

ABSTRACT

Many banks and financial dealers in Mogadishu have been experiencing low collection that has led to increase the bad debts. 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 planned 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.