1.279
	Company Characteristics Mean	.156	.051	.253	3.050	.003	.681	1.467

a. Dependent Variable: Credit Management Mean

2. Regression Analysis of Credit Management on Financial Performance

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.510[a]	.260	.240	.80723	1.463

a. Predictors: (Constant), Debt Control Mean, Credit Policy Mean, Collection Policy Mean

b. Dependent Variable: Financial Performance Mean

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.326	3	8.109	12.444	.000[b]
	Residual	69.072	106	.652		
	Total	93.398	109			

a. Dependent Variable: Financial Performance Mean
b. Predictors: (Constant), Debt Control Mean, Credit Policy Mean, Collection Policy Mean

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-1.522	.958		-1.588	.115		
Credit Policy Mean	.249	.267	.114	.931	.354	.464	2.154
Collection Policy Mean	.482	.324	.204	1.490	.139	.373	2.679
Debt Control Mean	.470	.251	.247	1.874	.064	.402	2.486

a. Dependent Variable: Financial Performance Mean

APPENDIX C - CRONBACH ALPHA VALUES

Cronbach's Alpha Value	**Internal Consistency**
$\alpha \geq 0.9$	Excellent
$0.7 \leq \alpha < 0.9$	Good
$0.6 \leq \alpha < 0.7$	Acceptable
$0.5 \leq \alpha < 0.6$	Poor
$\alpha < 0.5$	Unacceptable