

**ASSESSMENT OF CREDIT PROVISION AND ITS IMPACT ON
PERFORMANCE OF COMMERCIAL BANK OF ETHIOPIA IN CASE OF
EMIDIBER COMMERCIAL BANK OF ETHIOPIA.**

**A RESEARCH PAPER SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING AND FINANCE FOR THE PARTIAL FULFILLMENT OF THE
REQUIREMENT OF BACHELOR OF ART DEGREE IN ACCOUNTING AND
FINANCE**

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ABSTRACT

This research paper presents the assessment of credit provision and its performance in commercial banks in Ethiopia: the case of Commercial Bank of Ethiopia Emidiber branch. The main purpose of this study was to assess the performance of credit provision of Commercial Bank of Ethiopia Emidiber branch. A survey study research design of Commercial Bank of Ethiopia was employed in this paper. The methodology used for the study is population census for bank staff and convenience non-probability sampling for clients to verify the bank respondents as the bank is the main study. Questionnaires were used to collect data. Bank staff and clients involved in lending and borrowing activities participated on the questionnaire. The major findings of the study show that impeding loan growth and rising loan clients complaint on the bank are regarding the lengthy of loan processing, amount of loan processed and approved, loan period, and discretionary limits affecting the performance of credit provision. The overall credit management activity of the bank needs improvement in devising a strong follow-up unit, devising an office that can control the condition and sanction sat each approval document, establishing coordination among work units. Consequently, the bank should conducted monitoring visit before and after disbursement of the loan, shortening of loan processing and advice customers and give technical support that help to minimize loan loss and diversion of loans.

Key Words; credit provision, Performance, Policy, CBE

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ACRONYMS/ABBREVIATION

CBE_ Commercial Bank of Ethiopia

S.C. CM- Credit Management

DB – Dashen Bank FIS- Financial Institutions

NBE- National Bank of Ethiopia

NPLS- No Performing Loans

SC_Sharecompany

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the study

Credit refers to money that a bank or a business will allow a person to use and then pay back in the future .Kapoor et al (1999).Provision means the rule and regulation of a company to lend money for their customers. Credit provision refers to the rule and regulation of the company that allows us to buy of data to supplements the information collected from primary source of data about the credit provision and its impact on customer satisfaction of the bank.Knows and pays back later. Bank credit refers to the money of credit available to a company or individual from the banking system, (Ibid).

Commercial bank is acting as anointer mediated between the depositors and borrowers by received deposit on current account where the bankers incur the obligation of paying legal tender on the demand or on fixed where the bankers under take to pay the customer on agreed rate of interest on it return for the right demand rate of interest on its return for the right demand from him on agreed notice for which draws. Those a commercial bank whether it is through current account or fixed deposit account it mobiles the saving of the society broker and dealer in money through discharging efficiently and valuable service to the community by increasing the productive capacity of the bank by accelerating the economic development. The bank gathers the small saving of the people to reduce the lowest limits idle money. Then it combines this small holding in amounts large enough, to be profitable employed, in this enterprise where there is most need. Here it makes capital effective and gives industry benefits of capital. When the bank grant loan, it is not directly lend to the borrowers. The commercial bank actually lends that money in the form of deposit credit with the right to the borrower to draw checks against it. In fact, the misuse of banks was made possible by the existing system of bank lending, based on cash creditCommercial bank provides the financial assistance to meet both the short term credit and the long term credit need of business and industry it also provides credit to both priority sectors and non-priority sectors in cocking agriculture, small scale industry, domestic trade, for the export and import

trader, for condominium, etc. (ibid) So, We need focused on the specific topic of credit provision and its impact on performance on commercial bank of Ethiopia, main branch is to assess the factors that affect performance as well as finding solution for the problem.

1.1.1. Back ground of the organization

History of bank of Ethiopia is established bank of Abyssinia in jobs. The bank will first in the history of Ethiopia established under partnership of the government of Ethiopia national bank of Egypt. In 1963 the Ethiopian government split the state bank of Ethiopia (earliest, 1942) in to the national bank of Ethiopia, the central bank and commercial bank of Ethiopia. In 1958 the state bank of Ethiopia established a branch in the Sudan government nationalized in 1970. The government later merged Addis bank into the commercial bank of Ethiopia in 1980 to make commercial bank of Ethiopia the sole commercial bank in the country Machirasu (2003).

Commercial bank of Ethiopia is the largest bank in Ethiopia. It has more than 1000 branches stretched across the country that are established by the government.

Commercial bank of Ethiopia in Emidiber branch is the one among 750 branches in the country. The commercial bank of Ethiopia Emidiber branch is established in Garage zone chehawereda Emidiber town and located south west of Ethiopia with a distance 180 km away from Addis Ababa. From its establishment in 2004 EC to now the branch bank plays a great role in the economic development and gives different service for their customers. Since its establishment the bank provides current account, saving account, loan and other services to their customers. The commercial bank of Emidiber branch has now provided services for more than 25532 customers. In addition to this the branch bank creates employment opportunity for 28 persons who are employed in different field of work. From these 48 employees 16 of them are clerical and the rest 11 employees are non-clerical. From the total clerical employees 32 of them are males and the rest 8 employees are female.

The major function of commercial bank of Ethiopia Emidiber branch is accepted deposit and advancing loans to their customers.

1.2. Statement of the problem

The credit provision of commercial bank of Ethiopia Emdebir branch is the most important and the crucial for achieving the individual goals and organizational goals through providing credit for customers. It can provide loans for short, medium and long term loans based on the demand of customers and purpose of loans.

The major role of the bank is providing credit for customers. However the branch has problems that have an effect on performance has, customers can not get adequate information, some of the employees have lack of adequate knowledge, and due to this they cannot give proper service to their customers. The researchers would collect information from different respondents in order to identify the main factors of banks granting loan and in order to express how this factors affect performance as well as find solution for the problems. Due to this the researcher would raise the following five questions.

1.3. Research question

This research paper is to answer the following question;

1. What types of loan are advance by commercial bank of Ethiopia Emidiber Branch?
2. What factors that limits or blocks the bank to granting the loan?
3. How the bank conducted a follow up and supervision after granting loan?
4. What are the problems that the bank faced with the existing credit provision?
5. What factors affect performance the credit provision of commercial bank of Ethiopia?

1.4. Objective of the study

1.4.1. General objective of the study

The general objective of the study is to assess the credit provision and its impact on performance in commercial bank of Ethiopia Emidiber branch.

1.4.2. Specific objective of the study

The specific objectives of the study are:

- To identify types of loan advance by commercial bank of Ethiopia Emidiber branch.
- To identify factors that limits or blocks the bank to grant loan.
- To determine how the bank conducted a follow up and supervision after granting loan.

- To identify the problem that the bank faced with the existing credit provision.
To identify the main factors cause for poor performance or good performance on credit provision.

1.5. Significance of the study

The major significance of the study will - it will advise commercial bank to establish an appropriate credit provision to consumer; it helps to identify the factors that affect the performance on credit provision in commercial bank of Ethiopia Emidiber branch and to provide a constructive idea. It also serves as a good reference for the future researchers who would conduct their senior research project on similar issue, and to provide general information for the concerned experts.

1.6. Scope of the study

The scope of this study was conduct on assessment of credit provision and its impact on performance in the commercial bank of Ethiopia Emidiber branch. It found in south western part of Ethiopia south region specifically in Emidiber town. It will mainly delimit only on the problem associated with credit provision and its impact on its performance. Even though credit provision is essential and wide ranging for detail study, the researcher would be confined only to the credit provision and its impact on performance of commercial bank of Ethiopia Emidiber branch.

1.7. Limitation of the study

When conducting this research paper, there were limitation occurred that affect the study. Most of the time the researchers do not get everything to study same thing. There are money limitations that hinder the study to do this research paper. From this some limitation are as follows: -

- ❖ The first one and the main limitation of the study is this paper is limited only on credit provision and its impact on performance in commercial bank of Ethiopia Emidiber branch and thus is not indicate other branch of commercial bank of Ethiopia.
- ❖ Time and financial constraints also main limitation of the study.
- ❖ Lack of experience on the side of researcher.

1.8. Organization of the paper

This paper includes five chapters. The first chapter deals with the introduction parts including background of the study, statement of the problem which include research questions, objective of the study, significance of the study, scope of the study and limitation of the study and .second chapter deals with literature review .the third chapter deal with methodology of the study. The fourth chapter deals about the data analysis and interpretation. The final chapter provide summery conclusion and recommendation of the study will included.

CHAPTER TWO

2. REVIEW LITRATURE

2.1. The Theoretical Review

2.1.1 Definition of loan

Loan is an arrangement of advancing a sum of money on interest for a pre-agreed period some times for particular purpose as well, N. kumar (2002).

According to N. Kumar (2002); the main features of loan advanced by a bank are as given below:-

- ⇒ The bank sanctions a sum of amount as loan for pre-arranged period and at an agreed rate of interest.
- ⇒ A separate loan account is opened in the name of borrower with the amount of loan sanctioned.
- ⇒ The loan sanctioned has to be taken in full and not partially as the full amount is transferred to the debit side of the account so opened and starts bearing interest from the date of entry in the debt side.
- ⇒ From his loan account the customer is allowed to transfer the amount to his current account.
- ⇒ Installment repayment of loan is not permitted. But relaxation depends on the banks discretion.

According to N. Kumar (2002); the banker grants loan after satisfying of the following facts:-

- 1, the loan is granted to customer who is in genuine need.
- 2, the purpose of the loan is productive.
- 3, there is no alternative source for the customer to obtain funds required by him.
- 4, adequate and good security is offered by the customer towards the loan.
- 5, the funds will not be locked up for a long time.
- 6, the borrower can return the loan without difficulty.
- 7, the loan to be granted was according to the policy of the bank and in accordance with the norms laid down by the reserve bank inline the matter of loans and advance and to

be followed.

8, the customer to whom the loan is to be granted is a person of three “c>s (character, capacity, capital)”

9, the funds are not invested in one industry or in one purpose.

10, the return on loan was faire and adequate compared to the risk in the loan,

Depend on the idea given by N. Kumar (2002); the banker after examining the loan application of the customer and the related facts: -liquidity, profitability, suitability, safety purpose of the loan and return on the investment, gets necessary documents executed by the borrowers. After the documentation part is over the loan sanctioned. Loans repayable with in a period of one year called short term loan. Loans repayable with in a period ranging from two to five years are called medium term loans. Loans granted for a period more than five years are considered to be long term loans.

2.1.2 Types of loan

2.1.2.1 Real estate loan

Real estate loan means “any loan secured by real estate where the bank relies up on such real estate as the primary security for the loan where the bank in its judgment relies substantially up on other factor, such as the general credit standing of the borrower, granting, or security other than real estate loan, although as a matter of prudent banking practice it may also be secured by real estate,”MacGraw-Hill (2007).

2.1.2.2 Business loan

A business loan is borrowed capital that companies apply towards expenses that they are unable to pay for themselves. Some business owner use business loans to pay for salaries and wages until their new company gets off the ground, while other companies. Put borrowed funds towards office supplies inventory or business projects. Lenders want to know how the business intends to use the borrowed money. So business owners must make sure to have a clear outline for how the money was spent.

Features of business loan: - loans are not given out for free lender charge interest on loans as the price paid for borrowing the money. It is important to know whether the interest is fixed or variable. A fixed interest rate means that the interest rate remains the same for the duration of the loan and it is payback period. A variable interest rate

indicates that the interest rate can fluctuate based on a variety of determinants. Other features of a loan to pay attention to are the payback period (month or year) and what the lender will use as collateral if the business is unable to pay the loan timely. Significance of the loans: - business loan allows companies to have chance of success. As such, loans are in high demand. But that every company that applies for a loan will receive one. When applying to business loan, lender evaluate the company's history, the amount of debt to company has and whether the business seems risky. Risky business, such as startup companies are often not the winning recipients of traditional loan, Joseph f (1986).

2.1.2.2 Business loan

Other major type of loan is the individual or consumer loan such as personal and auto loans. Commercial banks, finance companies, retailers, saving banks and gas companies also provide consumer loan financing through credit card such as visa, master card and proprietary credit card issued by companies such as sears and AT&T. The largest class of loan is revolving consumer loans, which includes credit card debt. With a revolving loan, the borrower has a credit line on which to draw as well as to repay up to some maximum during the life of the credit contract, Cornett (1999).

2.1.3 Management of loans and advances

Management of loans and advances in commercial banks, lending is one of the principal service provided by the bank. If accepting deposit is the function of one hand, lending is the function of another hand. Lending or advancing loan is one of the basic functions of the commercial banks; Lending is the profit or revenue earning process of commercial bank. Without lending the process of earning profit does not start for the banks, lending policy of bank is governed by monetary policy of reserve bank. The bank lends money out of deposit receiving from the customer. Depositors are repayable on date of maturity or on short notice or on demand by customer. Hence the bank can not lend money for a longer period out of depositor for short period. A commercial bank is essentially a medium or short lender. It is clear that commercial bank can not lend for long period any substantial part of funds which have been borrowed for short period from depositors. On the basis of past experience the bank management knows how to

use the assets in best possible way. The main profit making activity of commercial bank's advancing loans to its customers. The primary objective of loan management is to earn income by serving the credit need of the community. A commercial bank generates near about 65 to 75% of its income through the lending activity. The success of a bank is heavily dependent on its asset to meet CRR (cash reserve ratio) and SLR (statutory liquidity ratio) requirement. The profit earned as interest on lending is used to pay the interest on deposits and to meet the other infrastructural requirement of a bank. The residual funds have to be used very carefully for lending to earn reasonable return. Commercial banks have increased employment opportunities through their lending function have contributed to mass production, mass distribution and mass consumption. Banks also increased the level of consumption through the consumer loans. Banks provide consumer loans for creating constant demand for consumer goods like houses, furniture, and appliance fixtures. Bank loan and advance may be used to increase production and employment this will result in higher income and improving living standard of the people. Banking lending also plays an important role in the gross earnings and net profits of commercial banks. It is the most profitable as well as risky function performed by commercial banks Macmillan (2005).

Management of credit consists of the following main area.

2.1.3.1 Documentation

Documentation means the execution of security documents in the proper form and according to law. It establishes the relationship between the lending banker and the borrowers. It avoids ambiguities, Macmillan (1928).

According to Macmillan (1928) Documentation content includes four things:-

- ⇒ Documents i.e. papers consisting of facts and figures
- ⇒ Executions by major persons with free consent
- ⇒ Consideration
- ⇒ Individual or representative capacity signature of executants.

He also classified documents in to two types: that's primary and secondary evidence. Primary evidence is the original documents itself produced for inspection of the court. Secondary evidence is the original documents comprise the documents like:

A, certified copies

B, copies made from the original by mechanical processes which in themselves insure the

C, copies made from or compared with original

D, counter parts of documents as against the parties who did not execute them

E, Oral accounts of the contents of a document given by some person who has himself sends it.

2.1.3.2 Loan disbursement

According to Macmillan (1928) Disbursement of a loan amount is a process of giving the funds in the concurrent payments inclusive of tax for the period of the loan repayments.

2.1.3.3 Follow up and supervision

Follow up and supervision of borrowers is necessary to minimize risk arising from misappropriation and misuse of borrowed funds Macmillan (1928).

2.1.3.4. Recovery of loan disbursement

In order to insure timely recovery of loan and advance the bank should take due precaution both at the appraisal stage and after disbursement of loan Macmillan (1928).

2.1.4. Definition of credit

Credit is a contractual agreement in which a borrower receives something of value and agrees to repay the lender at some later date. When consumers purchase something using a credit card, they are buying on credit (receiving the item at that time and paying back the credit card company month by month). Any time when an individual finance something with a loan (such as an automobile or a house), they are using credit in that situation as well. Credit is the borrower's capacity of an individual or company Kapoor et al(2001).

2.1.5 Types of credit

2.1.5.1 Sales credit

Purchase made by a consumer that does not require a payment made in full at the time of purchase.

2.1.5.2 Cash credit

Cash credit is one type of advance made by banks to its borrowers. By granting this facility bank allows borrower to with draw. Money up to certain fixed amount sanctioned by the bank certain security and guarantees are to be provided by the borrower as per banks rules and it is to be renewed every year as specified at the time of granting this facility. If borrowers fail to repay the amount the bank can take action as pre rules and conditions fixed by the banks Mum (2014).

2.1.6. Types of credit instruments

According to D. Moral eedharan, (2009) Credit instruments are items that are utilized in the place of currency. Just about all individuals and business make use of some type of credit instrument on a daily basis. The ability to use such debater and the recipient agree up on the use of the instrument and there is a reasonable expectation that the alternative form of payment was honored.

1. Cheque: - is one of the earliest forms of a credit instrument utilized by consumers as a legitimate means of paying for goods and services received, the value of the Cheque is underwritten by funds that are placed in bank account. Up on the presentation of the cheque by the recipient, the bank deducts the specified amount as recorded on the cheque by the debtor. While the cheque is no longer the main credit instrument employed in many financial transactions, it remains in use by many business and individuals.

2. Credit card: - is another example of a common credit instrument using a credit card to pay for a purchase creates a contract between the buyers and the sellers. A credit card is a system of payment normal after the small plastic card issued to users of the system. It is deferent a debit card in that it does not remove money from the users account after every transaction. Is the issue of credit cards by banks credit card, holders are allowed credit facilities of by concerned bank for specified period of time without any securely form them there are national and international credit card. Essentially, the seller is extending credit to the buyer with the assumption that the company issuing the card will cover the amount of the purchase. In turn, the issuer of the credit card is anticipating that the card holder will eventually pay off the debt along with applicable interest finance charges (D. Moral eedharan, 2009).

3. Promissory notes: - a third type of credit instrument is the promissory note. With this arrangement, debtors receive funds from lenders with the understanding that the note was repaid in full at a future point in time. This type of debtor obligations may carry a specific date for repayment or be open-ended. Promissory note may be utilized in the Lending of funds between individuals or between two business entities (N, KUMAR, 2002).

According to his person the essential requisites of a promissory note are:-

- It must be in writing
- It must contain an undertaking to pay
- The undertaking to pay must be unconditional
- It must be signed by the maker
- It must be undertaking to pay a certain sum
- The undertaking must be to pay in money only
- The pay must be certain

4. Bill of exchange: - a bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person or to the bearer of the instrument N. Kumar (2002).

He also put the following essential requisites of bill of exchange are:-

- It must be in writing
- It must contain an order to pay
- The order to pay must be the maker
- It must be signed by the maker
- The drawee must be certain
- The sum payable must be certain
- The order must be to pay money only
- The pay must be certain.

2.1.7. Factors influencing the volume of credit

The credit and debit operations appear usually in all economic and financial transaction. The creditor surrenders something of value at one point of time in exchange for debtor

promise to pay in the future. There are times when the creditor is willing to lend and the borrower is willing to borrow. This is the time of credit expansion. When the creditor and the debtor are both shy and hesitate the exchange money for the promise of future payment. It is then a case of contraction of credit. The basic factors which determine the expansion and contraction of credit in the country are as follows:-

1, the volume of business activities: - if the business activity is be risk and the entrepreneurs are reaping rich harvests of profit, the volume of credit was large in the country. In case the business activity slackens, and the level of price is low in the country, the volume of credit was small.

2, Rate of return on the capital: -if the marginal efficiency of invested capital is higher than the current rate of interest, the entrepreneurs are moved to add to invest by taking loans. The credit, there for expands when the rate of return is safe and secure. When the credit is not self-liquidating, the volume credit contracts.

3, level and distribution of income: - if the level of income is high and it is evenly distributed in the country, the credit expands.

4, Stage of economic growth:- if the country is in the long period of self-sustained growth, there is higher degree of specialization and interdependence in the economy. With the widening of markets and large business transaction, the volume of credit is large.

5, Speculative activity: - credit expansion of contraction is directly related with speculative activities of speculators. When speculation is ripe, the volume of credit expands and when speculators undergo losses, the volume of credit contracts.

6, faith in the banking system and government: - if the banking system is working on a sound footing and there are no failures of the banks and no bad debt, the credit will expand. If people lose faith in the banking institution, the credit will contract.

7, Political condition: - the modern business world is highly sensitive to the political condition prevailing in the country. If the country is waging a war or the war clouds continue having over the heads, nobody will like to invest the funds in any enterprise and so the credit will by shy. Similarly, if the governments continue changing after every blue moon, the economic policies will not be stable and so the volume of credit was small. A stable government and peace in and outside the country helps in the expansion of the

credit.

8, Customers habits of the people: - if people are in the habit of making payments through the use of cheque drawn against their demand deposits, the credit expands, If the payment is made through the use of currency, the volume of credit contracts.

9, currency condition: - currency is used as a media of exchange because people have faith and confidence in the issuing authority. If the currency depreciates due to over issue of paper money, it creates an element of uncertainty in the business circles. When the currency issued by the state and used as instrument of credit loses faith of the people, the volume of credit is bound to contract. A sound currency system on the other hand, is highly conducive to credit expansion R. MITTAL (2002).

2.1.8. Definition bank performance

The term performance means caring in to execution or achievement; or accomplishment of specific activities, or the performance of a duty. Bank performance is the reflection of way in which the resources of a bank are used in a form which enables it to achieve its objective. Furthermore, the term bank performance means the adoption of a set of indicators which are indicative of the banks current states and the extent of its ability to achieve the desired objective.

2.1.9. Customer relationship management

Customer relationship management is perhaps the most important concept of modern marketing. Until recently, customer's relationship management has been defined narrowly as customer data management activity. By this definition, it involves managing detailed information about individual customers and carefully managing customer "touch point" in order to maximize customer loyalty.

More recently, however, customer relationship management has taken on a broader meaning. In this broader sense customer relationship management is the overall process of building and maintaining profitable customer relationship by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, keeping and growing customers.

The key building lasting customer relationships is to create superior customer value and satisfaction. Satisfied customer is more likely to be loyal customers and to give the

company a large share of their business.

Customer's value: - the difference between total customer value and total customers cost. Attracting and retaining customers can be difficult task. Customers often face a bewildering array of products and services from which to choose. A customer buys from the firm that offers the highest customer perceived value, the customer evaluation of the difference between all the benefits and all the costs of a marketing offer relative to those of competing offers. Customers often do not judge products values and cost accurately or objectively, they act on perceived value.

CHAPTER THREE

1. RESEARCH METHODOLOGY

3.1. Research design

In order to achieve the study objectives a descriptive methods approach was adapted. To this end, both primary and secondary data sources are used to undertake this research. Primary data was collected through questionnaire. The secondary data sources were annual reports, manuals, credit policy and procedures of Commercial bank of Ethiopia in Emidiber branch were used to identify the implementation, supervision, and monitoring and repayment practice of Non-performance loans.

3.2. Target population

The target population of this study is Commercial bank of Ethiopia in Emidiber branch credit department employees who are involved in credit processing and administering and clients. From credit department employees all sixteen staffs who are directly engaged in loan activities this means Loan section head, Loan analyst, Loan officers and Loan clerks in Emidiber commercial bank. Accordingly all questioners distributed to those employees evenly those have high number of client included in the study in order to verify the bank response.

3.3. Sampling technique

The technique use for the clients of this study is non-probability convenience sampling as the sampling is taking from easy accessible and to verify banks respondents as the bank is main study.

3.4. Data collection procedure

The type of data used in the study includes qualitative data. Primary and secondary sources of data are used for the study. The main primary source of data is through the use of structured questionnaires for both bank staff and clients. The questionnaires are both open and close ended. The open-ended questions offered the respondents the opportunity to freely express themselves on the issues under consideration while the close ended questions distracted the respondent option provided.

In case of secondary source of data CBE directive and manuals use to collected data on

procedures and policy. Books, journals, as well as different thesis will used in the study.

3.5. Data analysis method

In order to achieve the objective of this study and answer the research questions the researcher was follow qualitative because the basis of such an approach help to neutralize or cancel the limitations of applying any of a single approach. Both methods of analysis used the data collected through structured questioners and secondary sources.

Findings, which reflect problems, were selected from questionnaires; the raw data are analyzed, presented, and interpreted to give solution for the research problem. The data collected are more of qualitative in nature; thus, they were presented by using descriptive analysis. Hence, the nature of the study is descriptive.

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATION

This chapter presents the findings and discussions of the study. It starts with the socio – demographic analysis of the respondents followed by the analysis of the subjects of the study.

As it is stated in the previous chapter, questionnaires were developed for respondents. A total of 27 questionnaires for employees (branches and head office) and 90 questionnaires for clients were distributed. Of all the questionnaires distributed to employees and clients 16 (59.25%) & 60 (66.66%) were filled and returned respectively. Therefore, the data discussed in the subsequent sections of this report is a summarized response of 76 respondents.

4.1. RESULTS FROM BANK STAFF

4.1.1 RESPONDENTS' PROFILE

This section presents profile of respondents in relation to their age group, educational level, service year and current positions as well as exposure level in the credit area of the bank.

As indicated in table 4.1 below, while 6.25 percent are in the age range 50 and above, 25 percent are between 40- 49 and 68.75 percent are in the age range of 20-39. This implies the bank has energetic and matured staff.

Table 4.1 Age category of respondents

Age Category	Frequency	Percentage
20-29 Years	6	37.5%
30-39 Years	5	31.25%
40-49 Years	4	25%
50 and above	1	6.25%
Total	16	100%

Source: *Researcher's Survey result from Primary Data Sources*

Table 4.2 Academic background of respondents

Educational Level	Frequency	Percentage
Bachelors' degree	14	87.5
Masters degree	2	12.5
Total	16	100

Source: *Researcher's Survey result from Primary Data Sources*

The educational level of employees is an important factor with regard to making business decisions. Education improves the skill, capacity, communication and access to development endeavors.

As it can be reviewed from table 4.2, that 14(87.5%) of the respondents are BA degree holders and 12.5 percent of the respondents are MA holders. This denotes that the majority of the Bank's employees working in the loan first area well skilled. This enables the Bank to perform most and become competitive in the industry.

Table 4.3 Years of service in credit area

Year of service in credit	Frequency	Percentage
0-5 years	8	50.0 %
6-10 years	3	28.75%
11-15 years	2	12.5 %
16-20 years	2	12.5%
21-25 years	1	6.25%
Total	16	100

Source: *Researcher's Survey result from primary Data Sources*

The above Table 4.3 shows the percentage of the years of experience the respondents had working in credit management. This question was asked because the researcher wanted to know how experienced the respondents were in the area of credit management. The results showed that 50% have 0-5 years experience working in credit management area. Whereas, employees with credit management experience of 6-10, 11-15 and 16-20 years represented 28.75%, 12.5% and 12.5% respectively. Those with 21-25 years of experience represented 6.25%. This indicates half of the credit department

staffs are well experienced in credit area that helps to accomplish their task as the bank mission.

Table 4.4 Current position of respondents

Credit Performing Employees	Frequency	Percentage
Credit Relationship Managers	2	12.5%
Credit relationship Officers	6	37.5%
Credit Analysts & Appraisal Experts	2	12.5%
Credit Advisors and Approving Committee	1	6.25%
Credit Clerk	4	25%
Internal Credit Auditor	1	6.25%
Total	16	100

Source: *Researcher's Survey result from Primary Data Sources*

According to Table 4.4 above all the respondents of the survey are currently credit performers at different levels and work in credit related jobs of the bank. Out of them more than 60 per cent of the positions are maintained by credit relationship managers, credit relationship officers and credit appraisal expert staff. This has helped to capture a good quality of data.

4.1.2. Credit creation, policy and procedures

In compliance to the policy of the regulating body, all banks formulate their own credit policies and procedures which assist to provide different types of credit within each credit policy to their loan customers.

Table 4.5 Credit creation, policy and procedures

Variables		Frequency	Percent
Q1 How do you describe your Institution's credit policy and procedures?	Rigid	3	18.75%
	Average	5	31.25%
	Flexible	8	50%
Q2 How do you rate the bank's credit analysis and procedure as NBE directives	Excellent	2	12.5%
	Very good	3	18.75%)
	Good	6	37.5%)
	Fair	3	18.75%
	Poor	2	12.5%
	Very poor		0
Q3 How do you rate your Bank's credit providing procedure as NBE directives	Conservative	9	56.25%
	Moderate	6	37.5%
	Based on creativity	3	18.75%

source: *Researcher's Survey result from Primary Data Sources*

Hence, in order to know the nature of the Bank's credit policy, the researcher raised questions for the employees of the Bank. Consequently, as revealed in Table 4.5, Q1 8(50%) and 5(31.25%) described the credit policy and procedure of the bank as flexible and average respectively. On the other hand, 3(18.75%) of the respondents described the Bank's credit policy as rigid. In an open ended question most of the respondents have agreed on the importance, attractiveness and convenience of flexible credit policies and procedures as it assists for loan creation and growth.

In relation to credit analysis, as indicated in table 4.5 Q2, 6(37.5%) of the respondents have rated the credit analysis of the bank good, 3(18.75%) rated very good, 2(12.5%) and 3(18.75) rated excellent and fair respectively while 2(12.5%) respondents rated poor. Hence, there is a gap such as proper implementation of policy to be addressed to improve the quality of credit

analysis and loan processing at both head office and branch level that enables to create quality loans arresting non-performing loans.

As can be seen from item Q3 of in table 4.5, 6(37.5%) of the respondent revealed the credit providing procedure of the Bank is moderate and 9(56.25%) acknowledged it as conservative. While 3(18.75%) of the respondents stated the credit delivery is based on creativity. It indicates that the bank has conservative procedure that helps to implement its policy.

4.1.3 Credit Processing and Appraisal

Credit processing and lending function is the core product of all banks in general as it contributes the major shares of revenue to its profitability. In other words loans and advances are known to be the main stay of all banks. They occupy an important part in gross earnings and net profit of the banks. The share advances in the total asset of the banks forms a lion share and as such it is known as the back bone of banking sector. The strength and soundness of the banking system primarily depends upon health of the advances

Table 4.6 Credit Processing /Appraisal

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		freq	%	freq	%	freq	%	freq	%	freq	%	freq	%
Q1	The Bank Checks the borrower history before granting loans	5	31.25%	4	25%	2	12.5%	3	18.75%	2	12.5%	16	100
Q2	Crediting granting approval	8	50%	4	25%	2	12.5%	1	6.25%	1	6.25%	16	100

	process established accountability for decision taken												
Q3	The Bank properly assessed collateral of the customer i.e. There is fair collateralestimation	4	2 5%%	7	43.7 5%	2	12. 5%	2	12. 5%	1	6.2 5%	16	10 0
Q4	The bank carried out credit processing activities independent of appraisals	5	31.2 5%	4	25%	3	18. 5%	2	12. 5%	2	12. 5%	16	10 0

Source: *Researcher's Survey result from Primary Data Sources*

As indicated in table 4.6 item Q1 respondents were asked whether the bank checks the borrower's history before granting loans or not. With this regard, 5(31.25%) of the respondents strongly agree on the issue while 4(25%) of employees agree that the bank checks the history of a borrower. On the other hand, 2(12.5%) respondents neutral on the issue, 3(18.75%) of respondents disagrees and 2(12.5%) strongly disagree. This denotes to increase the tendency of non-performing loan since the history of the client

not checked during assessment.

As can be seen from item Q2 of table 4.3, 8(50%) of respondents strongly agree that the credit granting process of the bank creates accountability for each decision making activity and 4(25%) of respondents agree on the issue. Whereas 2 (12.5%) of respondents are neutral with the idea, (6.25%) of respondents disagree, and the remaining 1(6.25%) strongly disagree. This implies that the bank's each credit staffs are accountable and responsible for their decision making in the loan granting process.

In item Q3 of table 4.3, respondents were asked whether there is fair collateral estimation. The majority of respondents, 7(43.75%) agree, 4(25%) strongly agree and accept there is fair collateral estimation. Specifically, 2(12.5%) of respondents disagree furthermore, the rest 1(6.25%) of respondents strongly disagree. Majority of the respondents agreed that there is fair collateral estimation this revealed the bank can collect the loan from defaulters.

As item Q4 of table 4.6 shows, 5(31.25%) of respondents strongly agree with the idea that the bank carried out credit processing independent of the appraisal, 4(25%) agree, 3(18.5%) neutral and the rest 2(12.5%) and 2(12.5%) respondents are disagree and strongly disagree respectively. These revealed there is segregation of duty in the credit department.

4.1.4. Credit monitoring and control

Credit monitoring and follow up process guideline is included in the credit policy of the bank. Appropriate usage and implementation benefits the bank to arrest NPLs and have good relationship with clients.

Table 4.7 Monitoring and Control of Credits

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%

Q1	The bank strictly implement the conditions and sanctions set by different approving organs	2	12.5%	8	50%	3	18.75%	2	12.5%	1	6.25%	16	100
Q2	Collateral coverage is regularly assessed and related to the borrower's financial positions	4	25%	6	37.5%	3	18.75%	2	12.5%	1	6.25%	16	100
Q3	The bank monitor the business of clients after granting credits on regular	6	37.5%	4	25%	3	18.75%	2	12.5%	1	6.25%	16	100

	interval basis												
Q4	Customers are often given sufficient training on loan usage	2	12.5%	2	12.5%	3	18.75%	5	31.25%	4	25%	16	100

Source: *Researcher's Survey result from Primary Data Sources*

As can be seen from item (Q1) in table 8(50 %) of respondents agree and 2(12.5%) of respondents strongly agree with the proposition that the bank strictly implement the conditions and sanctions set by different approving organs.3 (18.75%)of respondents neither agree nor disagree. It is also found that, 2(12.5%) of them disagree with the idea, 1(6.25%) of them strongly disagree. This is an implication that the bank has a better stand in implement the conditions and sanctions set by different approving organs that helps to monitor and control its loans provided to creditors.

In item (Q2) of table 4.7, respondents were asked whether the collateral coverage is regularly assessed and related to the borrower's financial position. The majority of respondents 6(37.5%) agree, 4(25%) strongly agree. Whereas 3(18.75%) of respondents are neutral with the idea, 2(12.5%) of respondents disagree, whereas the remaining 1(6.25%) strongly disagree this indicates that the bank uses assessing its Collateral coverage regularly to Monitoring and Control of Credits.

The result presented in item (Q3) of table 4.7 indicates that 4(25%) agreed the bank monitors the business of clients after granting credits on regular interval basis 6(37.5%) strongly disagree ,3(18.75%) of respondents neutral and also 2(12.5%) of respondents disagree whereas the remaining of the respondents 1(6.25%) strongly disagree. As indicated this shows there is a monitoring on disbursed loans that help to mitigate increasing trend of NPLs.

It can be seen from item (Q4) of table 4.7 that 3(18.75%) of respondents have responded neutral whether the customers are given sufficient training on loan usage or not, 2(12.5%) are agree, 2(12.5%) of respondents strongly agree and 4(25%) of respondent strongly disagree whereas 5(31.25%) of them disagree. In this case clients have not taken training by the bank might lead to default and can be lead to default and loan diversion.

Table 4.8 Credit Administration

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		freq	%	freq	%	freq	%			Freq	%	freq	%
Q1	The process of “Credit administration” is performed independently of individuals involved in the “business organization” of credit	4	25%	5	31.25%	3	18.75%	2	12.5%	2	12.5%	16	100
Q2	The Bank segregate the Workout activity from the area that originated the credit	1	6.25%	8	50%	3	18.75%	3	18.75%	1	6.25%	16	100

Q3	The bank has well-structured documentation tracking systems for credit and collateral files	3	18.75%	4	25%	5	31.5%	2	12.5%	2	12.5%	16	100
Q4	The bank has appropriate criteria for Credit classification and provisioning	4	25%	5	31.25%	3	18.75%	3	18.75%	1	6.25%	16	100

Source: *Researcher's Survey result from Primary Data Sources*

As we can see from table 4.8, item (Q1), respondents were asked whether the process of credit administration is performed independently of individuals involved in the business origination of credit. With this regard 4(25%) of respondents strongly agree, 5(31.25%) agree, 3(18.75%) neither agree nor disagree, the rest 2(12.5%) of them strongly disagree. This shows the bank policy is implemented and embedded the accountability of credit staff to counter check by other staff.

In item (Q2) respondents were asked whether the bank segregates the workout activity from the area that originated credit. Among the respondents 1(6.25%) strongly agree that the bank segregate the workout activities, 8(50%) agree, 3(18.75%) neutral 3(18.75%) disagree and the rest 1(6.25%) strongly disagree. This shows the segregation

of duty for each loan processing and granting .

In item (Q3) respondents were asked whether the bank has employed well-structured documentation tracking system for credit and collateral files, their response suggest that 3(18.75%) strongly agree, 4(25%) agree, 5(31.5%) neutral, 2(12.5%) disagree and the rest 2(12.5%)stronglydisagree. This revealed the availability of tracking system on collateral files.

In same table item (Q4) respondents were asked whether the bank has appropriate criteria for credit classification, provisioning and write-off. The majority of respondents 5(31.25%) agree with the idea. On the other hand, 4(25%) of respondents strongly agree, 3(18.75%) respondents neutral and 3(18.75%) of respondents disagree. It denotes that the bank has appropriate credit administration criteria that help to abide on its policy.

Table 4.8 Credit Administration

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq	%	Freq	%	Freq	%	Freq.	%	Freq.	%	Freq.	%
Q1	The process of " Credit administration " is performed independently of individuals involved in the "business organization" of credit	4	25%	5	31.5%	3	18.75%	2	12.5%	1	6.25%	16	100%
Q2	The Bank segregate the Workout activity from the area that originated the credit	3	18.75%	9	56.25%	2	12.5%	1	6.25%	6.2	39.125%	16	100%
Q3	The bank has well	3	18.75%	4	25%	6	37.5%	2	12.5%	1	6.25%	16	100%

	structured documentation tracking systems for credit and collateral files		8.75%		5%		7.5%		2.5%		2.5%		0	
Q4	The bank has appropriate criteria for Credit classification and provisioning	5	31.25%	7	43.75%	2	12.5%	1	6.25%	1	6.25%	6	16	10

Source: Researcher's Survey result from Primary Data Sources

As we can see from table 4.8, item (Q1), respondents were asked whether the process of credit administration is performed independently of individuals involved in the business origination of credit. With this regard 4(25%) of respondents strongly agree, 5(31.5%) agree, 2(12.5%) neither agree nor disagree, the rest 1(6.25%) of them strongly disagree. This shows the bank policy is implemented and embedded the accountability of credit staff to counter check by other staff.

In item (Q2) respondents were asked whether the bank segregates the workout activity from the area that originated credit. Among the respondents 3 (18.75%) strongly agree that the bank segregate the workout activities, 9(56.25%) agree, 2(12.5%) neutral 1(6.25%) disagree and the rest 1(6.25%) strongly disagree. This shows the segregation of duty for each loan Processing and granting.

In item (Q3) respondents were asked whether the bank has employed well-structured documentation tracking system for credit and collateral files, their response suggest that 3(18.75%) strongly agree, 9(56.25%) agree, 6(37.5%) neutral, 2(12.5%) disagree and the rest 1(6.25%) disagree. This revealed the availability of tracking system on collateral files.

In same table, item (Q4) respondents are asked whether the bank has appropriate criteria for credit classification, provisioning and write-off. The majority of respondents 7(43.75%) agree with the idea. On the other hand, 5(31.25%) of respondents strongly

agree, 2(12.5%) respondents neutral and 1(6.25%) of respondents disagree. It denotes that the bank has appropriate credit administration criteria that help to abide on its policy.

Table 4.9 Internal Factors Affecting Fast and Timely Decision of Credit

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Q1	Lack of Adequate Man power	3	18.75%	2	12.5%	5	31.25%	2	12.5%	4	25%	16	100%
Q2	Centralized decision making process	1	6.25%	4	25%	3	18.75%	2	12.5%	6	37.5%	16	100%
Q3	Submission of incomplete data by the prospective borrower	1	6.25%	8	50%	2	12.5%	5	31.25%	3	18.75%	16	100%
Q4	Delay in Obtaining Credit Information	4	25%	6	37.5%	2	12.5%	2	12.5%	2	12.5%	16	100%
Q5	Lack of experienced analyst	5	31.25%	5	31.25%	3	18.75%	2	12.5%	1	6.25%	16	100%
Q6	Absence of performance	5	31.25%	4	25%	3	18.75%	2	12.5%	2	12.5%	16	100%

management system of staff		5						5		5		0
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Source: *Researcher's Survey result from Primary Data Sources*

In table 4.9, item (Q1), of respondents responded that lack of adequate manpower affect the decision making process, 13(14.8%) strongly agree, 10(11.4%) agree, 13(14.8%) disagree, 28(31.8%) strongly disagree and the rest 24(27.3%) neutral. This denotes that the bank decision making process not affected by lack of adequate man power

In the same table respondents were asked centralized decision making process as an internal factor that prevail fast and timely decision. And in item (Q2) 11(12.5%) strongly agree, 17(19.3%) agree, 15(17%) neither agree nor disagree, 38(43.2%) disagree and the rest 7(8%) strongly disagree. This implies that central decision making is not a factor hampered fast decision makings.

In item (Q3) of the same table submission of incomplete data by the applicant is as a cause for delay of fast decision making. Accordingly 17(19.3%) of them in favor of strongly agreed, 57(64.8%) agree, 9(10.2%) neutral and 5(5.7 %) disagree. This indicates that one factor for the delay of decision making on loan granting is submission of incomplete and irrelevant document by the clients.

In Item (Q4) delay in obtaining reliable credit information is strongly agreed by 17(19.3%) of respondents, agreed by 41(46.6%) of respondents, neither agreed nor disagreed by 12(13.6%)of respondents, disagreed by6(6.8%) of respondents and strongly disagreed by 12(13.6%) of respondent groups. Lack of reliable credit information is one of the factors for the delay of decision making process of loan granting.

In item (Q5) of the same table lack of experience analyst is strongly agreed by 21(23.9%) of respondents, 21(23.9%) respondents agree, 19(21.6%) neutral, 13(14.8%) disagree while the rest 14(15.9%) strongly disagree. This signifies that the lack of experience of loan analysts is not a factor for delaying on decision making of loan granting.

As shown in item (Q6) of the same table 25(28.4%) of respondents responded that the absence of performance management system affect the decision making process strongly agreed, 21(23.9%) respondents agreed, 19(21.6%) neutral, 13(14.8%) disagreed and the rest 14(15.9%) strongly disagree. This indicates there is no adequate appraisal

system of staff engaging in the loan process and might leads to delay of decision in loan processing and granting.

4.1.5. Credit Analysis

Loan requests should be carefully analyzed and appraised in accordance with the prevailing credit policy and procedures. Financial statements should be analyzed to determine the financial soundness of the applicants. All type of risks such as ownership risk, management risk, business risk, financial risk, collateral risk and legal risk should be assessed with utmost care.

Table 4.10 Factors that Inhibited Access to Credits

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		freq	%	Fre q	%	Fre q	%	Fre q	%	Fre q	%	freq	%
Q1	Customer credit History	4	25	6	31.5	3	18.75	2	12.5	1	6.25	16	100
Q2	Age of client	7	43.75	3	18.75	3	18.75	2	12.5			16	100
Q3	Purpose of Loan	3	18.75	4	25	6	37.5	2	12.5			16	100
Q4	Cash flow / Financial position of the applicant	4	25	5	31.25	2	12.5	3	18.75	2	12.5	16	100
Q5	Stringent policy rule of the bank	7	43.75	4	25	3	18.75	2	12.5	0	0	16	100

Q6	Amount of request of the applicant	6	37.5	3	18.75	4	25	2	12.5	0	0	16	100
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Source: *Researcher's Survey result from Primary Data Sources*

In table 4.10 Customer credit history is also cited as a factor that determine access to credit in item (Q1) 4(25%) strongly agree, 6(37.5%) agree, 3(18.75%) neutral, 2(12.5%) disagree and (6.25%) strongly disagree. Item (Q2) on the same table 7(43.75%) of respondents strongly agree that age of applicants for a factor to access credit, 3(18.75%) disagree while the rest 3(18.75%) has agreed. It implies that the bank done commercial risk analysis based on Pandey (1997) that is character or the client record meeting past obligation.

In item (Q3) of table 4.10 purpose of the loan is cited as factor that inhibit access to credit. From respondents 13(14.8%) strongly agree, 26(29.5%) agree, 37(42%) neutral and 12(13.6%) disagree. It reveals the purpose of loan that is not reliable and not considering the market and economic situation inhibited access to credit.

The cash flow/financial position of the applicant is mentioned as a factor for credit access in item (Q4) of the table and 4(25%) strongly agree,5(31.25%) agree,2(12.5% neutral, 3(18.75%) disagree and 2(12.5%) strongly disagree. As 80.7% bank respondents agreed that the result shows the bank done analysis of Cash flow based on Pandey (1997) commercial risk analysis that is capital to investigate financial strength of the applicant.

In item (Q5) of table 4.10 above 7(43.75%) of respondents strongly agree that stringent bank policy as a factor to access credit while 4(27.3%) agreed,3(18.75%) neutral and the rest 2(12.5%) has disagreed. It signifies that the policy is stringent enough to inhabit access to credit.

Item (Q 6) on the same table 6(37.5%) of respondents strongly agree that the amount of request of applicants is a factor to determine access to credit, 3(18.75%) agree and 4(25%) neutral while the rest 2(12.5%) has disagreed. This demonstrate that the applicants request amount is exaggerated from the cash flow and collateral limit it will hinder access to credit.

4.1.6. Credit collection and Recovery

The credit recovery method, used by the bank is treated in the same fashion as of credit collection methods. The measures that are used include strict follow up and insisting the client, debt rescheduling, court proceeding, and foreclosure.

In the bank, credit is transferred to the legal service when it fails to regularize or settle the loans in default and when all efforts to amicably settle the loans fail and it is ascertained that legal action is to be the last alternative.

Table 4.11 What Credit Collection Strategies that the Bank Adopt in retrieving credit

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		freq	%	freq	%	freq	%	freq	%	freq	%	freq	%
Q1	Consider prompt payment	2	12.5	8	50	3	18.75	2	12.5	1	6.25	16	100
Q2	Establish payment guide line	5	31.25	8	50	1	6.25	1	6.25	1	6.25		
Q3	Writing reminder letter	2	12.5	8	50	4	25	1	6.25	1	6.25		
Q4	Provide incentive for prompt payment	3	12.5	3	12.5	4	25	4	25	2	12.5		
Q5	Seek legal advice	4	25	4	25	3	18.75	4	25	3	18.75		

Source: *Researcher's Survey result from Primary Data Sources*

In table 4.11 item (Q1) 2(12.5%) strongly agreed on the idea that considering prompt payment will be a strategy in retrieving credit , 8(50%)half of the respondents agreed on the idea, and 3(18.75%) neutral. In item (Q2) respondents were requested whether establishing payment guideline could be considered as a collection strategy and 5(31.25%) of them strongly agreed with the idea, and 8(50%) agreed.

Same table item (Q3) 2(12.5%) of respondents strongly agreed that writing a reminder letter as a strategy in retrieving credit, 8(50%) agree, and 4(25%) neutral.

In item (Q4) providing incentive for prompt payment is requested as a strategy in retrieving credit and 3(12.5%) strongly agreed, 3(12.5%) agree, 4(25%) neutral and the remaining 4(25%) and 2(12.5%) disagree and strongly disagree respectively.

Item (Q5) of the same table has risen seeking legal advice as a strategy in retrieving credit and 4(25%) of respondents strongly agree 4(25%) of respondents agree and 3(18.75%) neutral and the rest 4(25%) disagree.

This implies Prompt payment, establish payment guideline, writing reminder letter and seek legal advice are the best strategies to retrieve the loan. Whereas providing incentive is not better strategy for collection of credit.

Table 4.12 Instrument /techniques Use for Credit Risk Management of the Bank

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		fre q	%	Fre q	%	Fre q	%	fre q	%	fre q	%	Fre q	%
Q1	Prudential Limits	6	37.5	3	18.75	3	18.75	2	12.5	2	12.5		
Q2	Credit Approval Authority	7	43.75	7	43.75	2	12.5						
Q3	Risk ratings	1	6.25	7	43.75	7	43.75	1	6.25				
Q4	Portfolio Manageme	1	6.25	3	18.75	4	25	5	31.25	3	18.75		

	nt												
Q5	Loan review Policy	5	31.5	2	12.5	3	18.75	4	25				
Q6	Collateral	6	37.5	7	43.75	3	18.75						
Q7	Diversification	4	25	7	43.75	4	25			1	6.25		
Q8	Credit Audit and Problem Loan	4	25	5	31.25	3	18.75	2	12.5	2	12.5		

Source: *Researcher's Survey result from Primary Data Sources*

In item (Q1) of table 4.12 6(37.5%) responded strongly agree application of prudential limits, 3(18.75%) responded as agree, 3(18.75%) responded as neutral, 2(12.5%) disagree and 2(12.5%) responded strongly disagree. This implies that the bank is able to use prudential standard and its internal limit

In the same table, item (Q2) of the same table 7(43.75%) of respondents responded agree that there is credit approval authority in the bank as one credit management technique. While 7(43.75%) responded as strongly agree and 2(12.5%) responded as neutral. This reveals that the bank uses credit approval authority as credit risk management techniques.

Item (Q3), 1(6.25%) responded strongly agree, 7(43.75%) of respondents responded agree that risk rating is applied as a credit management tool, 7(43.75%) responded neutral as risk rating applied and the rest 1(6.25%) respond as disagree. It denotes that the internal rating system is applied insufficiently as a credit risk management techniques.

As per item (Q4) portfolio management is responded by 1(6.25%) of respondents as strongly agreed, 3(18.75%) as agree, 4(25%) as neutral, 5(31.75%) disagree and 3(18.75%) responded strongly disagree. It implies that the bank is not properly taken portfolio management as credit risk management techniques.

Loan review policy (Q5) 5(31.5%) of respondents strongly agreed, 3(18.75%)of respondents neutral2(12.5%) respondents agree 4 (25%) respondents disagree 2(12.5%) respondents strongly disagree applied as a tool for credit risk management.

Collateral (Q6) as a tool for credit risk management is responded by 6(37.5%) as strongly agree, 7(43.75%) of respondents agree, 3(18.75%) of respondents neutral.

Diversification (Q7) as a tool for credit risk management is responded as strongly agreed by 4(25%), of respondents, agree as per the response of 7(43.75%) of respondents, neutral as per the response of 4(25%) of respondents, and responded strongly disagree 1(6.25%) of the respondents.

In item (Q8) of table 4.15, the tools as credit audit and problem loan management is used as a credit risk management techniques as rated by respondents, 4(25%) strongly agree, 5(31.25%) agree, 3(18.75%) neutral and 2(12.5%) disagree,2(12.5%) of the respondents are strongly disagree.

This signifies that loan review policy, collateral and diversification are also used by the bank as tools to credit risk management in the bank.

4.2. RESULT FROM CLIENTS

4.2.1 Characteristics of Respondents

In this research process, the characteristics of respondents like type of business and year of conducting business are assessed.

Table 4.13 Type of business engaged

Type of business	frequency	Percent %
Trade	20	26.32
Industry	13	17.11
Construction	21	27.63
Import /export	22	28.95
Total	76	100

Source: *Researcher's Survey result from Primary Data Sources*

As we can see from the above table most of the credit client of the bank is in the import/export business sector which is around 22(28.95%) of the respondent, the

remaining construction, trade and industry are 21(27.63%), 20(26.32%) and 13(17.11%) respectively.

Table 4.14 Year of conducting in business

Years of conducting business	frequency	Percent %
Below 5 years	21	27.63
5-15 years	28	36.84
16-25 years	16	21.05
Above 25 years	11	14.47
Total	76	100

Source: *Researcher's Survey result from Primary Data Sources*

Almost 68% of the respondent engaged in business for fifteen years and below, the remaining 16(21.05 %) and 11(14.47%) have a business experience of 16-25 years and above 25 years respectively.

4.2.2 Loan Processing

Loan processing is one of the measurements of credit management in banks and other financial sectors. Hence, the processing procedure, transparency, and length of time are some of the factors determining the convenience of lending facilities which contributes to loan growth and lasting client - bank relationship. Therefore, knowing the outlook of loan clients is very important in reshaping credit policy and procedures of every bank.

Table 4.15 Initiation for loan

Who initiates first loan request	frequency	Percent %
Self	48	63.16
Loan clients of the bank	20	26.31
Bank staff	8	10.53
Total	76	100

Source: *Researcher's Survey result from Primary Data Sources*

As it is denoted in the above table 4.17, 48(63.16%) of the applicants approached the bank by own initiation and 20(26.31%) of the new applicants were approached to the bank by former loan clients of the bank. In addition 8(10.53%) of the new applicants approached the bank through the efforts of employees. Almost 88 percent of the bank

client approach the bank through self-initiation and initiated by the loan client of the bank. From these the bank has already created dependable awareness among the potential applicants and well integrated with in the business community. It also shows when the former loan clients and employees participate in the effort of mobilizing and screening new clients.

Table 4 .16 Loan processing

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Frequency	%	Frequency	%	frequency	%	frequency	%	frequency	%	frequency	%
Q1	Loan processing is short	11	14.47	13	17.11	10	13.16	23	30.26	19	25	76	100
Q2	There is fair collateral estimation	8	10.53	5	6.59	10	13.16	28	36.84	25	32.89	76	100
Q3	Application requirement and procedure are convenient	26	34.21	20	26.32	8	10.53	14	18.42	8	10.53	76	100
Q4	Assign staffs to visit your business	8	10.54	12	15.79	8	10.54	38	50.04	10	13.16	76	100

	site during your loan request												
Q5	Information provided as per your request	33	43.42	21	27.63	10	13.16	9	11.84	3	3.95	76	100

Source: *Researcher's Survey result from Primary Data Sources*

As indicated in table 4.16 item Q1 respondents were asked whether the bank loan processing is short. With this regard, 11(14.47 %) of the respondents strongly agree on the issue while 13(17.11 %) of clients agree that the bank loan processing is short. On the other hand, 10(13.16 %) respondents neutral on the issue, 23(30.26%) of respondents disagrees and 19(25%) of clients strongly disagree.

In same table item Q2 respondents were asked whether the bank properly assessed the customer collateral estimation. The majority of respondents 28(36.840%) disagree with the idea. On the other hand, 25(32.89 %) of respondents strongly disagree which means that almost 69.73% of the respondents were not comfortable with the collateral estimation of the bank and only 13% which means 5(6.59 %) agree and 8(10.53%) strongly agree. The remaining 10(13.16%) were neutral.

In Q1 and Q2 the client has responded denotes that the bank has lengthy of loan granting process and unfair collateral estimation.

As the above table illustrate item Q3 26(34.21%) of respondents strongly agree that the application requirement and procedure of the bank are convenient and 20(26.320%) of respondents agree on the issue. Whereas 8(10.53%) of respondents are neutral with the idea, 14(18.42%) of respondents disagree, and the remaining 8(10.53%) strongly disagree. This implies that the bank has proper and easy application procedure for loan applicants.

In item Q4 of the above table 4.16, respondents were asked whether the bank assigned staff for visit site during loan request. The majority of respondents, 38(50.0 %) disagree,

10(13.16 %)strongly disagree. Specifically, 8(10.54%) respondents neither agree nor disagree, furthermore, the rest 8(10.54%) and 12(15.79%) of respondents strongly agree and agree respectively. This implies that the bank has not frequent monitoring visit to clients that lead to non-performing loan.

As item Q5 of table 1.1 shows, 33(43.42 %) of respondents strongly agree with the idea that the bank provide information on loan as per request, 20(26.31%) agree, 10(13.16%) neutral and the rest 9(114.8%) and 5(6.58%) respondents are disagree and strongly disagree respectively.

Table 4.17 Internal Factors Affecting Timely Decision making of loan granting

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Frequency	%	frequency	%	frequency	%	Frequency	%	frequency	%	frequency	%
Q1	Lack of adequate manpower	4	5.26	21	27.63	14	18.42	10	13.15	25	32.89	76	100
Q2	Centralized decision making process	35	46.05	14	18.42	5	6.56	5	6.57	17	22.35	76	100
Q3	Submission of incomplete data	18	23.68	23	30.26	26	34.21	7	9.21	2	2.63	76	100
Q4	Delay in obtaining credit information	36	47.37	15	19.74	14	18.42	11	14.47			76	100
Q5	Lack of experienced analyst	3	3.95	26	34.20	20	26.32	11	14.47	16	21.05	66	100

Source: *Researcher's Survey result from Primary Data Sources*

As can be seen from item (Q1) in table 4.17, 25(32.89%) of respondents strongly disagree and 10(13.15%) of respondents disagree with the lack of adequate manpower in the bank. 14(18.42%) of respondents neither agree nor disagree .It is also found that,

21(27.63%) of them agree with the idea, 4(5.26%) of them strongly agree. This indicates lack of adequate man power is not the factor for timely decision making.

In item (Q2) of table 4.17, respondents were asked whether the centralized decision making process as a factor affects timely decision. The majority of respondents 35(46.05%) strongly agree, 14(18.42%) agree. Whereas 5(6.57%) of respondents are neutral with the idea, whereas the remaining 17(22.37%) strongly disagree, 5(6.57%) of disagree. It denotes that central decision-making is bottleneck for timely decision making of loan grant as all loans are approved at head quarter.

As 60.23% of the respondent agreed with central decision making of the loan process highly affect the timely decision making of the bank. However, the bank respondents agree that it is not a factor for timely decision-making.

In item (Q3) of table 4.17, respondents requested whether the client submission of incomplete data is one factor for the delay. With this regard, 18 (23.68%) of respondents responded that they strongly agree, 23(30.26%) respondents agreed and 26(34.21%) of respond moderate and 7(9.21%) are disagree, 2(2.63%) strongly disagree.

The result presented in item (Q4) of table 4.17 indicates that delay in obtaining information is one factor that affect the timely decision making of the bank 36(47.37%) strongly agree, 15(19.74%) of respondents agree, and also 14(18.42%) of respondents respond as neutral,whereasthe remaining of the respondents 11(14.47%) disagree that delay in obtaining information is one factor that affect the timely decision making of the bank. Both the bank and clients agreed that obtaining credit information from other institutions is a factor hampers fast decision making of loan granting

It can be seen from item (Q5) of table 4.17 that 26(34.21%) of respondents have responded agree as a factor on the delay as lack of experienced analyst, 3(3.95%) are strongly agree, 20(26.32%) of respondents neither agree nor disagree and 16(21.05%) of respondent strongly disagree whereas 11(14.47%) of them disagree. This implies that lack of experienced analysts is a bottle neck for fast decision making of loan to the clients.

Table 4.18 Credit collection strategy

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		freq	%	freq	%	freq	%	freq	%	freq	%	freq	%
Q1	Consider prompt payment	25	32.90	20	26.30	11	14.50	14	18.40	6	7.90	76	100
Q2	Establish payment guide line	21	27.60	26	34.20	14	18.40	8	10.53	7	9.20	76	100
Q3	Writing reminder letter	20	26.30	28	36.80	12	15.50	7	9.20	9	11.80	76	100
Q4	Provide incentive for prompt payment	32	42.10	27	35.50	8	10.50	7	9.20	2	2.63	76	100
Q5	Seek legal advice	18	23.70	24	31.60	18	25.00	9	11.80	6	7.90	76	100
Q6	The bank has a culture of visit after loan granting	20	26.32	25	32.89	9	11.80	8	10.50	14	18.42	66	100

Source: *Researcher's Survey result from Primary Data Sources*

The researcher raised questions that the credit collection strategy of the bank in improving credit collection.

As can be seen in table 4.18 item (Q1) 25(32.9%) strongly agree, 20(26.3%) agree, and 11(14.5%) neither agree nor disagree, 14(18.4%) and 6(7.9%) respondents disagree and strongly disagree respectively on the idea prompt payment of credit to improve credit collection.

Prompt payments agreed as a good strategy not only by the bank respondents but also by clients as a tool for credit collection as most of responded clients have taken loan repeatedly.

In item (Q2) of the above table, 14(18.4%) of the respondents has neutral stand 21(27.6%) strongly agree, 26(34.2%) agree and 8(10.53%) disagree and the remaining 7(9.2%) strongly disagree that the established payment guideline improve the collection of loan. It reveals that the payment guideline is effective tool as credit collection tool.

In item (Q3) of the same table, the researcher requested whether writing of reminder letter improve collection of loan process or not, of the respondents 20(26.3 %) strongly agree, 28(36.8%) respondent agree and 12(15.8%) neither agree nor disagree, the remaining 7(9.2%) and 9(11.8%) disagree and strongly disagree respectively.

In item (Q4) of same table provide incentive for prompt payment will improve the credit collection process or not .And 32(42.1%) of respondents strongly agree, 27(35.5%) agree, 8(10.5%) neutral, and the rest 7(9.2%) disagree, 2(2.63%) strongly disagree.

Clients response reflected that issue raised under item Q3 and Q4 (Writing reminder letter and Provide incentive for prompt payment) are key elements that the bank has to follow as a strategy because those two elements are the basic factors to encourage timely and effective collection of the loans. However, the reverse is true for the bank and argued that writing reminder letter and provides incentive for prompt payment is not the major and key element to collect the loan.

In item (Q5) of the same table, the researcher requested whether seek legal advice will facilitate the credit collection or not. Of the respondents 6(7.9%) strongly disagree for each, 9(11.8%) disagree, 19(25%) neither agree nor disagree, 24(31.6%) agree and the remaining 18(23.7%) strongly agree. This infers that as client respondents seeking advice by the bank is not a good strategy. Whereasthe bank respondent agree on effective tool to mitigate default of loan.It can be seen from item (Q6) of table 4.17 that 25 (32.89%) of respondents have responded agree as the bank has culture of visit after

loan granting, 20(26.32%) are strongly agree, 9(11.8%) of respondents neither agree nor disagree and 14(18.42%) of respondent strongly disagree whereas 8(10.5%) of them disagree.

4.3 Comments forwarded by the bank and client respondents for improving creditmanagement of the bank:

- As the clients comments the bank should clearly communicate the guide line to access credit and service both for esteemed and new customer without favoring.
- Furthermore, some credit controlling processes commented by bank respondents includes putting a strong and practical credit risk rating policy , developing the staff capacity at all level to manage the credit activity in general, visiting the business after disbursement on regular basis, and applying due care before granting the loan.

CHAPTER FIVE

5. MAJOR FINDINGS CONCLUSIONS AND RECOMMENDATIONS

In this chapter, conclusion of the research findings that has been discussed and analyzed in detail in the previous chapters is briefly presented. In addition, general conclusions that are highly related with the research objective of this paper are offered. Furthermore, possible recommendations based on the findings are made.

5.1. Major Finding

- The bank checks the borrower history. The credit granting process creates accountability. The bank is not in a position to monitor or visit the clients business on regular basis after disbursement that creates a huge amount of non-performing loan. No sufficient training is provided by the bank with regard to loan usage.
- The bank regularly assess the collateral coverage with the borrowers' financial position though most credit approval is collateral based.
- The workout activity is segregated from the area that the credit is originated –helps to reduce conflict of interest.
- The bank has not yet deployed adequate measure to recover non- performing loans. The bank should improve the time allotted for centralized decision making of credit. The credit approval period shall be reasonable as soon as possible. The lack of manpower is not a case in the bank for determining the decision making process however; the bank should hire staff with the required skill and train them. Submission of incomplete data by the applicant is a reason for delay the loan officer or branch manager should use a checklist as first contact as the time of application and resolve the incompleteness.
- The bank has stated clear policy and guidelines on the required information on new credit, amendments, refinancing of existing credit.

- High dependability on collateral that leads to skewenes of loan therefore the bank should reduce high dependability on collateral.

5.2. Conclusion

- The broad objective of this research was to assess the performance of credit management of Commercial Bank of Ethiopia. For this intention, the study was intended to answer quite specific questions which were derived from this broader objective. And hence, the study focused on loan appraisal, loan provision, and loan monitoring and credit collection with loan performance.
- The overall credit management activity of the bank needs the attention of the management. The main problem in CBE is not lack of clear policy and procedure rather a problem in the implementation of the existing guidelines in proper manner. The finding of the study also assures existence of poor credit management including improper follow-up. The following conclusions are drawn.
- While the existing credit control activities of the bank and credit staff requirements are complied with the stipulated policy in a little or poor manner. This indicates that the mentioned activities are performed in deviation from the policy guideline.
- The bank does not undertake credit quality report so devising a strong risk management environment is mandatory.

5.3 Recommendations

- Based on the in-depth examination and subsequent findings from the study, the following recommendations are forwarded; in the hope that they would help in order to curb the major problems identified in the study and facilitate the overall credit related activities.
- Commercial Bank of Ethiopia BankEmdebir branch should formulate an appraisal process or procedures for loan granting that would encompass matters with basic identification of credit worthy customers, comprehensive credit analysis and authentic sanctioning process.

- The appraisal process should also capture consideration of basic 5cs, including capital adequacy, capacity of the applicant, value of the collateral (fair estimation), repayment history (character) and the overall business conditions. CBE of Emdebir branch should also make use of approved and certified feasibility report of the proposed project which was suggested by appropriate technical professionals before financing.
- Frequent contact or business visit shall be conducted to minimize loan loss since it helps the bank to advise the customers besides reduces diversion of the loan.
- Even if the current credit information system of the country shows improvement from past years there is still a problem in obtaining reliable credit information, therefore the bank play its part in improving the overall credit information system (CIC) through updating its data in timely and accurate manner as well as work in collaboration with other banks in the industry.(Recommendation from findings)
- The Bank did not monitors the business of clients after granting credits on regular interval basis besides customers are not advised regarding loans usage but it should be undertaken to control the end use of the loan.
- The process of decision making is a factor for fast decision making so the bank shall equip itself with adequate and appropriate manpower, since it is a key in facilitating a credit decision making process.
- Visiting business on regular basis after disbursement, applying due care before granting a loan, establishing payment guideline, considering prompt payment, writing reminder letter, providing incentive for prompt payment, as best strategy in retrieving credit; but legal advice in retrieving credit is put at last by respondents.
- Employment of experienced staff on critical areas (Loan analyst). Challenge faced by the bank includes knowing the customer, dependency on collateral, lack of awareness of individuals work on credit about the credit policy and procedure of the bank

- The bank should design administration, measuring and monitoring process of credit.
- Credit staff should be assigned in required number and skill for each credit unit of the bank. This enables the bank to timely process the loan until the disbursement phase, which in the way helps to satisfy customers and to make adequate follow up process afterwards. This further helps to carry on sound and healthy credit management practice in general. CBE Management has to formulate a mechanism for upgrading the carrier of the employee's thorough continuous training.
- The credit controlling process of the bank needs training of the staff, improving control system , initiating legal process early in case of NPLs, designing effective monitoring system and serving reminder letter early as possible. (from finding to recommendation)
- The bank should assess the training need of the credit Department for both technical and management staffs to give appropriate training that enables to conceptualize, design, and made operational an internal credit rating system that suits the banks' operations to control risk exposures.
- The bank should perform periodic loan review which addresses all or at least majority of loans that are currently outstanding this activity is the main internal control which enable the bank to know the credit risk level of the total loan and to increase the effectiveness of loan portfolio management.

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**APPENDIX
WOLKITE UNIVERSITY**

COLLAGE OF BUSINESS AND ECONOMICS

DEPARTMRNT OF ACCOUNTING AND FINANCE

This is a questionnaire designed to solicit first hand data that maybe helpful to conduct a research on the title of “Assessment of Credit provision and its performance in commercial bank of Ethiopia in case of Emidiber branch” in partial fulfillment of BSC degree of Accounting and finance. Hence, I kindly request you to attempt all the questions in the questionnaire to meet the aim of the study. Whatever information provided will be treated with confidentiality and strictly to be used for academic purpose only. No need to write your name. Therefore, Please put a tick mark (✓) on the space provided for questions that need further explanation please use the space provided under each question.

Part I. Back ground of respondent:

1. Age group: 20-29 30-39 40-49 Above 50

2. Educational qualification Diploma Degree Masters Other,

Please Specify _____

3. Years of service in credit area? 0- 5 years 6-10 Years 10-15

Years 16-20 Years 21-25 Years above 25 Years

4. Current position _____

Part II. Questions on Credit Management

1. Credit Creation, Policy and procedure

5. How can you see your institution's credit policy and procedure? Rigid Flexible
 Average

6. How do you rate credit analysis and procedure followed by the bank in Extending credit?

Excellent Very good Good Fair Poor

7. How do you evaluate your bank's credit providing procedure?

Based on creativity Conservative Moderate

8. Your banks Loan approving /recommending procedures of the credit proposal of clients is based on Loan committee at all level Branch Manager and president

Loan department Board

2. Credit Management Process

Please provide your level of agreement using the following rates (Where 1=Strongly disagree, 2= Disagree, 3= Neutral, 4 = Agree, 5 = Strongly agree)

9.1 Credit Processing /Appraisal /	5	4	3	2	1
The Bank Checks the borrower history before granting loans					
The Bank properly assessed the customer ability to meet					

obligation					
Crediting- granting approval process established accountability for decision taken					
There are times credit granting and monitoring process is overridden by Directors, senior management					
The bank carried out credit processing activities independent of appraisals					
9.2 Monitoring and Control of Credits	5	4	3	2	1
The bank strictly implement the conditions and sanctions set by different approving organs					
Collateral coverage is regularly assessed and related to the borrower’s financial positions					
The bank monitor the business of clients after granting credits on regular interval basis					
Customers are often given sufficient training on loan usage					
9.3 Credit Administration	5	4	3	2	1
The process of “ Credit administration “ is performed independently of individuals involved in the “ business organization” of credit					
The Bank segregate the workout activity from the area that originated the credit					
The bank has well-structured documentation tracking systems for credit and collateral files					
The bank has appropriate criteria for Credit classification					

and provisioning					
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10. How long it takes to process and make a decision on single credit request?

< 15 days 15-30 days More than a month

11. What internal factors prevail affecting fast and timely decision of credit? (Where 1 = Not prevail, 2 = Moderately Prevail, 3= Prevail, 4= Highly Prevail, and 5= Very High prevail)

Factor	1	2	3	4	5
Lack of Adequate Man power					
Centralized decision making process					
Submission of incomplete data by the prospective borrower					
Delay in Obtaining Credit Information					
Lack of experience analyst					
Absence of performance management system of staff					

12. Rank the factors that inhibited access to credits? (Where 1= No inhibit, 2 = moderately inhibited, 3= Inhibit, 4= highly inhibit, and 5= Very highly inhibit)

Factors	1	2	3	4	5
Customers credit History					
Age of client					
Purpose of Loan					
Cash flow / Financial position of the applicant					
Stringent policy rule of the bank					

Amount of request					
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13. How can the credit control process be improved? (Where 1= strongly disagree, 2= Disagree, 3= Neutral and 4= agree and 5= strongly agree)

Factors	1	2	3	4	5
Improve internal control system					
Training of staff					
Initiate legal process early					
Effective monitoring					
Provide reminder letters early					

14. What credit collection strategies does the bank adopt in retrieving credit? (Where 1= strongly disagree, 2= Disagree, 3= Neutral and 4= agree and 5= strongly agree)

Factors	1	2	3	4	5
Consider prompt payment					
Establish payment guide line					
Writing reminder letter					
Provide incentive for prompt payment					
Seek legal advice					

15. How frequently you connect a follow-up or a visit to your customer's site?

Monthly Bimonthly Quarterly Semiannually Annually None

16. How do you evaluate the bank credit management policy in dealing with non-performing loan?

Very good Good Fair not supportive Very supportive

17. Which techniques/ instrument do you use for credit risk management in your bank?
 (Please rank them Where, 1= Not used at all, 2= Less applied, 3= Applied, 4= Highly applied and , 5= Intractably applied

Techniques	1	2	3	4	5
Prudential Limits					
Credit Approval Authority					
Risk ratings					
Portfolio Management					
Loan review Policy					
Collateral					
Diversification					
Credit audit and problem Loan					

18. Does the Information Management system support the credit management of the bank?

Strongly agree Agree No idea Disagree strongly disagree

19. What preventive measures do you think effective to be used before failing loans to default?

Thank you