AN ASSESSMENT OF THE EFFECTIVENESS OF CREDIT RATING PROCEDURES IN MICRO FINANCIAL INSTITUTIONS. A CASE STUDY OF FIRST MICRO CREDIT FINANCE.

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ABSTRACT

This study sought to assess the effectiveness of credit rating procedures in financial institutions. Its main objective was to assess the credit rating policies procedures being used by First Micro Credit Finance and to assess how they assess and rate their potential clients and give ways to improve their credit rating. The research study was confined to respondents at Harare branch where a sample of twenty five (25) respondents was drawn using stratified sampling. Data was obtained through interviews, observations and questioners. A pilot study was carried out on branch supervisors to determine the reliability of the questionnaires used. The results of the study showed that First Micro Credit Finance has a credit rating policy and the majority of employees (92%) are aware of it but they do not often use it to assess or evaluate credit worthiness. The study also showed that seventy two percent of the employees strongly agreed that poor implementing of credit rating policy affects the overall growth and sustainability of a company. The study concludes that the key to loan repayments lies in the credit rating and evaluation procedures. The study also concludes that excessive loan defaults are as a result of loan officers who are only motivated with the attaining of loan book targets as they mainly work towards set loan book targets without assessing how the loans will be repaid. The study recommended that there should be written credit rating policy in place regarding the information and documentation needed to approve new credit, renew existing credits and/or change the terms and conditions of previously approved credits. The information received will be the basis for any internal evaluation or rating assigned to the credit and its accuracy and adequacy is critical to management making appropriate judgments about the acceptability of the credit.