COLLATERAL EFFECTIVENESS AND CREDIT MANAGEMENT FOR SELECTED MICRO FINANCIAL INSTITUTIONS IN MOGADISHU SOMALIA

A Thesis Presented to the School of

Postgraduate Studies and Research

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of a degree master in business Administration

BY

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DECLARATION A

I AHMED ALI AHMED do hereby declare that the work presented in this thesis, is my own work and has never been presented before either in part or in whole to any institution of higher learning for any academic award.

Signed _____

Date: 26 Sept 2011

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Declaration B

"I confirm that the work reported in this thesis was carried out by the candidate under my supervision."

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Approval Sheet

This dissertation entitled "Collateral effectiveness and Credit management for selected micro financial institutions in Mogadishu, Somalia" prepared and submitted by Ahmed Ali Ahmed in partial fulfillment of the requirements for the degree of Master of Business Administration has been examined and approved by the panel on oral examination with a grade of PASSED.

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DEDICATION

I dedicate this thesis to my brothers Daud Mohamed & Omar, my mother Amino Abdi and to my sisters and brothers, Duniyo, Samira, Nasra, Naima and jija. My daughter Afnan and my beloved wife Deeqa Nour. And all my coworkers.

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ABSTRACT

Many banks and financial dealers in Mogadishu have been experiencing low collection that has led to increase the bad depts. many times credits remains unpaid either because customers are not able to pay them, they are just not willing to pay.

The study investigated the relationship between collateral effectiveness and credit management in selected MFI's in Mogadishu. The objective of the study included determining the collateral effectiveness being practiced by MFI's in Somalia, to establish the degree of credit management encountered by MFI's in Somalia and determining if there a significant relationship between two variables.

The study was conducted through descriptive correlation research design, data was collected during July 2011 and planed duration was limited to six months, through structured questionnaire obtained information from 100 micro financial institution staff in Mogadishu. The data was analyzed by using SPSS and presented in tables.

The study finds that most of the micro financial institutions in Mogadishu have mechanisms in place for ensuring collateral security and for mitigating credit risks. It further finds a significant positive relationship between collateral security and credit risk management. Therefore the study agreed that good credit management depends on the collateral effectiveness and how the company manages that collateral, according to the merton or structural approach. The study concludes that collateral security positively impacts on credit risk management. The study recommends that if micro financial institutions in Mogadishu are to mitigate credit risk, they should put more emphasis on collateral security.

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CHAPTER ONE

THE PROBLEM AND ITS SCOPE

Background to the Study

Commitment to prudent lending is an important and current issue of discussion in the global banking system in today. Banking prudent and efficient to manage their risks in different business cycle and environment would help to alleviate crises and losses. The effective management of credit risks is essential component of a comprehensive technique to risk management and critical to the long term success of all financial institutions.

Generally, trade credit is an arrangement between businesses to buy goods or services on account, that is, without making immediate cash payment. The supplier typically provides the customer with an agreement to bill them later, stipulating a fixed number of days or other date by which the customer should pay. It can be viewed as an essential element of capitalization in an operating business because it can reduce the required capital investment required to operate the business if it is managed properly.

Trade credit is the largest use of capital for a majority of business to business (B2B) sellers in the United States and is a critical source of capital for a majority of all businesses.

For example, Wal-Mart, the largest retailer in the world, has used trade credit as a larger source of capital than bank borrowings; trade credit for Wal-Mart is 8 times the amount of capital invested by shareholders.

In Somalia, trade credit is a wonderful way to encourage people to buy from your business, but it have many problem, credits need to be managed carefully because they can potentially depress profitability of the organization, both through the need to make provisions or write-offs and through the carrying cost.

The majority of financial institutions and banks losses stem from outright default due to inability of customer to meet obligation in relation to lending, trading settlement, and other financial transaction.

Credits may also affect the cash liquidity and consume a significant amount of management time and attention. Unless corrective action is taken promptly the position of a problem account may deteriorate further.

Although there is a political instability and economic fluctuation in Somalia, the financial institutions including banks use collateral security in order to minimize credit losses.

Although people have been facing credit risk ever since early ages, credit risk has not been widely studied until recent 30 years. Early literature(before 1974) on credit risk uses traditional actuarial methods of credit risk, whose major difficulty lies in their complete dependence on historical data.

Up to now, there are three main quantitative approaches to analyzing credit risk: structural approach, reduced form approach and incomplete information approach, in this study we focused on structural approach of credit risk management by Merton focuses on the structure of the loan, the credit criteria, credit culture and business experiences toward credit history.

Credit risk is the risk of loss due to a debtor's non-payment of a loan or other line of credit either the principal or interest (coupon) or both). The default events include a delay in repayments, restructuring of borrower repayments, and bankruptcy.

In other words Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization.

In lending agreement, collateral is a borrower's pledge of specific property to a lender to secure the repayment of loan, When the Lender feels, the security provided by the Borrower is not sufficient or it may be difficult to recover the dues smoothly, the Lender may ask for additional security to be provided by the Borrower himself or other on behalf of the Borrower.

In case if any dispute or failure to discharge the loan by the Borrower, the collateral securities will come in hand to service and recover the loan/debt.

Imagine an industry or a business which is availing a loan from a Bank. The Bank will obviously want to retain some security in order to protect itself in case of default by the borrower. There can be two types of securities which the Bank can demand. The first is the prime security , which is the assets financed by the Bank. For example , the stock of Raw Material , Finished Products , vehicles, receivables, factory building , machineries etc . These are funded by Bank either fully or partly. In addition to these securities, Bank may also ask for some additional securities (mortgage of dwelling house for example) which is known as Collateral Security.

The collateral security is not funded by Bank but remains charged to the Bank till the loan is repaid. Most common collateral security is land and building but there are many forms like Fixed deposits , Life Policies , Shares of listed companies , third party guarantees etc. Banks do not ask for any collateral for small size loans for agriculture, small business etc.

Statement of the Problems:

In financial management, internal control, debts and credit management are fundamental factors for the smooth running of the business. Poor management is the major reason why business fail, so it is clearer to state that business failure is due to poor credit management.

In the recent past, banks and financial dealers in Somalia have been forced to restructure their ways of operation or even to close down due to increased competitions. They develop customer retention strategy by providing credit facility to customer.

Many times credits remain unpaid either because customers are not able to pay them or they are just not willing to pay.

Many micro financial institutions in Somalia including Banks have been experiencing low bill collection that has led to increase the bad debts. for every year, the companies have been finding it difficult to collect the debts From the customers. The phenomenon greatly effects the cash circulation and profitability of the organizations.

In the light of the above scenario, the **prevailing problem** which this study intends to investigate is the failure to use effective collateral security and the mismanagement of credit policy and procedure leading to several undesirable outcomes such as low credit collection, Credit spread, Credit default (Credit remains unpaid either partially or as a whole), decreasing cash flow, increasing cost and consuming extra time and energy which as a whole lead to ~~school~~ org. ineffectiveness.

Hence the need for this research is to establish the relationship between Collateral effectiveness and credit management for the selected micro financial institutions in Mogadishu Somalia.

Purpose of the Study:

To establish the practices of Collateral Effectiveness and Credit management and security for selected Micro financial institutions in Mogadishu Somalia.

Objectives of the Study:

General objectives: To determine the Collateral Effectiveness and credit management being practiced by selected micro financial institutions Mogadishu in Somalia.

Specific objectives: This study aimed at achieving the following objectives

1- To determine the profile of the respondent in terms of

   a- Age,

   b- Gender

   c- Level of Employment,

   d- Level of education,

   e- Monthly income

   f- Nationality

   g- Work experience.

2- To establish the degree of effectiveness of collateral effectiveness being practiced by selected Micro financial institutions in Mogadishu Somalia.

3- To establish the degree of credit management encountered by selected Micro financial institutions in Mogadishu Somalia.

4- To determine if there is a significant relationship between Collateral effectiveness and credit management being practiced by selected Micro financial institutions in Mogadishu Somalia.

Research Questions:

The study was guided by the following research questions:

1. What is the profile of the respondent as to:
    a. Gender
    b. Age
    c. Educational level
    d. Nationality
    e. Position in the organization
    f. Income
    g. Number of years of experience
2. What is the degree of credit management encountered by selected Micro financial institutions in Somalia.
3. How is the degree of effectiveness of collateral effectiveness being practiced by selected Micro financial institutions in Somalia?
4. Is there a significant relationship between the degree of collateral effectiveness and credit management for selected financial institutions in Mogadishu Somalia?

Null Hypothesis:

There is no significant relationship between collateral effectiveness and credit management being practiced by selected Micro financial institutions in Mogadishu Somalia.

Scope of the Study:

The scope has four dimensions: content scope, theoretical scope, geographical scope and time scope.

Content scope: the study explored the relationship between Collateral Asset and Credit Management in Mogadishu, Somalia. The research study was done to offer relevant information about Collateral Asset credit management in selected micro financial institutions for the purpose of formulating strategies of mitigating credit risks and developing plan and policy for credit risk management.

Theoretical scope: The study focused on structural approach of credit management by Merton which focuses on the structure of the loan, the credit criteria, credit culture and business experiences toward credit history. Merton suggested that the good credit management depends on good structure collateral, credit culture and credit criteria.

Geographical scope: this study conducted in Micro financial institutions in Mogadishu, the capital city of Somalia.

Time scope: This study covered the period between February 2011 to August 2010. And the planned duration of the study was limited to six months.

The respondents in the research did employee and managers in the selected Micro financial institutions in Mogadishu, Somalia.

Significance of the Study:

This study was helpful to administrators in the selected Micro financial institutions in Mogadishu, Somalia in decision making process about how to determine and assess the efficiency and effectiveness of the credit risk management policy their companies. The study will be useful also to the present and potential development partners and agencies.

The study produces data and information useful to the banks and other financial institutions in Mogadishu Somalia. The findings of the study are expected to provide an insight on how credit risks are managed, reduced and controlled.

On the other hand the study also contributes to the existing knowledge that can be useful to academician who may wish to carry out further studies on a related subject matter. The study was useful to future researchers as references for people who were done further research in this topic or related subject matter

OPERATIONAL DEFINITION:

Collateral refers to assets that you are willing to put up to secure credit, such as a small business loan. Your house (if you own it outright), your car, property, or equipment are all examples of tangible assets that you may be able to use as collateral. Loans that use tangible assets as collateral are called secured loans (as opposed to unsecured loans). The advantage of secured loans is that they often have lower interest rates than unsecured loans.

Credit Management (alternative term for credit control) refers to plan to control or improve ones credit, often with the assistance of professional service provider. In other words credit management is the systems, policies, procedures and controls which a company has in place to ensure the different collection of consumer payments and minimize its risks.

Credit is a risk, Credit risk assessment and management will form a key part of the company's overall risk management strategy as weak credit risk management is a primary cause of many business failures and that such small business have neither the resources nor the expertise to operate a sound credit risk management system.

CHAPTER TWO

LITERATURE REVIEW

CONCEPTS, OPINIONS, IDEAS FROM AUTHORS/ EXPERTS

This chapter also discusses the literature related to concept of collateral effectiveness and credit Management, and the relationship between Collateral and credit management.

Financial management is an important part of any business financial portfolio. It is crucial in that it surveys the risks the company is considering taking and analyses the possibility of the company succeeding in its endeavors.

Business is all about risk taking and the most important consideration is taking a calculated risk . Any decision that the company's plans to make should be critically analyzed to determine whether it will make a profit or a loss. The loss will occur if the product or service that the company is offering is not well received by the publics or if the cost of production exceeds the market perception of its value. This will result in overpricing and the potential customers will opt for the cheaper alternative.

Collateral Concept

Collateral security is a extra security provided by borrower to back up his/her intension to repay loan, or additional security offered to a lender over and above the prime security offered for the loan availed.

In the Definitions, for consistency, the terms "collateral", "collateral asset" and "collateral agreement" are used throughout. Other terms in

common use in the market are "margin", "margin asset" and "margin agreement" and similar terms using "credit support" instead of "collateral" or "margin". (John, 1997)

Counterparty credit exposure (CCE) is a big issue it's why you have credit limits. When you lend money the risk is clear, will you get repaid? But with over the counter derivatives (like swaps) credit exposures are harder to see but nevertheless they are real. Derivatives with positive mark-to-market values generate credit risk. Why? Because default by the counterparty puts your profit at risk.

One solution is collateral management. This involves a regular trade portfolio valuation and a net exchange of margin or collateral between the two parties involved. Collateral management is a process; it mitigates your credit risk but at the same time increases your operational risks. It's too easy to focus on the credit aspect of collateral without identifying what else could go wrong. (Wyman, 1991)

In Somalia, most lending decisions are based on collateral. At the level of the transaction, the credit officers only make contracts and send reports regarding the collaterals to their direct manager.

Valuation of the collaterals is conducted by specialist persons in the branch or the headquarters. But once the collateral has been valuated, the post-valuation procedure such as finalizing the loan amount, completing the collateral contract and filling the documents are done by credit staffs at the transaction office. (*Lloyd, 2000)*

Why the growth (Importance of Collateral)

Collateral management has benefits. It can reduce potential credit losses and capital usage, it can increase the number of transactions you do with a party and may also reduce dealing spreads.

Collateralization is a credit enhancement technique and is a means of mitigating credit risks associated with the business. Collateral also reduce the possibility of dispute between parties. In case of default , you can terminate the trades and use the collateral as repayment. Your credit risk has been mitigated. (Wu, 1994)

One potential problem with collateral is that if you are unable to pay off your loan as scheduled, the assets you used as collateral will be seized and sold, and the money raised by selling the assets will be used to repay the loan. (Wu, 1994)

For many small business people, there is also the problem of simply not having enough collateral to get a secured loan from a lending institution. They may have to depend on equity financing instead.

Collateral management

Collateral management is the process of agreeing, confirming, and advising collateral transactions. Collateral management is a process. It helps to reduce counterparty credit exposures. It is normally used with over-the-counter derivatives like swaps and options. If two parties agree to enter into collateralization this is what happens.

1. The two parties negotiate and execute a collateral support document, (CSD), this contains the terms and conditions under which collateralization will take place.
2. The trades subject to collateral are regularly marked-to-market. Their net valuation is then agreed.
3. The party A on the trade portfolio delivers collateral to the party B.
4. As prices move and new deals are added the valuation of the trade portfolio will change.
5. Depending on what is agreed the valuation is repeated at frequent intervals-typically daily, weekly or monthly.

The collateral position is then adjusted to reflect the new valuation. The process continues unless one of the parties defaults or other credits. Collateral is a subject to seizure on default. The most popular form of collateral is cash or financial Collateral. In 2005 ISDA indicated that USD and EUR cash accounted for 73% of collateral assets. Why is cash so popular? Because cash has big advantages, it is easy to value, transfer and hold.

When you give cash collateral you receive interest. When you take cash collateral you pay interest in most banks. Collateral can take other different forms such as equities, mutual funds and lending banks.

In the documentation it is normal to mutually agree the use of an overnight index rate. You can also use other forms of collateral like bonds. Depending on their credit rating and liquidity they may be subject to a valuation percentage or haircut.

Credit Management:

Credit Management (alternative term for credit control) refers to plan to control or improve ones credit, often with the assistance of professional service provider. In other words credit management is the systems, policies, procedures and controls which a company has in place to ensure the different collection of consumer payments and minimize its risks.

Credit management, in finance terms, refers to the process of credit risk assessment that comes in an investment. Risk often comes in investing and in the allocation of capital. The risks must be assessed so as to derive a sound investment decision. Likewise, the assessment of risk is also crucial in coming up with the position to balance risks and returns.

While operating a business with acceptable levels of loaning or using a credit is common, failing to assess the risk involved with the credit may lead to dangerous cash flow problems. (Wu. 1994)

Risk management started out as an indemnity management purpose. Risk management is applied in finance. Financial economics deals with hedging problems in to order eliminate credit risks in a particular portfolio through a series of trades or contractual agreements reached to share and induce a reduction of risk by involved parties.

The majority of financial institutions and banks face losses due to inability of customers to meet obligation in relation to lending. Banks also face losses of their asset due to actual or perceived deterioration in asset credit quality during recession or crises.

The aim of credit risk management is to maximize a bank's risk adjusted rate of return by maintaining credit risk exposure with acceptable boundary. Banks need to manage the credit risk inherent in the entire loan portfolio as well as the risk in individual credit or transaction. (Wesley, 1993)

Banks should also take into consideration the relationship between credit, liquidity and interest rate risk. The efficient management of credit risk is a vital part of the overall risk management system. The corporate must have in place a robust system for identifying problem credits as soon as possible; and managing out such credits quickly and efficiently in order to minimize credit losses.

Bank managers should minimize credit losses by building a portfolio of assets that diversifies the degree of risks. This is because very low default risk assets are associated with low credit risk and low expected return, while higher expected return assets have a higher probability of default.

Properly managed credit risks enhances a company's operational cash flow resulting in quicker expansion of business operation, strong financial credit history also allows companies a higher potential for outside investments. Managers should create a risk management program to mitigate their companies potential susceptibility and financial liability associated with credit risks.

Risk management should use financial instruments to negate the effects of risk by using better options, contracts and credit design plans so that such risks are brought to bearable financial costs as the tools cost

money and requires a careful balancing of factors that affect credit card risks. (Wu, 1994)

Objectives of Credit Management:

The objectives of Credit Management include creating collection procedure, ensuring prompt and accurate billing, establishing and communicating credit policies, evaluation of customers and setting credit lines and communicating maintaining up-to-date records of amounts, preventing credit defaults and credit spread and initiating collection procedures on overdue accounts. Without these objectives, credit management cannot be implemented.

Credit Policy:

Credit poiicy is a guideline addressing how company evaluates potential customer who wishes to buy on credit. Writing an effective credit policy begin with an understanding of the financial exposure that your business can endure and the amount of your working capital that you would be willing to risk in your customers.

Advantages of Trade Credit

The firm must balance the advantages of trade credit against the cost of forgoing a cash discount, the opportunity cost associated with possible deteriolbration in credit reputation if it stretches its payables, and the possible increase in selling price the seller imposes on the buyer.

There are several advantages of trade credit as a form of short term financing. Probably the major advantage is its ready availability. The accounts payable of most firms represent a continuous form of credit.

There is no need to arrange financing formally; it is already there. If the firm is now taking cash discounts, additional credit is readily available by not paying existing accounts payable until the end of the net period. There is no need to negotiate With the supplier; the decision is entirely up to the firm. In stretching accounts payable, the firm will find it necessary, after a certain degree of postponement, to negotiate with the supplier.

In most other types of short term financing, it is necessary to negotiate formally with the lender over the terms of the loan. The lender may impose restrictions on the firm and seek a secured position.

Restrictions are possible with trade credit, but they are not nearly as likely. With other sources of short term financing, there may be a lead time between the time the need for funds is recognized and the time the firm is able to borrow them.

Trade credit is a more flexible means of financing. The firm does not have to sign a note, pledge collateral, or adhere to a strict payment schedule on the note. A supplier views an occasional delinquent payment with a far less critical eye than does a banker or other lender.

The advantages of using trade credit must be weighted against the cost. As we have seen, the cost may be very high when all factors are considered Many firms utilize other sources of short term financing in order to be able to take advantage of cash discounts. The savings in cost over other forms of short term financing, however, must offset the flexibility and convenience of trade credit. For certain firms there are no alternative sources of short term credit.

Risk management should use financial instruments to negate the effects of risk by using better options, contracts and credit design plans so that such risks are brought to bearable financial costs as the tools cost money and requires a careful balancing of factors that affect credit card risks.

Risk management is a task similar to the other management functions such as marketing, purchasing or finance. Thus, if we look at economic development from a functional viewpoint risk management is somewhat every countries do which directs to the realisation of its overall economic objectives.

Credit risk management apply not only to loans, but also to other sources of risks inside of financial institutions such as long term securities investments and outside factors such as currency exchange and interbank transactions. (Wyman, 1991)

To manage and assess the risks faced by banks, it is important to make certain estimates, conduct monitoring, and perform reviews of the performance of the bank. However, because banks are into lending and investing practices, it is relevant to make reviews on loans and to scrutinize and analyze portfolios. Loan reviews and portfolio analysis are crucial then in determining the credit and investment risks.

The complexity and emergence of various securities and derivatives is a factor banks must be active in managing the risks. The credit risk management system used by many banks today has complexity; however, it can help in the assessment of risks by analyzing the credits and determining the probability of defaults and risks of losses.

Credit risk management for banking is a very useful system, especially if the risks are in line with the survival of banks in the business world. (Wesley, 1993)

It is therefore important that credit decisions are made by sound analyses of risk involved to avoid harms to bank's profitability. On the other hand, banks profits are directly related to the amount of loan granted but on the other, tighter credit standards are needed to prevent losses and lower credit risk. Banks will have to weight and balance these two options, in order not to impair it is all prosperity

Credit is a Risk:

The importance of credit risk management for banking in Somalia is tremendous. Banks and other financial institutions are often faced with risks that are mostly of financial nature.

Institutions must balance risks as well as returns. For a bank to have a large consumer base, it must offer loan products that are reasonable enough. However, the study will suggest many ideas and strategies for managing credit risk that the bank will suffer from losses.

In terms of equity, a bank must have substantial amount of capital on its reserve, but not too much that it misses the investment revenue, and not too little that it leads itself to financial instability and to the risk of regulatory non-compliance.

Types of Risks

Risk is almost everywhere at every second on everyone. In general, enterprises are exposed to risks that can be categorized into the following four types.

The first type is hazard risks which include risks from thefts, fire, property, damage, business interruption, decease, disability, liability claims. The second risks is risks due to financial such as credit risks, interest rate risks, inflation, foreign exchange risks and hedging risks. (Riter, 2001)

Operational risks is another risks that effect the smooth running of business activities including channel management, product development, budgeting, planning, organizing, accounting, taxation, information technology and leadership style. The final type of risks is strategic risks such as reputational damage, political trends, capital availability, competitors and itc. In this paper we focused on the credit risks management. (Wyman, 1991)

It is essential that banks manage these risks so as to reduce losses and ensure continued existence in the long term. One major risk that needs to be effectively managed and investigated is credit risks and loans are the largest and most obvious source of credit risk for most banks.

The risks faced by banks in their operations are of many types: interest risk, exchange rate risk, trade risk (or market risk), political risks, and risks that represent changes in the value of tangible assets and goods, etc. Credit risk is deemed to be the most important type of risk faced by a bank in its relationship with the owners of wealth. It is related to the ability of a debtor to repay at the time appointed for repayment and in accordance with the conditions stipulated in the contract. If the debtor fails to abide by his obligations, it leads to a loss for the creditor and, therefore, becomes a risk for the bank. The existence of credit risk is not dependant on direct financing by the bank, like bank loans.

The bank also faces this type of risk in guarantees, Collateral and acceptance paper when the originator of the financial instruments owned by the bank is unable to meet his obligations (as in the case of bonds). So is the case in other indirect financing operations.

Why Does Risk Matter?

According to standard economic theory, firm managers ought to maximize expected profits without regard to the variability of reported earnings.

However, there is now a growing literature on the reasons for managerial concern over the volatility of financial performance, Any one of these reasons is sufficient to motivate management to concern itself with risk and embark upon a careful assessment of both the level of risk associated with any financial product and potential risk mitigation techniques.

Credit Risk

Financial risks are the risks people facing in the financial markets, such as the fluctuations of the bonds' prices, the changes of the default-free interest rate, or unexpected defaults, etc. Credit risk is one of the most important financial risks in the markets.

Credit risk is the risk induced from credit events such as credit rating change, Restructuring, failure to pay, repudiation and bankruptcy etc. A more mathematical Definition is, credit risk is the distribution of financial Losses due to unexpected changes in the credit quality of counterparty in a financial agreement.

Credit risk arises from non-performance by a debtor. It may arise from either an inability or an unwillingness to perform in the pre-committed contracted manner. This can affect the lender who underwrote the contract, other lenders to the creditor, and the debtor's own shareholders.

Credit Risk refers to the risk of loss due to a debtor's non-payment of a loan or other line of credit (either the principal or interest (coupon) or both). The default events include a delay in repayments, restructuring of borrower repayments, and bankruptcy.

Credit risk also refers to the change in the present value of future cash flows that result from changes in financial market conditions as well as changes in the economic development. In addition, bank losses can sometimes be due to unethical behavior of it is staff which had happened for time to time. In this study we will use the first definitions which are risk due to a debtor's non-payment of a loan or credit default.

Credit risk is diversifiable but difficult to hedge perfectly. This is because most of the default risk may result, in fact, from the systematic risk outlined above. The idiosyncratic nature of some portion of these losses, however, remains a problem for creditors in spite of the beneficial effect of diversification on total uncertainty. This is particularly true for creditors that lend in local markets and take on highly illiquid assets

Credit risk is far more important than market risk, Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. Such an event is called a default. Another term for credit risk is default risk. Investor losses include lost principal and interest, decreased cash flow, and increased collection costs, which arise in a number of circumstances:

- A consumer does not make a payment due on a mortgage loan, credit card, line of credit, or other loan
- A business does not make a payment due on a mortgage, credit card, line of credit, or other loan
- A business or consumer does not pay a trade invoice when due
- A business does not pay an employee's earned wages when due
- A business or government bond issuer does not make a payment on a coupon or principal payment when due

- An insolvent insurance company does not pay a policy obligation
- An insolvent bank won't return funds to a depositor
- A government grants bankruptcy protection to an insolvent consumer or business

Credit risk is an active field of research, Credit risk covers risks due to upgrading or downgrading a borrower's credit worthiness which depend on the potential sources of the risk who the client may be and who uses it as banks in particular are devoting a considerable amount of time and thoughts to defining and managing credit risk.

Credit risk considerations underlie capital adequacy requirements regulations that are required by financial institutions but financial borrowing as well as lending transactions are sensitive to credit risk, to protect themselves firms and individuals turn to rating agencies to obtain an assessment of the risks of bonds, stocks and financial papers they may acquire and after a careful reading of these ratings the investors, banks and financial institutions proceed to reduce these risks using risk management tools.

Credit risk is the potential that a bank borrower or counterparty will fail to meet it is obligation in accordance with agreed terms, generally credit risk is associated with the traditional lending activities of banks and it is simply described as the risk of a loan not being repaid in part or in full

Credit risk, that is, the risk that a counterparty fails to perform an obligation owed to its creditor. It is still a major concern for banks, but the scope of credit risk has been immensely enlarged with the growth of derivatives markets. Another definition considers credit risk as the cost of replacing a cash flow when the counterpart defaults.

Sources of Credit Risk

There are two sources of uncertainty in credit risk: default by a party to a financial contract and a change in the present value of future cash flows that result from changes in financial market conditions as well as changes in the economic development. (Wyman, 1991)

In addition, bank losses can sometimes be due to unethical behavior of it is staff which had happened for time to time. Credit risk considerations underlie capital adequacy requirements regulations that are required by financial institutions but financial borrowing as well as lending transactions are sensitive to credit risk, to protect themselves firms and individuals turn to rating agencies to obtain an assessment of the risks of bonds, stocks and financial papers they may acquire and after a careful reading of these ratings the investors, banks and financial institutions proceed to reduce these risks using risk management tools.

Types of Credit Risks

Businesses face various types of credit risks every day in their business operations.

Business credit risks include.

- Default risk
- Credit spread risk
- Downgrade risk

- Creating open accounts that that allow vendors or customers to purchase goods on credit
- Loaning money to business or individuals with poor repayment history or ability.

- Borrowing excessive amounts of money from outside lenders.

Assessing Credit Risk

Significant resources and sophisticated programs are used to analyze and manage risk. Some companies run a credit risk department whose job is to assess the financial health of their customers, and extend credit (or not) accordingly. They may use in house programs to advise on avoiding, reducing and transferring risk. They also use third party provided intelligence. (Morsman, 1998)

Most lenders employ their own models (credit scorecards) to rank potential and existing customers according to risk, and then apply appropriate strategies. With products such as unsecured personal loans or mortgages, lenders charge a higher price for higher risk customers and vice versa. With revolving products such as credit cards and overdrafts, risk is controlled through the setting of credit limits. Some products also require security, most commonly in the form of property. (Wyman, 1991)

Credit scoring models also form part of the framework used by banks or lending institutions grant credit to clients. For corporate and commercial borrowers, these models generally have qualitative and quantitative sections outlining various aspects of the risk including, but not limited to, operating experience, management expertise, asset quality, and leverage and liquidity ratios, respectively.

Once this information has been fully reviewed by credit officers and credit committees, the lender provides the funds subject to the terms and conditions presented within the contract (as outlined above). (Wu. 1994)

Credit risk has been shown to be particularly large and particularly damaging for very large investment projects, so-called megaprojects. This is because such projects are especially prone to end up in what has been called the "debt trap," i.e., a situation where – due to cost overruns, schedule delays, etc. – the costs of servicing debt becomes larger than the revenues available to pay interest on and bring down the debt.

Risk Mitigation Approaches

Accepting the notion that the volatility of performance has some negative impact on the value of the firm leads managers to consider risk mitigation strategies. There are three generic types:

- Risks can be eliminated or avoided by simple business practices,
- Risks can be transferred to other participants, and,
- Risks can be actively managed at the firm level.

In the first of these cases, the practice of risk avoidance involves actions to reduce the chances of idiosyncratic losses by eliminating risks that are superfluous to the institution's business purpose.(Bosses and Joel 2002)

Common Credit risk avoidance actions, here, are underwriting standards, hedges or asset-liability matches, diversification, reinsurance or syndication, and due diligence investigation. In each case, the goal is to rid the firm of risks that are not essential to the financial service provided, or to absorb only the optimal quantity of a particular kind of risk. What remains is some portion of systematic risk, and the unique risks that are integral to an institution's unique business franchise. In both of these cases, risk mitigation remains incomplete and could be further enhanced.

There are also some risks that can be eliminated, or at least substantially reduced through the technique of risk transfer. Markets exist for the claims issued and/or assets created by many of these financial institutions. (Morsman, 1998)

Individual market participants can buy or sell financial claims to diversify or concentrate the risk in their portfolios. To the extent that the financial risks of the assets created or held by the financial firm are understood by the market, they can be sold in the open market at their fair market value. If the institution has no comparative advantage in managing the attendant risk, there is no reason for the firm to absorb and/or manage such risks, rather than transfer them.

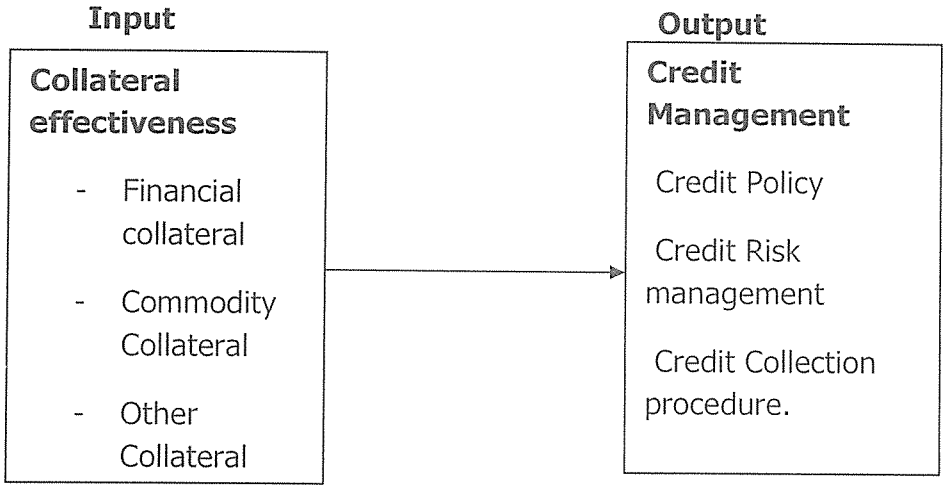
Credit risk mitigations

Lenders mitigate credit risk using several methods:

- **Risk-based pricing**: Lenders generally charge a higher interest rate to borrowers who are more likely to default, a practice called **risk-based pricing**. Lenders consider factors relating to the loan such as loan purpose, credit rating, and loan-to-value ratio and estimates the effect on yield (credit spread).
- **Covenants**: Lenders may write stipulations on the borrower, called **covenants**, into loan agreements:
    - Periodically report its financial condition
    - Refrain from paying dividends, repurchasing shares, borrowing further, or other specific, voluntary actions that negatively affect the company's financial position

    - Repay the loan in full, at the lender's request, in certain events such as changes in the borrower's debt-to-equity ratio or interest coverage ratio.
- **Credit insurance** and **credit derivatives**: Lenders and bond holders may hedge their credit risk by purchasing **credit insurance** or **credit derivatives**. These contracts transfer the risk from the lender to the seller (insurer) in exchange for payment. The most common credit derivative is the **credit default swap**.
- **Tightening**: Lenders can reduce credit risk by reducing the amount of credit extended, either in total or to certain borrowers. For example, a distributor selling its products to a troubled retailer may attempt to lessen credit risk by reducing payment terms from *net 30* to *net 15*.
- **Diversification**: Lenders to a small number of borrowers (or kinds of borrower) face a high degree of unsystematic credit risk, called **concentration risk**. Lenders reduce this risk by diversifying the borrower pool.
- **Deposit insurance**: Many governments establish **deposit insurance** to guarantee bank deposits of insolvent banks. Such protection discourages consumers from withdrawing money when a bank is becoming insolvent, to avoid a bank run, and encourages consumers to holding their savings in the banking system instead of in cash.

Schema of the study:



Managing credit risk using credit portfolios is a new and increasingly popular trend. This is a separate big part in the credit risk management principle.

The bank has built a basis to organize its borrowers into credit portfolios with 11 criteria.

- Customer type (financial institutions, corporate, small enterprises, individuals – - Business sector

- Credit product

- Borrower's financial strength

- Collateral type

-Ratio of loan amount/

-collateral value

- Loan currency and term

- Repayment source

- Distribution channel

- Loan size

- Geographical region

THEORETICAL FRAME WORK:

A theoretical framework also incorporated in the study to give it a firm foundation, the study will be guide by contemporary theories as propounded by scholars and philosophers.

There are three main quantitative approaches to analyzing credit risk. Structural approach, reduced form approach and incomplete information approach, this study will be guided by the theory of structural approach of credit management by Merton 1974. The theory builds a model based on the capital structure of the firm, which becomes the basis of the structural approach. In his approach, the company defaults at the bond maturity time, if its assets value falls below some fixed barrier at time. Thus the default time is a discrete random variable which picks if the company defaults and infinity if the company does not default. As a result, the equity of the firm becomes a contingent claim of the assets of the firm's assets value.

The theory was adopted for this study because it focuses on the structure of the loan, the credit criteria, credit culture and business experiences toward credit history.

Related studies:

Different scholars have defined collateral effectiveness and credit management and the way the company can manage the credit risk. (Dr Brealey 2001) Suggests that managing credit risk management depends on five C's

- **Collateral:** is a borrower's pledge of specific property to a lender in order to secure repayment of a loan.
- **Capacity:** is the ability that borrower can the pay the obligation
- **Condition:** is a relevant economic conditions which surround you when you are granting credit.
- **Character:** is a applicant's willingness to pay the bill when they become due.
- **Capital:** is the financial resources obtained from financial records that a company may have in order to deal with it is debts.

Nurul Izza Yuoff (a young researcher) for Malaysian Banking System in managing and mitigating credit risk, "he found that the diversification of loan, mitigating risks by using Collateral, training and development of staff as well as guidelines for credit approval and centralized risk control are important strategies to manage credit risk"

The theory of structural approach of credit management by Merton 1974. The theory builds a model based on the capital structure of the firm, which becomes the basis of the structural approach. The study was fully agreement with Merton approach.

In his approach, the company defaults at the bond maturity time, if its assets value falls below some fixed barrier at time. Thus the default time is a discrete random variable which picks if the company defaults and infinity if the company does not default. As a result, the equity of the firm becomes a contingent claim of the assets of the firm's assets value.

Management of the Credit policy and procedure starts with analyzing how it is components operate and these are credit appraisal, approval procedure, credit monitoring and collection strategy. Credit appraisal is a process used to ascertain the risk associated with the extension of credit facility.

It is necessary to appraise the credibility of potential customer in order to mitigate the credit risk which is the risk related to non re-payment of the credit obtained by the applicants. This is done by gathering relevant information about their payment history with the company and other firms. After the appraisal/ screening of a customer, the loan is subjected to approval procedure of a customer. At this stage the amount of the loan is dependent on the collateral size from potential customer.

CHAPTER THREE

METHODOLOGY

Research Design

This study was employ descriptive correlation research design to investigate the relationship collateral and credit risk management for the selected micro financial institutions in Somalia. It deals with the relationship between variables, testing of hypotheses and development of generalizations and use of theories that have universal validity. It also involves events that have already taken place and may be related to present conditions

Research Population

The study conducted among Six(6) selected from micro financial institutions in Mogadishu Namely by Salaam Bank, Dahabshil Bank, Pharmasom Co, Impo Ltd, Hormud telecom and Amal Bank.

The population of the study consists of one hundred thirty three (133), selected from banks and other financial institutions regarding of their position, experience and qualifications.

The target population was the employees (top level managers, middle managers and lower managers) was involved because they are the people who are engaged in the day to day operations of the organization, so they are the right people to give their views on the issues concerning Collateral and Credit Management.

Criteria that was used to choose those financial institutions:

The study conducted among Six(6) selected from micro financial institutions in Mogadishu. Those financial institutions were chosen because they are the oldest and the largest micro financial institutions in Somalia, they provide financial service (loan provider) which is credit based and they have experience in credit management

Sample Size

The sample size of the study was 100 respondents provide that service sixty three (63) of the respondents are staff while the (37) the managers of six selected organizations because these are the people who are engage in the day to day operations of the organization so, they are right people to give their views on the issues concerning the Credit culture of the company.

Therefore, the research considered the sample of hundred respondents sufficient to determine the outcome of the study and the entire research population was only (133) respondents.

Criteria that was used to choose those companies:

Table 3.1 the selected sample size

Company	Target population	Sample size
Salaam Somali Bank	29	24
Dahabshiil Bank	25	20
Amal Bank	19	14
Qaran Bank	15	11
Hormuud	24	19
Pharmasom Ltd	13	8
Impo Ltd	10	4
Grand total	133	100

The sample size was consist of 63 employees' members and 37 management members selected from the target population 133 members.

The sample size of the study will be identified using Slovin's formula

n= N / (1 + (N*e^2))

Where

N= Population

n= Sample

e= is the confidence level at 0.05

n=133/ (1+ (133*0.0025)

= 100 subjects.

Sampling Procedure

This study was employed both purposive sampling technique and stratified sampling technique. The researcher was use purposive sampling to choose the respondents he believes that they have the relevant information. Purposive sampling was used to select the managers.

On the other hand in this study stratified sampling technique was used. In stratified sampling the population is divided into sub populations those share similar characteristics, such that elements within each sub-population are homogenous. Simple random samples are then selected independently from each subpopulation this technique was use to reach the banks employees and managers.

The minimum sample size is computed using the sloven's formula, which state that for any given population the required sample size given by;

$$n = \frac{N}{1+N(e)^2}$$

Where; n the required sample size; N = the known population size; and e= the level of significance, which is = 0.05. Given a total population of 133 respondents in the selected telecommunication companies in Mogadishu Somalia, a sample was 100 respondents as illustrated Table 3.1.

Research Instruments

The study used standardized and self administrated questionnaires, as main tools for collecting data. The selection of these tools have been guided by the nature of data to be collected, the time available as well as by the objectives of the study. The overall aim of the study is to identify the researcher the impact of Collateral asset on Credit Management.

The instrument compromised 32 questions that included closed ended questions. Respondents were asked if they had adopted Collateral security and Credit Management procedure.

The research questionnaire was distributed to employees members, the expert managers who know more about Somali economic history.

Research questionnaires' was standardized and consist of closed questions employed to collect the required data for the study. Interview was used in this study because there are number of employee those cannot answer the questionnaire properly and correctly because of language barriers.

Validity and Reliability of the Instrument

Validity is the quality of the test doing what is designed to do, the content validity index (CVI) was computed to confirm the validity of instruments through universal agreement between experts. Content validity index takes care of item validity and sampling validity.

The validity of the questionnaire were checked by discussing with experts judgment using lekerts scale, Reliability of the respondent's through the instruments of the questionnaire and interview was established. The reliability of the research instruments concern with the degree to which the research instrument was give the same result.

The reliability of an instrument is the ability of the instrument to collect the same data consistently under similar conditions.

Pre-testing for reliability was done by administering the questionnaire to 5 qualified administrators selected micro financial institutions in Somalia who was not include actual in this study, means to ensure that the data is reliable a standard of pretest was done before actually using it, The test-retest technique was also use that researchers can asses reliability by comparing the answers respondents give in one pretest with answers in other pretest.

An instrument is reliable if is produces the same results whenever it is repeatedly use form the same respondents.

Mathematical approach.

$$CVI = \frac{\text{Number of all relevant questions}}{\text{The total number of questions}}$$

Section 1:

$$CVI = \frac{10}{13} = 0.77$$

Section 2:

$$CVI = \frac{16}{19} \; 0.84$$

Therefore, average of content validity index is **(0.77+0.84)= 1.61/2 = 0.805**

Data Gathering Procedures

The following data collection procedures was implemented:

A. Before the administration of the questionnaire

After the research proposal is approved, the researcher was get an authority letter from the school of postgraduate and research (SPGRS) of KIU to authorize the researcher to carry out a research about "Collateral Asset and Credit risk management for selected micro financial institutions in Mogadishu Somalia".

Before going to the field the researcher was administer to collect quantitative data from the sample respondent of 100 respondents who are bank's employees, managers and owners through questionnaire and interviews, stability, uniformity and consistent. An interviewer was administering in form of structured questions and this was through face to face interview. The researcher was also check the spelling of the questionnaire and will train the assistance.

Data was collected from both primary and secondary sources, primary data was obtained from key directors, managerial staff and owners. Secondary data was obtained through reviewing related literature such as published books, magazines, journals and internet sources.

B. During the Administration of the questionnaire

Specifically, the researcher and his assistants was seriously particular in requesting the respondents the following: (1) to sign the informed consent ;(2) to answer all questions hence should not leave any item unanswered; (3) to avoid biases and to be objective in answering the questionnaires. The researcher and his assistants will try retrieving the questionnaires within two weeks from the date of distribution. All questionnaires retrieved was checked if completely filled out.

C. After the Administration of the questionnaire

The data collected was organized, collated, summarized, statistically treated and drafted in tables using the Statistical Package for Social Sciences (SPSS) version 16

Data Analysis

This study was apply both qualitative and quantitative methods for analyzing the data. Tables and percentages charts were used to present and analyze the data in appropriate way. The data was make use of Statistical Package for Social Science (SPSS) as a tool for analyzing the data.

To determine the profile of the respondents, the frequency and percentage distribution was used.

The mean and standard deviation was employed to compute for the level of Collateral and Credit management. An item analysis based on the mean scores and ranks shall reflect the strengths and weaknesses of the respondents in terms of Collateral and credit management for selected financial institutions in Somalia. To interpret the obtained data, the following numerical values and description was used:

Mean Range	Description	Interpretation
3.26-4.00	**Strong Agree**	**High**
2.51-3.25	**Agree**	**Moderate**
1.76-2.50	**Disagree**	**Low**
1.00-1.75	**Strong Disagree**	**Very Low**

The z-test for difference in means was utilized to test the hypotheses for difference between means (Ho #1) at 0.05 level of significance. A multiple correlation coefficient to test the hypotheses on correlation (Ho #2) at 0.05 level of significance using the F-test was employed.

Ethical Consideration

To safeguard against unprofessional conduct while carrying out this research like unnecessary pressures, which could cause the research findings to be undermined, the researcher: Sought permission of the people who participated in the research for their consent in the intended study as such the researcher was not lie to subjects and record findings on hidden mechanical devices.

The researcher made sure the researcher's personal biases and opinions was not override other interests of the research and gave both sides fair consideration. The findings of the research was kept confidential, done under the condition of anonymity to avoid embarrassing and harming respondents especially if got information could be used logically or otherwise to harm the respondents.

The researcher was require approval of the University Ethics Committee to make sure the research does not violate any of the Ethical considerations.

To ensure utmost confidentiality for the respondents and the data provided by them as well as reflect ethics practiced in this study, the following was done:

1. All questionnaires was coded to provide anonymity of the respondents
2. The respondents was requested to sign the informed consent
3. Authors quoted in this study was recognized through citations and referencing
4. A written communication to the authors of the standardized instrument

5. On emotional intelligence to solicit permission to use the standardized questionnaire
6. Presentation of findings was generalized

Limitation of the Study

The researcher faces number of problems including some of the respondents not knowing the English language, Also, the researcher faces some of the respondents would not answer the questionnaire properly or correctly and correctly and tight schedule of the respondents.

The researcher challenges to overcome those problems through translating questionnaire into Somali language, and choose educated respondents those who have accurate information about the study and distribute the questionnaires in advance to the respondents to have enough time to make inline in their tight schedule to complete the questionnaires.

The researcher was claim an acceptable (0.05 level of significance) 5% margin of error in view of the following anticipated threats to validity with relevance to this study:

1. *Testing*: Differences in conditions and time when the data was obtained from respondents by different persons on different days at different hours. This will be minimized by orienting and briefing the research assistants on the sampling techniques and data gathering procedures.
2. *Instrumentation*: The research instrument on ethical leadership is not standardized. A validity and reliability test was done to produce a credible research tool.

3. *Mortality*: The calculated number of respondents may not be reached considering the fact that some questionnaires may not be returned due to circumstances within the respondents and beyond the control of the researcher. The researcher will endeavor to attain the appropriate number of respondents for reasons of representativeness.
4. Other conditions where the researcher was not have control over the extraneous variables such as honesty of the respondents, personal biases and descriptive nature of the design.

In this research, investigated collateral and credit management in selected Co-operative banks in Somalia. Operation risk is one of the important risks in bank and secondary data not enough for this kind of risk analysis, therefore we need to fresh data and this is one of the limitation of study.

Lack of credit risk analysis and risk management department and lack of experienced member in some banks was another problem in this research. Once more difficulty was incorporating of some bank to taking time to answer the questionnaire.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Overview

In this chapter, the results of the study are presented, analyzed, and interpreted precisely. The study used a correlation survey as a research design and employed questionnaires to obtain the primary data from the field.

The presentation is divided into two parts. The first part presents the respondent demographic information, while the second part deals with presentation, interpretation, and analysis of the research questions and objectives.

Presentation and analysis of the collected data was computed using descriptive statistics frequencies percentages, mean and correlation. In order to show the distribution of the respondents on the various question items. Tables were used in the presentation of data.

Objective one: profile of the financial institution's respondents

As mentioned above, this part presents the background information of the respondents who participated in the study. The purpose of this background information is to present the characteristics of the respondents and show the distribution of the population in the study. Their distribution is established in table 4.1 below.

The first research question of the study was to determine the profile of the respondents used in this study. The purpose of this background information was to find out the characteristics of the respondents and show the distribution of the population in the study, the findings are presented below.

Profile of the Respondents

Table 4.1: The Gender, Age and position of the respondents

Profile of the respondents	Frequency	Percentage
Gender		
Male	85	85.0
Female	15	15.0
Total	**100**	**100.0**
Age of the respondents		
20-29	41	41.0
30-39	44	44.0
40-49	15	15.0
Total	100	100.0
Position of the respondents		
Management	37	37.0
Staff	63	63.0
Total	100	100.0

Source: Primary data 2011

In table 1: the age of the respondents were combined include young age, middle age and gentle age so, the majority of the respondents is 44% in the percentage of 100 so these implies that the majority of the respondents in the micro financial institutions in Mogadishu are middle age. This could due to the age of brackets (30-39) are having a chance to work for micro financial institutions in Mogadishu Somalia.

Findings from table 1: Also Indicates that sex of the respondents involved in the study, both males and females included. However, there are more males compared to females. The percentage was 85% males and 15% females. This implies that the majority of workers in Mogadishu's microfinance institutions are male. This could be because fewer women in Somalia have attained formal education, so they don't have the chance to join salaried employment which requires academic qualifications

In the table 1: The finding of the study indicated that the respondent in the sample of 63% are staff in micro financial institutions in Mogadishu and proportion of 37% are management in those companies. This means the micro financial institutions in Mogadishu having hierarchies on job description. This because of the result of segregation of duties in micro financial institutions in Mogadishu, so the majority of every company in terms of macro finance or micro finance is staffs or executives.

Table 4.2: The Educational Level and Experience of the Respondents

Profile of the respondents	Frequency	Percentage
Education of the Respondents		
Postgraduate	23	23.0
Bachelor	14	14.0
Diploma	40	40.0
Secondary	23	23.0
Total	**100**	**100.0**
Experience of the Respondents		
Less than One	7	7.0
1-2	37	37.0
3-4	27	27.0
Above 5	29	29.0
Total	**100**	**100.0**
Income of the respondent		
Less than One Year	7	7.0
1-2 Years	37	37.0
3-4 Years	27	27.0
Above 5 Years	29	29.0
Total	**100**	**100.0**
Nationality of the respondent		
Somali	100	100
Total	100	100

Source: Primary data

In this table The researcher described the respondents according to their nationality, the qualification of the respondents in terms of their education; secondary, diploma, bachelor degree and Postgraduate, to their responsibility, and according to their experience.

According to table 2: Among the sample respondents, the rank of (40%) were bachelor degree holders and category of (23%) were Post graduate holders, others proportion of (23%) were secondary level and the remaining of (14%) were holders of Diploma certificates. These because of the respondents who were holding bachelor degree are the majority in the institutions of micro financial in Mogadishu Somalia. This implies that the minority of the respondents who working in micro finance in Mogadishu Somalia are 14% this means the whole Somalis micro financial institutions staffs have more than secondary school qualifies.

In table 2: The finding of the study indicated that the majority of the respondent or whole respondents in micro financial institutions in Mogadishu are Somali. So all of these respondents had been working in Mogadishu city, this means that the whole workers in micro financial institutions in Mogadishu their nationalities are all Somali. This could due to lack of multinational companies that working in Somalia because of unrest civil wars in Somalia specially Mogadishu city so, the small companies take into services for local people.

In table 3: the findings of the study revealed that the majority (47%) of the respondents in sample were of middle income group, while the minority(18%) of the respondents in the sample were high income earners. This means that the majority of the respondents in micro financial institutions in Mogadishu are middle income earners. This could due to economic conditions in the country specially Mogadishu.

4.3: Objective two: To assess the collateral Effectiveness

Independent variable in this study was collateral Asset, the questionnaire item was licker scaled by using four points; 1=strongly Disagree, 2=Disagree, 3=Agree, 4=Strongly Agree. The response analyzed using SPSS's summary statistics showing the means and standard deviation as indicated.

No	**Collateral Security**	N	Mean	Std Dev.	INTERP.	Rank
1	In Credit Risk Mitigation Strategy, the Bank use Collateral Security	100	3.04	.790	Moderate	2
2	The Bank also Use Guarantees as a Credit Risk Mitigations	100	2.44	.770	Low	3
3	Financial Collateral is Most Common Form Used as a Collateral	100	2.92	.882	Moderate	2
4	Commodity Collateral is Preferred One in the Bank	100	2.16	.721	Low	3
5	The Collateral Security is at all Times Either Equivalent or Higher than the Loan to be Applied for by All Borrowers	100	3.02	.943	Moderate	2
6	Many Problems Exist in the Creations, Recording and Enforcement of Collateral Security	100	2.99	.785	Moderate	2
7	The Creditor is Responsible for Collateral Asset Control	100	2.49	.859	Low	3
8	Collateral is the Common Security for the Loan in the Company	100	3.02	.841	Moderate	2

9	In Case a Borrower fails to Repay the Money as Agreement, There is Fully Contract for the Collateral Products	100	2.82	.957	Moderate	3
10	Credit Officers Monitor the Borrower's Undertaking to Ensure that the Money is Spent on time in the intended projects for effectiveness	100	2.18	.914	Low	2
11	In the Bad Depts., The Bank has a Good Relationship With The Government and Society For support and Help Strategy	100	3.33	.644	Moderate	3
12	the Bank applied different Strategy to different customers With in Different Period of Time	100	3.08	.662	Moderate	3
	Mean index		**2.85**	**0.866**		

Sources: Primary Data

According to table.3. when respondents were asked if their banks used collateral security, 57% said yes (mean≈3.04) and 43% said no. The results show that the majority of banks in Mogadishu charge collateral security.

The table also reveals that only a few (27%)(mean≈2.44)of micro financial institutions in Mogadishu use guarantors as a way of mitigating credit risk compared to 73% who do not. The results suggest that the use of a guarantor to borrow money is not a wide spread practice in micro financial institutions in Mogadishu, this could be because there are fewer people who can act as guarantors to a person to acquire a loan considering the fact that it is only few people who have bank accounts and can guarantee some one else to acquire a loan.

The majority (73%)(mean≈2.92) of respondents said that their institutions use financial collateral as the most common form of collateral compared to 27% who don not. The results reveal that financial collateral is the most used form of security by micro financial institutions in Mogadishu; this could be because most of the people do not have other forms of security like land, vehicles and houses so they prefer financial collateral.

A big proportion (73%)(mean≈2.16) of respondents said they did not consider commodity collateral compared to 27% who said they did. The results reveal that commodity collateral is not a common form of collateral used by micro financial institutions in Mogadishu; this could be because people do not own commodities so they would rather use financial collateral because of its availability.

When the respondents were asked whether the collateral requirement is at all times either equivalent or higher than the loan to be applied for by all Borrowers, 75%(mean≈3.04) answered in the affirmative and only 25% said no. This implies that banks in Mogadishu charge higher collateral to protect their loans.

About 53%(mean≈2.99)reported that many problems exist in the creations, recording and enforcement of collateral security by their financial institutions. Indicating that credit risk management still poses a challenge to most microfinance institutions in Mogadishu. This is because the microfinance sector is still underdeveloped with few professionals to guide its operations.

Only 46% (mean≈2.49)of the respondents said that the creditor was responsible for credit collateral control and another 54% disagreed. The results suggest that control of credit collateral is not done by the creditors but rather by the government.

When respondents were asked to respond to the statement that collateral is the most common security for acquiring a loan in their institutions, a big proportion (76%)(mean≈3.02) agreed and only 14% disagreed. This means that in Mogadishu as else where, collateral is the most common form of security.

A big proportion (66%)(mean≈2.82) of respondents agreed that they signed a contract between the lender and the borrower to ensure that the lending institution can recover its money while only 34% disagreed.

The study found that credit officers monitor borrowers' undertaking to ensure that the money is spent in time and on intended projects for effectiveness, 54% (mean≈2.18)agreed while 46% said disagreed. The results suggest that though not a widespread practice, micro financial institutions in Mogadishu monitor borrowers' activities.

A big proportion 74% (mean≈3.33)of respondents reported that their institutions did not have good relationship with the government and society for help and support strategies, while only 26% said they did. The findings suggest that micro finance institutions in Mogadishu do not have government support. The result above could be due to the fact that the Somali government has not come out clearly to support micro finance institutions like it is the case in other countries like Uganda.

Only 43% (mean≈3.08)of the respondents agreed that the bank applied different strategies to different customers at different time periods, while 74% disagreed with this statement. The implication is that microfinance institutions in Mogadishu apply similar strategies to their customers without discrimination.

4.4: Objective Three Description of dependent Variable:

The dependent variable in this study was credit management, the questionnaire item was licker scaled using four points, where 1=Strongly Disagree, 2=Disagree, 3=Agree, 4 = Strongly Agree.

No	**Credit Management**	N	Mean	**SD**	INTERP	**Rank**
1	Your Company Provides a Loan to Your Customer	100	3.19	.662	Moderate	2
2	Corporate Type of Lending Provided by your Institution	100	2.83	.739	Moderate	2
3	The Bank also Provides a Personal Loan	100	2.45	.672	Low	3
4	Real States and Automobiles are Other Credit Forms	100	2.36	.674	Low	3
5	Existence Of Credit Default Risk	100	3.13	.825	Moderate	2
6	Existence Of Credit Spread Risk	100	3.12	.671	Moderate	2
7	The Borrowers Must Hold Personal Bank Account Before Application for the Loans	100	2.48	.810	Low	3
8	The Bank Charges Interest Rate on Each of the Above Types of Lending	100	1.00	.000	Very Low	4
9	Centralized Credit Control Exist for All Divisions	100	2.71	.769	Moderate	3
10	The Bank has Credit Standards Required for Loan Acquisition	100	3.11	.827	Moderate	3
11	Credit Limits Set for All Accounts	100	2.76	.889	Moderate	3

12	The Limit Period of Time that Barrowed Money Must be Repaid	100	3.14	.725	Moderate	3
13	The Bank use in Credit Limits System Based on Barrower's Capacity	100	2.93	.671	Moderate	2
14	The Barrowers Conditions are Another Factor Used for Credit Limits Strategy	100	2.65	.845	Moderate	2
15	The banks have Credit Recovery Department that Limits the Collection of Credit in Default	100	2.34	1.056	Low	3
16	There is Someone Who is Responsible for Company's Credit Risk Management	100	2.07	.742	Low	3
17	The Bank Use a Sufficient Information System to Assess the Risk Associated with the Potential Charges in Market and Credit Conditions	100	2.89	.751	Moderate	2
18	The Main Procedures for Following Up Past Due Accounts are; Telephones, Letters and Visitors	100	3.04	.803	Moderate	2
19	In Case Loan Goes Bad, The Bank Contacts with The Customer and Follow up the Customer's Accounts	100	3.10	.659	Moderate	2
20	About 30 Days Beyond the Original Due Date the Credit Transferred to the Credit Recovery Department	100	1.77	.679	Moderate	2
	Mean index		**2.65**	**0,89**		

Sources: Primary Data

The table above indicates that the majority (88%)(mean≈3.19) of microfinance institutions in Mogadishu provide loans to their clients compared to only 12% which do not. The finding suggests that most of the micro finance institutions in Mogadishu provide loans.

A big proportion (67%)(mean≈2.83) of respondents reported that their institutions engaged in corporate lending compared to only 23% who did not. The findings suggest that most of the micro finance institutions in Mogadishu practice corporate lending. This is because a number of small and medium businesses borrow to expand their businesses.

A big proportion (57%)(mean≈2.45) of respondents reported that their institutions do not provide personal loans compared to only 43% who do. This means that a big proportion of micro financial institutions do not offer individual loans to their clients. This could be because most of the institutions prefer lending money to groups than to individuals.

Only 33% (mean≈2.36)said that real estate and automobiles were the other forms of credit that they considered while a big proportion (67%) did not consider automobiles and real estate. The implication is that most micro financial institutions do not consider real estate and automobile as forms of credit.

The majority (80%)(mean≈3.13) of respondents agreed that there was existence of credit default risk in their organizations compared to only 20% who did not have this risk. Further analysis indicated that a big proportion (85%)(mean≈3.12) of respondents experienced credit spread risk in their organizations, compared to only 15% who did not.

Half (50%)(mean≈2.48) of the respondents agreed that a borrower must have a bank account in their bank before accessing credit and another half disagreed. The findings suggest that in some institutions it is a prerequisite to have a bank account before accessing credit and in others it is not. This is because different institutions have different policies, with some favorable and others not.

All (100%)(mean≈1.00) of the respondents disagreed with the statement that their micro financial institutions charge interest rates. The finding suggests that micro financial institutions in Mogadishu do not charge interest rate. This could be attributed to the Islamic law which discourages faithful from charging interest on loans given to fellow Muslims.

About 58% (mean≈2.71)of the respondents agreed that centralized credit control exists for all divisions in their micro financial institutions compared to only 42% who disagreed. The findings suggest that the majority of micro financial institutions in Mogadishu have centralized credit control systems for all their divisions.

Three quarters of the respondents(mean≈3.11) agreed that their micro financial institutions have credit standards required for loan acquisition while only 25% disagreed. The findings suggest that most micro financial institutions have credit standards which are required for loan acquisition.

The proportion of respondents who agreed that there are credit limits set for all accounts was 60% (mean≈2.76)while those who disagreed was 40%. The findings suggest that most firms in Mogadishu set credit limits for their clients.

Only 34%(mean≈3.14) of the respondents reported limiting the time period in which borrowed money must be repaid and 66% disagreed. The findings suggest that the findings suggest that the majority of micro financial institutions in Mogadishu do not limit the time period in which the loan must be paid. This could be because of Islamic law which discourages the practice of limiting time on which a person borrows money.

Only 40%(mean≈2.34) of the respondents agreed to the statement that their institutions have a credit recovery department that limits the collection of credit in default while 60% disagreed. The findings suggest that most micro financial institutions in Mogadishu do not have credit recovery departments.

When the respondents were asked to respond to the statement that there is someone responsible for credit risk management, 77% (mean≈2.07) disagreed and 23% agreed, meaning that a big proportion of micro financial institutions in Mogadishu do not have personnel who are responsible for credit risk management.

A big proportion (mean≈2.89)of respondents agreed that their micro financial institutions used a sufficient information system to assess the risk associated with the potential charges in market and credit conditions and 30% disagreed. This means that most of the micro financial institutions in Mogadishu have sufficient management information systems to ensure credit risk management.

About 78%(mean≈3.04) of the respondents agreed that the main procedures for following up past due accounts are; telephones, letters and visitors, while 12% disagreed. The findings suggest that most banks in Mogadishu have a mechanism for following up defaulters through the use of telephones, letters and personal visits.

The majority (87%) (mean≈3.10) agreed with the statement that in case a loan goes bad, the bank contacts with the customer and follows up the customer's accounts, while only 13% disagreed. The findings suggest that most of the banks have a follow up mechanism for tracing loan defaulters.

Only 12% (mean≈1.77)of the respondents agreed with the statement that about 30 days beyond the original due date the credit is transferred to the credit recovery department, while a big proportion (88%) disagreed. Meaning that micro financial institutions in Mogadishu do not transfer due credit to the credit recovery departments. This could be due to the fact that some of these institutions do not have credit recovery departments as was reported earlier.

Objective 4: Testing the relationships collateral effectiveness and credit management

In order to establish the relationship between collateral effectiveness and credit management, a correlation analysis was carried out. The results are summarized in the table below:

Variable Correlated	S.D	r- value	Sig.	Interpretation	Decision on ho
Collateral Asset	.32535	0.481	0.000	Significant correlation	Rejected
Credit Risk Management	.32871	0.481	0.000	Significant correlation	Rejected

Source: primary data 2011

The results in table 4.5 results a positive significant relationship between collateral effectiveness and credit management, (R=0.481, P<0.05, Sig. =0.000) based on this results, the researcher rejects the null hypotheses since the sig, value (0.000 was less than 0.05 or 5%). The sig. values indicate that the two variables (Collateral effectiveness and Credit Management) in selected Micro financial institutions in Somalia (the sig. is less than 0.05, which is the maximum sig. value for us to state existence of a significant relationship).

The table above indicates that there is a significant positive relationship between collateral effectiveness and credit management for selected micro financial institutions in Mogadishu, Somalia. The correlation coefficient for two variables is 0.481, P<0.05. The researcher thus rejects the null Hypotheses which stated that there is no relationship between collateral effectiveness and credit management.

This means that the more a micro financial institution uses collateral asset as security, the more it mitigates credit risk. The implication for management is that if credit management is to improve, the banks should continue using collateral effectiveness.

Regression Analysis between the Dependent and Independent variables

Variables Regressed	Computed F-Value	R^2	Sig.	Interpretation	Decision on Ho
1. Credit Management 2.Collateral Effectiveness	**29.42**	**.231**	**0.000**	**Significant effect**	**Rejected**

R=0.481 R square=0.231 F=29.422, p value<0.05				
		Standardized Coefficients	t	Sig.
Model		Beta		
	Collateral effectiveness	0.481	5.424	0.000

Dependent variable credit management

According to the regression analysis results in the table above indicates that collateral effectiveness has a significant effect on credit management (R square=0.231, F=29.422, p value <0.05). The table indicates that collateral effectiveness affects credit management by 23%. The study thus concludes that there is sufficient evidence at the 0.05 level of significance that collateral effectiveness affects credit management.

In other words, the study results lead to conclusion that Collateral effectiveness significantly explains the high rates of credit management in selected micro financial institutions in Somalia. The implication for management is that if management is to improve credit management, it should strengthen the collateral effectiveness.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Introduction

Chapter four was presented, analyzed and discussed using the data obtained from the field. Based on findings on the previous chapters, this chapter focuses on the summary of the results of the research study on the previous chapter.

SUMMARY Of The Finding:

This study was guided by four objectives which comprised these objectives (1) the degree of effectiveness of collateral asset being practiced by selected Micro financial institutions in Mogadishu Somalia. (2) the degree of credit management encountered by selected Micro financial institutions in Mogadishu Somalia. (3) the relationship between Collateral Asset and credit management being practiced by selected Micro financial institutions in Mogadishu Somalia

Objective one: Demographic information of respondents

The first objective of the study the descriptive statistics result showed frequencies and percentages, indicating the characteristics of the respondents and also showed the distribution of the population in the study. The result indicated that there were more male than female individuals working at macro financial institutions in Mogadishu. The finding also suggested that the banks staff were of diverse age groups who have different values for their performance.

The position of the respondents the result indicated that there was an uneven distribution among the respondents job position, where by more than 67% do not have any management position at all.

The study found that the majority of employees in Mogadishu's micro financial institutions were Somalis of middle age, male, had a bachelor's degree, are lower level staff and are middle income earners.

Objective two: Collateral security

The study found that the majority of banks in Mogadishu charge collateral security, the use of a guarantor to borrow money is not a wide spread practice in banks. Financial collateral is the most used form of security while commodity collateral is not a common form of collateral used by micro financial institutions in Mogadishu. The study further found that banks in Mogadishu charge higher collateral to protect their loans, it emerged that credit risk management still poses a challenge to most microfinance institutions in Mogadishu. The results suggest that control of credit collateral is not done by the creditors but rather by the third party. The study found that in Mogadishu as elsewhere, collateral is the most common form of security. The study found that though not a widespread practice, micro financial institutions in Mogadishu monitor borrowers' activities, the study also found that most micro finance institutions in Mogadishu do not have government support.

Data analysis using SPSS's descriptive statistics showing means and standard deviations approximately (1) Collateral effectiveness that shows score of (mean≈2.85) and Std Dev (o.866)

OBJECTIVE THREE:

The study found that most of the micro finance institutions in Mogadishu provide loans specially corporate lending, while big proportion of micro financial institutions do not offer individual loans to their clients. The study also found that most micro financial institutions in Mogadishu do not consider real estate and automobile as forms of credit.

The study further found that in some institutions it is a prerequisite to have a bank account before accessing credit and in others it is not, it also emerged that micro financial institutions in Mogadishu do not charge interest rate. The study further found that most micro financial institutions in Mogadishu have credit standards which are required for loan acquisition, and they set credit limits for their clients, the majority of micro financial institutions in Mogadishu do not limit the time period in which the loan must be paid. It was discovered that most micro financial institutions in Mogadishu do not have credit recovery departments, a big proportion of micro financial institutions in Mogadishu do not have personnel who are responsible for credit risk management.

It emerged that most of the micro financial institutions in Mogadishu have sufficient management information systems to ensure credit management that most banks in Mogadishu have a mechanism for following up defaulters through the use of telephones, letters and personal visits and that most of the banks have a follow up mechanism for tracing loan defaulters. The study further found out that micro financial institutions in Mogadishu do not transfer credit to the credit recovery departments since they do not have these departments in the first place.

Data analysis using SPSS's descriptive statistics showing means and standard deviations showed that the credit risk management (dependent variable) mean index is (mean≈2.65) and Std Dev (o.89)

Objective four: the relationship between collateral security and credit risk management

The study found a significant positive relationship between collateral security and credit risk management suggesting that collateral security impacts on credit risk management.

Data analysis using SPSS's descriptive statistics for means and standard deviations, showed approximately (I) inventory control system that showed score of (mean ≈ 3); std dev (1.616) (ii) organizational performance showed score of (mean ≈3);std dev (1.233) in private selected micro financial institutions in Somalia respectively, which had an interpretation as good.

Results using Pearson's Linear Correlation Coefficient found that the inventory control system the study using Pearson correlation the result found indicated that significantly correlated to level of employee work performance in selected communication companies (corr. Coef. .844 **p=0,000). Basing on these results, the stated research hypothesis is rejected, the alternative is accepted leading to a conclusion that inventory control system and organizational performance sig. = 0.000; are significantly correlated at 0.05 level of significance.

Conclusion

The study set out to find the relationship between collateral security and credit risk management. The study finds that most of the micro financial institutions in Mogadishu have mechanisms in place for ensuring collateral security and for mitigating credit risks. The study finds out that the two variables are related. As such, it can be inferred that ensuring collateral security is an important way of mitigating credit risk in micro financial institutions in Mogadishu.

Collateral effectiveness in selected micro financial institutions in Mogadishu Somalia is significantly correlated with credit management, indicating that the high level of Collateral effectiveness in micro financial institutions in Somalia is responsible for a high level of credit management in this area.

Recommendations

The study found that the majority of banks in Mogadishu charge collateral security, micro financial institutions should therefore strengthen

The use of a guarantor to borrow money is not a wide spread practice in micro financial institutions in Mogadishu. Micro financial institutions should introduce the idea of using a guarantor to ensure more credit security.

The study found that financial collateral is the most used form of security by micro financial institutions in Mogadishu and that commodity is not common. Management should consider striking a balance between financial and collateral security order to attract a wide base of clients who may have commodity collateral but not financial security and vice versa.

The study further found that banks in Mogadishu charge higher collateral to protect their loans, management should consider revising this since it may scare away potential clients who may not have high collateral.

It emerged that credit risk management still poses a challenge to most microfinance institutions in Mogadishu. Management should consider building the capacity of its staff to deal with the enormous challenges faced by micro financial institutions. Refresher trainings could be handy in developing employee capacity.

The study also found that most micro finance institutions in Mogadishu do not have government support micro financial institutions in Mogadishu should form an association to enable them negotiate with government.

Credit risk management

The study found that a big proportion of micro financial institutions do not offer individual loans to their clients. Since many people may not have the capacity to form groups, micro financial institutions in Mogadishu should tap into the individuals who may want loans but do not have the ability to form groups.

The study also found that most micro financial institutions in Mogadishu do not consider real estate and automobile as forms of credit. Management should consider adding real estate and auto mobiles as forms of credit.

The study further found that most micro financial institutions in Mogadishu have credit standards which are required for loan acquisition, these should be upheld.

It also emerged that most micro finance institutions in Mogadishu set credit limits for their clients, the majority of micro financial institutions in Mogadishu do not limit the time period in which the loan must be paid. Time periods should be introduced to reduce laxity among the borrowers to pay.

It was discovered that most micro financial institutions in Mogadishu do not have credit recovery departments, a big proportion of micro financial institutions in Mogadishu do not have personnel who are responsible for credit risk management. Management in these micro financial institutions should set up credit recovery departments and higher personnel to manage these departments.

It emerged that most of the micro financial institutions in Mogadishu have sufficient management information systems to ensure credit risk management that most banks in Mogadishu have a mechanism for following up defaulters through the use of telephones, letters and personal visits and that most of the banks have a follow up mechanism for tracing loan defaulters, this should be strengthened and upheld.

The relationship between collateral security and credit risk management

The study found that collateral security has a significant effect on credit risk management, meaning that management should continue with the practice of demanding for credit from the borrowers.

SEGGESTED AREAS FOR FURTHER RESEARCH

There is need to do research in Sales Growth and Credit Management, further research can be done in Customer Satisfaction and Credit Management.

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Please tick appropriate answers where options are provided.

1. Name ..... (Optional)

2. Age of Respondent

☐ 20 - 29 ☐ 40 - 49

☐ 30 – 39 ☐ Above 50

3. Sex of Respondent/Gender

☐ Male ☐ Female

4. Respondent's Educational level

☐ Primary ☐ Secondary

☐ Bachelor ☐ Master

5. Respondent's Nationality

☐ Somalia ☐

☐ Djibouti ☐ Others

6. Nature of respondent

☐ Management ☐ Staff

7- Income of the respondent

No	Statement	SD	D	A	SA
	Collateral effectiveness	**1**	**2**	**3**	**4**
1	Your company provides a credit to your customer.	1	2	3	4
2	Corporate type of lending (credit) provided by your institutions				
3	The bank also provides the Personal loan				
4	Real estates and automobiles are other credit forms of the bank				
5	In credit risk mitigation strategy, the bank **use collateral** security				
6	The bank also uses guarantees or third party guarantees as a credit risk mitigation.				
7	**Financial collateral** is the most common form used as coliateral.				
8	**Commodity collateral** is the preferred				

	one in the bank account				
9	The **collateral** security is at all times either equivalent or higher than the loan to be applied for by all borrowers.				
10	Many problems exist in the creation, recording and enforcement of **collateral** security.				
11	The creditor is responsible for **collateral** asset control.				
12	**Collateral is** the common security for the loan in the company				
13	In case a loan borrower fails to repay the money as per loan agreement, There is fully contract for the **collateral products.**				
	Credit Risk Management				

13	**It is mandatory for all loan borrowers at Bank to hold personal bank accounts with the banking institution before application for the loans.**				
14	The bank charges interest rate on each of the above types of lending.				
	Credit Risk Procedure				
15	Centralized credit control exist for all divisions and branches				
16	The bank has credit standards required for loan acquisition				
17	Credit limits set for all accounts.				
18	There is a defined limited period of time upon which the borrowed money must be repaid by each borrower				
19	The bank use in credit limits system based on borrower's capacity				
20	Borrowers conditions is another factor used for credit limits strategy				

	Types Of Credit Risk				
21	Existence of Credit default Risk				
22	Existence of Credit spread risk				
23	Existence of Credit Spread Risk				
24	Your institutions have a credit recovery department that limits collection of credit in defaults.				
25	There is someone who is responsible for company's credit risk management.				
26	The bank use a sufficient information system to assess the risk associated with the potential changes in market and credit conditions				
	Credit collection Procedure				
27	Telephones, Letters and visits are the main procedures for following up on past due accounts				
28	In case a loan goes bad, The Bank Contact with Customers, and follow up the				

	customer's account, and updating credit file of the bank				
29	About 30 days beyond the original due date the credit transferred to the credit recovery department for action?				
30	Credit officers monitor the borrower's undertakings to ensure that the money is spent on time in the intended Borrowing projects for effectiveness.				
31	In the bad depts. The Bank has a good relationship with the Government and society for support and help strategy.				
32	The bank applied different strategy to different customers with in different period of credit risks.				

TRANSIMITAL LETER FOR THE RESPONDENTS

_____

Dear Sir/ Madam

Greeting:

I am a candidate for Master Students in Business Administration at Kampala International University as part of requirements for the award is a thesis. My title is Collateral Effectiveness and Credit Management for selected Micro Financial Institutions in Mogadishu, Somalia. May I request your assistance by being part of this study?

Kindly provide the most appropriate information as indicated in the questionnaires and please don't leave any item unanswered. Ant data from you shall be for academic purpose only and will be kept with atmost confidentiality.

May I retrieve the questionnaires 2 week after you receive them? Thank you very much in advance.

Your faithfully.

_____

Master Candidate.

KAMPALA
INTERNATIONAL
UNIVERSITY

EXPLORING THE HEIGHTS

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OFFICE OF THE COORDINATOR, BUSINESS AND MANAGEMENT
SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH (SPGSR)

September 23, 2010

RE: REQUEST FOR AHMED ALI HMED MBA/42006/91/DF
TO CONDUCT RESEARCH IN YOUR ORGANIZATION

The above mentioned is a bonafide student of Kampala International University pursuing a Masters of Business Administration.

He is currently conducting a field research of which the title is **"Collateral and Credit Management for the Selected Micro-Financial Institution in Mogadishu Somalia."**

Your organization has been identified as a valuable source of information pertaining to his research project. The purpose of this letter is to request you to avail him with the pertinent information he may need.

Any information shared with him from your organization shall be treated with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours truly,

KAMPALA INTERNATIONAL UNIVERSITY SCHOOL OF POST GRADUATE STUDIES P.O. BOX 20000, KAMPALA

Mr. Malinga Ramadhan
Coordinator
Business and Management, (SPGSR)

habshiil
y Transfer you can trust

To Whom It May Concern:

As **IT MANAGER** I am delighted to share with you that we have allowed, the information which he has requested from the company in the form of questionnaire under title of "**Credit Risk Management and collateral for Selected Banks and Financial Institutions.**"

We have given him this information after he has brought us a request letter from **Kampala International University** which was dated on 23the May 2011.

We hope success to him and the university as whole.

Yours truly,

IT Manager

DAHABSHIIL BANK
Mogadishu - Somalia

Office: 252-1-601282
Fax: 252-1-659219
Tel: 25261-5555881
hortelsales@hotmail.com

HORMUUD
Telecom Somalia Inc.

To: To Whom It May Concern

Date: Thursday, September 01, 2011.

As Sales director of **Hormuud telecom Somali Inc**. I'm very delighted to share with you that we have allowed the information which he has requested from the company in the form of Questionnaire under the title of "**Credit Risk Management and collateral Security for selected Bank and Financial Institutions in Mogadishu-Somalia'.**

We have given him this information after he has brought us a request letter from **Kampala International University** which was dated on 24th May2011.

We hope success to him and the university as whole.

Yours sincerely

Sales Director

01/09/2011

PHARMASOM LTD.
el: +2521-652636 / 252-61 - 5502696 / 2526-933079 Fax: +2521-216365
Mogadishu - Somalia
www.pharmasom.com / E-mail: pharmasom02@hotmail.com

TO WHOM IT MAY CONCERN

As Accountant of **PHARMASOM LTD**, I'm delighted to share with you that we have allowed, the information which he has requested from the company in the form of questionnaire under title of "***Credit Risk Management and Collateral Security for selected Banks and Financial Institutions in Mogadishu-Somalia.***"

We have given him this information after he has brought us a request letter from Kampala International University which was dated on 24th May 2011.

We hope success to him and the university as whole.

Yours sincerely

Accountant

SALAAM SOMALI BANK

SMS Banking

TO WHOM IT MAY CONCERN

As Accountant of **SALAAM SOMALI BANK**, I'm delighted to share with you that we have allowed, the information which he has requested from the company in the form of questionnaire under title of "***Credit Risk Management and Collateral Security for selected Banks and Financial Institutions in Mogadishu-Somalia.***"

We have given him this information after he has brought us a request letter from Kampala International University which was dated on 24th May 2011.

We hope success to him and the university as whole.

Yours sincerely

Accountant

SALAAM SOMALI BANK

RESEARCHER'S CURRICULUM VITAE

Personal Data

Name : Ahmed Ali Ahmed

Date of birth : 1976

Nationality : Somalia

M. Status : Married

Religion : Muslim

Phone : 0792116292

E-mail : suldaan33@hotmail.com

Education

2009 – Current: Kampala International University, Kampala, Uganda,

Master of MBA Banking and Finance

2004-2007: Somalia Institute of Management and Administration Development (SIMAD). Three Years of Bachelor in Business Administration.

1993-1994: Munazamat Dacwa Islamiyah Diploma of business Admin

1981-1990: Sheikh Suufi, Mogadishu, Somalia. Secondary School Certificate.

Training Course/Seminars

SRCS/ICRC Tracing workshop June 1995
held in Mogadishu

2010: Certificate of Training Course of Research Methodology at Kampala International University (KIU) for two weeks, Kampala-Uganda.

2010: Certificate of Training Course of Research Methodology at Kampala International University (KIU) for two weeks, Kampala-Uganda.

2010: Certificate of Training Course in Decentralization and Local Government at Kampala International University (KIU) for four Months, Kampala-Uganda.

2010: Certificate of Training Course in Research SMethodology at Kampala International University Organized by Real Peace International Institute in Kampala-Uganda

2010 Certificate Monitoring and evaluation of projects Held at Makerere University, Kampala, Uganda.

2011: Certificate of Peace and Conflict Management Course held at Makerere University, Kampala, Uganda.

2010: Certificate course of Project planning and management
, African population institute, Makarere University

2008: How to say a lecture. Held in Mogadishu

2008: Certificate course of financial management
African population institute, Makarere University

2007: Certificate course of Trainer of Trainees
African population institute, Makarere University

Work Experience

2008-2011 Current: Lecturer of SIMAD University.

2005-2011: Current Manager of pharmasom LTD.

2002-2005: Manager of Impo company.

1997-2002: Admin and Finance Manager of Badbaado company.

Languages

- Somali (Mother Tongue)
- English
- Arabic

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Personal interest

- Reading
- Playing Football
- Swimming
- Visiting Tourist places.
-