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DEPARTMENT OF ACCOUNTING AND FINANCE

**ASSESSMENT OF LOAN RECOVERY PERFORMANCE ON THE
CASE OF DEVELOPMENT BANK OF ETHIOPIA.**

**RESEARCH PEPAR SUBMITTED TO DEPARTMENT OF
ACCOUNTING IN PARTIAL FUIFILMENT OF THE
REQUIRMENT FOR BA DEGREE IN ACCOUNTING**

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ABSTRACT

This study is carried out as an assessment of loan recovery performance in development bank of Ethiopia. The study is based on primary data collected through questionnaires survey from 118 employees working in loaning unit of bank the study also would be uses secondary data collected from financial statement, quarterly reports, annual reports credit policy, & procedure descriptive research proposal method will be used employed to identify the loan recovery performance of the bank. the assessment result shows that the loan repayment period. assessment of customer credit history collateral estimation project follow up monitoring & controlling system delays to decide on non-performing loan has affected the loan recovery performance of the bank the study is of crucial importance to measure whether DBE does were adequate polices & procedures manual whether the credit unit verifies outstanding liabilities of the borrowers before additional & new loan are granted, the existence & adequacy of feasibility study whether the bank would be a proper way of gathering credit information internally & externally , inadequate credit policies & procedures manuals , unrealistic loan repayment period . in efficient analysis of customer financial statement & absence of well-designed project follow-up system are the major finding , recommend the bank to exert maximum efforts to be up dated and review the credit policies and procedures manual frequency as the policies and procedures of the bank are out ted & do not consider the current situation. Further more. The bank loan.

repayment period should consider the nature and cash flow of the project in order to collect the loans as per the repayment schedule instead of performing based on assumption & in terms of loan period .at the final points , the bank should give prior attention to the human resource development through short term training job rotation & experience sharing. Particularly creating awareness is relation to analysis of customer financial statement is crucial since analysis of the financial statement of borrowers is an important means to obtain information about how the borrowers operated in the previous period. the study would be help to enhance the efficiency & effectiveness of loan administration operation & provide different methods & ways to safe guard assets (primary loan) adequacy & accuracy of its loan review function promote to comply with management policy procedure, applicable laws & regulation,

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CHAPTER ONE

1.1. Background of the Study

Financial institutions mobilize savings for productive investments which facilitating capital flows to various sectors in the economy Shanmugan & Baurde, (1990), Sufian & Parman,(2009). The major financial institutions operating in Ethiopia are insurance companies, micro-finance institutions and banks.

Banks role in the economy of any country is very significant. They play intermediation function in that they collect money from those who have excess and lend I to others who need it for their investment. Availing credit to borrowers is one means by which banks contribute to the growth of economies.

Development banks are one of different types of bank. They are established, usually under the governments' control and upon governmental or foreign donors funding, with the specific purpose of promoting economic growth of the most important or least developed sectors of the economy through the provision of credit Agricultural trading manual, With regard to this, development bank of Ethiopia (DBE) is one of government owned financial institute that passed through the lending policies. Its major task has been extending medium and large term credit to medium and large scale development projects Abraham G.,

Lending represents that heart of the banking industry. Loans are the dominant asset and represent 50-75% of the total amount at most banks, generate the largest share of operating income and represents the banks greater risk exposure Mac Donald & Koch, cited by Wondemagegnehu, (2012). Moreover, it's contribution to the growth of any country is huge in that they are the main intermediaries between depositors and those in need of fund for their viable projects or creditors there by ensure that the money available in economy is always put to good use. Therefore, managing loan in proper way not only has positive effect on the banks performance but also on the borrower firms and a country as a whole. Failure to manage loans, which make up the largest share of high level of non-performing loans.

1.2. Statement of the Problem

The role played by the bank is availing the much thought after medium and long term credit to viable project is in particular considered in dispensable, given the dearth private capital and the obvious current weakness of the national financial industries. In view of this the bank has taken a number of actions in the past years in the area of capacity building, resource mobilization and credit operations Zane, (2009/10) cited by Kirov, (2010).

According to Abraham, (2002) the repayment problem could arise from different factors. Such as change in lending policy, change in structure of the bank, failure in properly appraising the project document (technical capability, marketability, financial and economic viability of the project) and lack of responsibility of the staff members on the supply side. The borrowers age, sex, educational level, loan utilization, bank credit experience, household size, management capacity, availability of other source of income and specific situation of the lenders (market condition, technical capability, specific location etc) on demand side. General economic condition of the country, government policy and weather condition are external factors. When loan is allocated poorly, poor investment projects are undertaken and the nation's resources are squandered, it raises costs to successful borrowers, erodes the fund that would be available for future investment, reduces banks flexibility in redirecting towards alternative activities.

According to the respective years annual performance of the bank of 2016 average loan recover performance of the bank for the period 2012/13to 2016/17 shows leads to reduction of the profitability of the bank and even hinder economic growth of the country as it goes by this rate.

1.3. Research Objectives

1.3.1. General Objective

The general objective of the study is to assess loan recovery performance of DBE .in the last five year.

1.3.2. Specific Objectives

1. To assess the appropriateness performance of the credit policy in achieving loan recovery performance in order
2. To improve the efficiency of loan recovery performance of the bank.

3. To examine the appropriateness of credit assessment process used by DBE and identify the problem in the processes of loan recovery.
4. To examine the appropriate of the loan disbursement procedure and enhance loan repayment of the client.
5. To examine how efficient is the project follow up system and propose suggested solution.

1.4. Research Question

1. What is the role of the government policy on the loan recovery performance of DBE?
2. What is the function of lending policies of the bank on its loan recovery performance?
3. What is the loan recovery performance of the bank?
4. What are the difficulties and challenges faced by the bank in loan recovery process?

1.5. Significance of the Study

The result of this study would be used primarily for the bank to evaluate the loan recovery and to provide a suggestion and recommendation on how to assess and recover the loans given to the borrowers. In addition to this it helps for government and policy maker to design or formulate the credit policy and program to achieve good loan recovery performance. Moreover, the study also serves as a reference for potential researcher who is interested to do the research related to this topic.

1.6. Scope or Delimitation of the Study

However, the DBE has 43 branches in Ethiopia. This study is restricted on DBE provide different service for its clients such as bond issuing, credit service, loan requirements rural electrification, priority sectors export, credit guarantee, international banking, project financing and Rural financial intermediation programmed (RUFIP). But this study pay attention on the loan recovery performance of the bank since between the period 2011-2014.

1.7. Limitation of the Study

the study would be attempt to assess and analyze the total loan recovery performance of development bank of Ethiopia at corporate level, and undertaking on the date for the period covering 2011upto 2014 .the problems, which I face in conducting this research are time constraints unable to collect to entire questionnaires from the respondents.

1.8. Organization of the Paper

The general content of this research paper contains five chapters. Chapter one were contain Background of the study, statement of the problem, objectives of the study, research questions, significance, scope and limitation of the study. Chapter two reviews the relevant theoretical and empirical literature. Chapter three explains the methodology part, which contains research approach, research design, data source and methods of data collection, sample size and sampling techniques and methods of data analysis. The research results and discussion were presented in chapter four. The last chapter: Chapter five were provided conclusions and recommendations.

CHAPTER TWO

2. Literature Review

Introduction

In this chapter the review of related literature would be repeat. It starts on historical back ground and credit operation of the DBE, theoretical and empirical foundation of the loan recovery performance of the bank.

2.1. DBE'S Credit Operation And Its Loan Performance

One of the major financial institutions that play a vital role in mobilization of funds especially from foreign agencies for financing of investment projects are development banks. Development banks are defined as a financial intermediary, which grants medium and long-term funds for bankable projects and provides services as entrepreneurship, technical skills and managerial experience Liggett, (1985).

Development Bank of Ethiopia (DBE) would be one of government owned financial institution engaged in financing short (less than one year), medium (1-5 years) and long (greater than 5 years) term credit to small, medium and large scale investment projects. It is also financing short-term loans to micro enterprises, the source of finance being International Development Association (IDA). The country's first development bank was founded in 1951. Later Agricultural and Industrial Development Bank was set up in 1970, taking over two earlier development banks: DBE and the Ethiopian Investment Corporation which was established as the Investment Bank of Ethiopia Charles Harvey, (1998). In 1994 it was restructured to do universal banking operation and it would be used renamed as DBE. (Initially it was established as Agricultural Bank of Ethiopia in 1945 and renamed as Agricultural and Commercial Bank of Ethiopia before it came out be as DBE in 1951). Like other financial institutions, its lending policy was affected by the kind of political system in the country and the governmental policy of the country. Previously it were financing mostly of large-scale investment projects while small-scale enterprises were marginalized. A high collateral requirement of 200% of the value of the loans had discouraged small-scale potential borrowers from using the banks credit

services,(Tirana, 1994). Hence, the contribution of the bank in financing small-scale enterprises had been scanty.

During the Derge period, DBE (the then AID Bank) became the governments principal instrument for mobilizing and extending credit to the socialized sectors of the economy. It were restricted to meet the credit demand of state farms, cooperatives and public enterprises. The bank doesn't require collateral from cooperatives and state farms as opposed to at least 125% requirement for private borrowers. The banks project evaluation criteria and requirements will be usually applicable only to private borrowers and industrial establishments Assefa, (1987) & Abraham (2002). The same holds to the discrimination in interest rate as described in the previous section. The overall credit policy adopted during the period were primarily used as an instrument to encourage and strengthen the socialized sector.

After 1990/91 on wards it diverted its attention towards the private sector. In agricultural sector, for example, DBE will totally withdrawn itself from financing of cooperatives (except those in coffee growing areas) and state farms. Loan disbursed to the private sector that was never exceeded 11% reached 37% in 1993/94, 51% in 1995/96 and further to 77% in 2000/01 DBE Annual Reports, (1990/91-2000/01). Loan approval for private loans was centralized at the head office until the end of 1992. One major requirement for private borrower to have access to bank loan is collateral. A minimum collateral value of 100% and 125% of the loan amount is required to finance projects situated in rural and urban areas respectively. Further, the promoter is required to contribute at least 30% of the total investment cost of the project. This being the minimum, both the collateral requirement as well as the equity contribution varies depending up on the background of the promoter and the viability of the project according to the banks assessment. The repayment period of the investment loans are determined based on cash flow projection but does not exceed 15 years. Now a day's DBE grants loan only commercial agriculture, agro processing and manufacturing and extractive industries. The bank does not grant loans for other sectors because it is assumed that other banks grant loans for these sectors well.

2.2. Government Policy

Based on the new economic policy, the government formulated a long term economic development strategy Agriculture-Led-Industrialization (ADLI) which is geared towards the transformation of the backward economic structure. It is a two-pronged strategy, incorporating on one side the external sector which shows the forward and the backward-linkage between agriculture and industry. In the connection

1. Agriculture will supply commodities for exports, domestic food supply and industrial output.
2. Expand market for domestic manufactures. The mining sector is expected to give an impetus to the development of the export sector.

The Ethiopia development strategy is supported by an economic reform program developed in cooperation with the world bank and the International monetary fund (IMF) and on a series of structural adjustment programs since 1992 (<http://www.ethiopia.gov.et>). Since DBE is a state owned development finance institution, it is supervised by the Public Financial Enterprises Supervising Agency (PFEA), which is a Directorate under the Prime Minister's Office. A Board of Management (BOM) consisting of seven senior government officials administers the Bank.

2.3. Theoretical Literature Review

Credit Policy of DBE

DBE is mandated to extend investment credits to creditworthy borrowers and projects that have received a thorough appraisal that are found to be financially profitable, economically viable and socially desirable.

General Requirements to Establish a
New Project

- Project feasibility and viability study documents
- Project ownership related legal documents
- Licenses and Registration certificates
- Tax Identification Number & and VAT Certificates
- Land lease contractual agreements

- Lease and other payment documents
- Presentation of Performa Invoices
- Equity contribution of 30%
- Historical and projected financial statements
- Fulfillment of NBE regulations\

For purpose of commitment to the success of the project to be financed, the applicant shall be required to make a contribution towards the project cost. The contribution shall not in any event be less than thirty percent (30%) of total project cost.

The Average Loan processing time is 32 working days. All fixed assets of a project are required to be covered by appropriate insurance policy with DBE as a co-beneficiary until the loan is fully settled. The current key mandate of the Bank is the provision of development credit to viable priority projects along with technical support and advice by mobilizing resources from domestic and foreign sources. <http://www.dbe.gov.et>

2.3.1 Credit Assessment

According Martine Omar Credit assessment is the first stage in the lending process. It is the process through which the credit applicant presents the necessary documentations to the bank in order to obtain a loan. Credit assessment involves:

2.3.1.1 Credit Appraisal

This is basic stage in the lending process. Anjichi (1994) describes it as the 'heart' of a high quality portfolio. This involves gathering, processing and analyzing of quality information as way of discerning the client's creditworthiness and reducing the incentive problems between the lenders as principals and the borrowers as agents. The bank's credit policy, procedures and directives guide the credit assessment process. Banks should base their credit analysis on the basic principles of lending which are Character, Capacity, Capital, Collateral and Conditions (Matovu and Okumu, 1996). It is designed to ensure lenders take actions which facilitate repayment or reduce repayment likely problems. This information about the riskiness of the borrower makes the financial institution to take remedial actions like asking for collateral, shorter duration of payment, high interest rates and other form of payment (Stieglitz and Karla,

1990) when a financial institution does not do it well, its performance is highly affected. Edminster (1980) stressed the importance of credit analysis when he observed that its abandonment often resulted into several banks using credit card to process. The variable we have, according to Hunted (1996) included the length of time taken to process applications, credit experience, proportion of collateral security to the loan approved. It was found out that long waiting time reflected a shortage of credible credit information required to make informed credit decisions. This in turn leads to greater risk more intense credit rationing and low repayment rates. Hunted (1996) also observed that loan experience indicated the ability to manage the business loans better hence good quality borrowers for the business. A less experienced borrower has less ability to manage a business loan and therefore is not credit worthy (Devaney, 1984; Robinson, 1962; Hunter, 1996). This implies that there are big risks associated with new borrowers since the loan officer has no familiarity of recovery from them.

2.3.1.2 Credit Documentation

Credit documentation and disbursement is another aspect of credit assessment process. It encompasses the conduct of key exposure control measures that ensures securities and documentation is obtained before funds are disbursed, and that modification on all credit facilities is approved within credit policy. It also includes the maintenance of orderly up dated credit files and the imposition of relevant fees, updating of records and prompt notification of credit reviews and renewal dates (McNaughton et al, 1996) Loan documentation involves the legal drafting, document review, collateral checks and the waiver of terms. While the disbursement function involves checking the validity of notes as well as ensuring that the documentation for the credit facilities are properly executed. Loan documentation defines the necessary security and covenant before the loan is made. It provides risk protection by providing. Grounds for the bank to take legal action when borrowers fail to honor their obligations (Day et al, 1996).

Credit documentations clearly states the credit terms which are the conditions attached to the loan after the borrower's loan application has been favorably appraised. These include among other.

2.3.1.2.1 Collateral

This is the borrower's asset pledged in exchange for the receipt of a loan. Banks request for collateral before extending loans to customers. The collateral is always higher value than the loan taken to ensure that the loan is paid back. The use of groups as collateral is accepted by some banks (Yunus, 1996). When one member fails to pay, the other group members pay on their behalf. Thus, this system makes it possible for group members to monitor one another thus leading to improved loan repayment. However, some studies have found out that group members don't want paying for others and they also don't like others paying for them (Antonio, 2000). DBE rely primarily upon the financial viability of the project itself. The Bank requires first-degree collateral right up on the project itself.

2.3.1.2.2 Interest Rate

It is the price of the loan able funds and serves to allocate credit and moderate the level of investment (Ross, 1991). Interest rates can be looked at from the borrowers' and lenders' point of view. To the borrower, interest rate is the costs of borrowing money expressed as a percentage of the amount borrowed (Martin, 1998). A borrower evaluates all costs including interest rates and expected returns before deciding to take a loan or not. To the lender, interest rate is determined by factoring in costs such as costs of production, the inflation rate, personnel, administrative costs, loan loss provisions and capital growth (Kasibante, 2001). The rate charged should be able to cover costs and make a contribution for the financial institution. Financial institutions charge different interest rates depending on their peculiar conditions ranging from 2 to 4% per month (Brochures, 2001). From this financial institution DBE interest rate to be charged on loans would be set by management of the Bank and considered by the BOM in consultation with the government. Current interest rate for the priority areas of the Bank is 8.5% per annum and 9.5% for other sectors.

2.3.1.2.3. Size of Loan

Loan size is the amount of loan advanced to the client. It can be small, medium or big. Banks prefer bigger loans largely because their transaction costs are lower. Efficient loan size should fit the borrower's repayment capacity and stimulate enterprise performance. Pinscher (1991) argues

that poor loan sizing is illustrated by extensive credit rationing, which issues too little credit to too many borrowers. However, according to Chirwa (1997), relatively large loans may tempt the borrowers to divert a portion for non-business purposes. DBE's main area of focus is provision of long and medium-term loans for investment projects within the Governments priority area. The bank extends its credit service through the head office and five regional office and 32 branch offices throughout the country. Each Loan in excess of Birr 15million is the jurisdiction of the head office credit process.

2.3.1.2.4. PURPOSE of LOAN

The purpose for which credit is sought is an important consideration to the bank because of the risks in the lending activities. Banks being profit driven, seek to maximize returns while minimizing risks. This seemingly paradox constrain banks to examine not only viability of a project but also loan repayment prospects. Vitas and Chao (1996) observed that in many countries, Banks favor lending for low-risk activities, such as self liquidating, short-term working capital and trade finance. They are generally less willing to finance high risk projects with long payback periods, and small forms that lack adequate collateral even though such firms may be more innovative and promising than others. However, the DBE accepts all kinds of commercial agriculture (farming), agro processing and manufacturing and extractive industries loan applications from both walk-in and sourced customer.

2.3.1.2.5 LOAN PERIOD

The World Bank (1996) reported that Banks have little capacity and interest to provide long-term capital. This is attributed partly to the high composition of short term liabilities in their portfolio and also their concern for risks associated with lending activities. DBE loan size fixed at a maximum of 20 years including any grace period Includes permanent working capital considered as part of the long term and investment capital of a project that would be recovered within the 5-15 years of loan repayment Medium-Term Loan repayable within 3 to 5 years including any grace period.

2.3.1.3. disbursement

Disbursement on the other hand ensures that money is not availed until all approvals and documentation requirements are met. It also ensures that security and other required documentations are obtained before funds are disbursed. If disbursement control is weak, the whole integrity of the credit process can be weakened and abused (Mist, 1994 & Nsereko, 1995). Thus, documentations and disbursement are important in the management of credit because they ensure that the bank has proper documentation, collateral and guarantees. These are important in the advent of the clients' inability to pay because the bank would be properly secured and have legal recourse to ensure the settlement of debt. This would be ultimately decrease the amount of bad debts the bank may have. The development bank of Ethiopia disbursed a billion birr's for several sectors. From these sectors Agricultural sector took large sum of money.

2.3.1.4 Repayment of bank loans

After the credit assessment and disbursement is done, the credit customer is expected to payback the installment as per agreed schedule. Each bank has a different repayment mechanism. Based on the specifics of the bank, customers can pay weekly, bi-weekly or monthly installments (Odon go, 2004). In order to ensure good repayment, Banks have to ensure proper monitoring and follow up actions. The DBE Loan repayment period is determined taking into account the profitability and debt servicing capacity (cash flow) of the project as well as the economic life of major investment items.

2.3.1.4. monitoring and follow up

According to Robinson (1962) and Anjichi (1994), many of the agonies and frustrations of slow and distresses credits could be avoided by good loan supervision. Supervision helps keeping a good loan good. It may be visiting the borrowers' premises to investigate the general state of affairs and maintenance of plant and equipment. Inadequate maintenance is often an early sign of financial distress. Also to be observed is the state of employee morale and the physical stock of materials and finished goods. The general business policy and advice is considered. If a bank is sanitizing to business development it can revise its own credit and loan policies as well as

advising its customers. Again keeping track of deposits and balances gives clue to the affairs of the borrowers.

2.4 Empirical Literature Review

(Martin O'Mara 2007) credit assessment process and repayment of bank loans in Barclays bank Uganda LTD. The bank showed that low loan recovery performance because of the interest rate, loan period, purpose of loan and poor monetary and follows up. Yuvraj (1967) studied the long term credit through land development Banks through historical aspects. He discussed the need for the establishment of LDBS in India. The study highlighted that LDBS are the proper agency for the farmers to use raising credit and to obtain long term finance for improvement of their agriculture. With the implementation of five year plans, LDBs also gained popularity and showed progress by higher agricultural productivity and helped in raising farm productivity.

Rizvi (1970) pointed out that loans were used advanced at 50 per cent of the value of the lands and the Andhra Pradesh Cooperative banks were stopped issue of loans for discharge of prior debts and redemption of mortgages on lands Taluka valuation committees consisting of Tehsildar, the cooperative sub registrar etc were formed for valuation of lands in the given area. If the borrowers did not were repaying capacity, the loan will be rejected. Repaying capacity was accessed according to the change in projects to the farmer due to change in agriculture after having gained loans from the bank. The study made various suggestions to improve the overall working of the cooperative banks in Andhra Pradesh.

Dutta and Bassak (2008) suggested that cooperative bank should improve their recovery performance, adopt a new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking. Hunts (1996) examined the credit rationing technology of lenders and the repayment behavior of borrowers at a rural financial institution based on 504 sample observations. Loan rationing equation and loan repayment equations estimated employing to bit model using survey data at Guyana Cooperative Agricultural and Industrial Development Bank revealed that only 33% of the criteria utilized identified credit worthy borrowers implying that the screening technology will be not efficient and needed to be repaired. The results also indicated that tightening the loan contract terms by reducing the grace period on loans and rejecting applications which was long

processing times enhanced the pool of credit worthy borrowers. Female borrowers will be used also not rationed differently than male borrowers, nor was they worse re-payers than male borrowers (i.e. the variable sex was insignificant in both equations), but wealthy borrowers will be bad credit risks as their repayment performance were poor. In general, the study showed that only four out of twelve explanatory variables (fishing, males in food crops and livestock, credit experience and sugar cane) enhance creditworthiness, while other variables especially grace Period, delays, and joint borrowers contribute significantly to the default problem.

In Ethiopia an econometric estimation was used conducted by Mengistu (1997) based on survey data, on the determinants of loan repayment performance and efficacy of screening mechanism in urban Ethiopia, taking the case of Awassa and Bihar Dar towns. The estimation result using binomial probity model revealed that for Awassa, the number of persons employed and weekly installment repayment period are significantly and positively related with repaying loan in full while loan Diversion is significantly and negatively related. In terms of the probability of falling in either of the groups, it was found that there was 53% probability of repaying loan in full. loan expectation and number of workers employees was a positive relation with full loan repayment while loan diversion and availability of other sources of credit was a negative impact. The predicted probability of full loan repayment in this case was 78%. He employed 352 sample beneficiaries for the case of Awassa and 409 for Bihar Dar.

(Abafita 2003) Analyzed the microfinance repayment performance of Roomies credit and saving institution in Kuyu, Ethiopia. According to his finding; sex, loan size and number of dependents are negatively related to loan repayment. On the other hand age was found to be positive, while age squared turned to be negative. Income from activities financed by loan, repayment period suitability and loan supervision are positively and significantly related to loan repayment performance. Moreover, loan diversion is significant and negatively related to loan repayment rate. The negative sign implies that the use of diverted funds for non-income generating purposes.

2.5 Conclusions and Identification of Knowledge Gap

As mentioned above, various studies were conduct on the determinants of loan repayment performance in different countries. The researchers assess the characteristics of the borrowers. However they failed to assess the influence of financial institutions credit policies and the government strategy on recovery performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

Research methodology refers to the techniques used in carrying out research, including the theoretical and philosophical assumptions upon which the research is based Saunders et al., (2009). This chapter describes the procedure that were followed in conducting the study. This includes research approaches, research design, and population of the study area, sample size, data collection instruments as well as techniques that used to analyze data.

3.2 Research Approach

Research approach is selected by researcher(s) based on the research purpose, the nature of the research, the problem area and research questions Alhamdani et al., (2006). According to Creswell (2003, p.13-15) there are three basic types of research approaches quantitative, qualitative and mixed approach.

As stated in the objective of the study, the aim of the study would be used to assess loan recovery performance of DBE. To this end, the study would be used method of triangulation. Quantitative and qualitative research designs are appropriate for answering different kinds of questions. Besides, the two approaches can represent complementary components of the research process by overcoming possible shortcomings. According to Creswell, J. W. (2003) mixed methods research provides strengths that offset the weaknesses of both quantitative and qualitative research. Moreover, the combined research method were employed on the assumption that it were fit the tools by which the data of the study collected.

3.3 Research design

A research design should provide relevant information that will most efficiently and effectively address the research questions or hypothesis Hair et al., (2007). According to C. R. Khotari (1992) Descriptive analysis using the fact that a descriptive research design is used to describe the data and characteristics about what is being study. Descriptive survey also enables to obtain

the current information. Therefore the research adopted descriptive research design to easily analyze data

3.4 Data Sources

Primary data sources of the study collected from managers and employees of the bank who would be direct exposure with the study survey using questioner while secondary data collected from annual financial report of the bank issued during the period covering 2010 up to 2014. Credit policy, and procedure manuals

3.5 Data Gathering Tools

The questionnaire survey used as primary data collection method because of the reason that it is quick method to collect data. it is less time consuming , it is able to cover entire sample with the propose time frame work also & it offers grater assurance of report previous research , unpublished materials , and strategic planning document of the bank used to collect secondary data to reference the study with actual & supported facts.

3.5 Sampling and Sampling Techniques

the study of it would be used simple random sampling method to select the respondents of the study survey the main reason is to achieve the quality of anticipated data that fairly assess the loan recovery performance of the bank according to the information obtained using preliminary discussion with DBE human resource process owner (manager) there were 118 professional employees found at development bank of Ethiopia who will be serving under credit corporate unit , which comprised under four unit section, the first section will be credit process (CP) that will be used 42 employees 5 of them were used managerial staff member. the second section were used appraisal sub process unit that were 30 employees, 4 them were managerial staff. the third section were used project rehabilitation & loan recovery sub-process (PRLR) unit that were 24 employees 3 of them were managerial staff member. the other unit were risk and compliance management process (RCMP) that will be 22 employees . 4 of them will be managerial staff member. from the total population the study sample has 92 respondents , which include 14 managerial staff member that expected to conduct the research objective the sample size were used to determined using kerjcie & Morgan (1970) for further reference the table is located under appendix while the selection of 92 professional included 42 professional employees (5

management and 37 non-management employees) who were working in CP again 38 employees were used selected and 4 of them were management member. out of 30 employees (4 managements and 26 non-management) who were working in appraisal 23, employees selected 3 of them management staff.24 employees (3management and 21 non management) were used engaged in PRLR 19 employees were selected of which two of them were management members . The rest of 17 employees selected out of 22 employees from RCMP out of which 3 of them were management member. That selected using simple random sampling method b/c considered the simplest most convenient and bias free selection method.

3.6 Method of Data Analysis

The collected data were entered into statistical package to social science software (SPSS) version to run the descriptive data it selected b/c of its simplicity & clarity to draw inferences. Be sides. it used averages, percentage, diagrams & tables for the analysis were used employed to describe the existing scenarios regarding loan recovery performance of the bank in comparison against the given theoretical frame work

There are three issues that must be considering in the decision (selection) of method of data analysis: the knowledge of researchers, objective of the study and measurement of data Yalow, (2011) cited by Mulualem et al., (2014). The quantitative data that collected from primary source was analyzed through tables using median, standard deviation and percentages via descriptive analysis by using soft ware called SPSS version 16.0. The secondary data was interpreted qualitatively

CHAPTER FOUR

RESULT AND DISCUSSION

-this chapter deals with the presentation and the analysis of data, which was collected from respondent. The assessment of this study was based on the specific objective the study used both primary and secondary data the research distributed questionnaire paper for 92 individual based on sample size to collect primarily data concerning loan recovery assessment performance of the bank. From the total sample size, 83 respondents or 90.11% of the total have been properly responded. The study also used financial statement quarterly reported, annual reports, credit policy and procedure as secondary data. Presentation and discussion of the research finding embraces two parts the first one is background information which consists job grade and work experience of the employees, and the second part elaborates the assessment result of the credit policies and procedures credit assessment loan disbursement procedure and the system of project follow up.

4.1 PART ONE -LEVELS OF JOB GRADE AND WORK EXPERIENCE OF THE RESPONDENTS

Under this part. The researcher tries to indicate the respondent's current position and their work experience in DBE.

4.1.1 JOB GRADE

this questionnaire gathers the respondent current job position in DBE. the purposes of this information are .

- to obtain diverse information .
- to upgrade the quality of the study
- to increase the credibility of the information

	Number Of Respondent	Percent
loan office	19	21.7
sr loan office	44	51.8
principle office	9	9.6
process/regional/manage	5	4.8
junior officers	10	12.0
Total	87	100.0

we can see from the table 1 out of the total respondent loan officers hold 21.7% sr, loan office 51.8% principle office 9.6% manager process owner 4.8% and junior officer 12% this implies that all level of job categories are involved in gathering this information which enable the study to obtain diverse information from different respondent observation.

4.1.2 Work Experience

the Survey questionnaire had raised related with the respondent work experience to obtain quality information and assess of entire loan recovery performance based on employees work experience the survey result summarized under table 2.

	Number Of Respondents	Percent
1 to 5 years	40	45.8
6 to 10 years	25	30.1
11 to 15 years	3	2.4
16 to 20 years	9	9.6
above 20 years	10	12.0
Total	83	100.0

as can be seen from the table -1out of the total respondents. 46.3% of them are below 5 years 53.7% them are above 6 years. The data reveals that most of the employ years are working in the loasing unit have served 6 years. Which helps to provide relevant and reliable information for the study.

.2 Part Two

Under this part, the presentation and discussion of research finding embraces four categories that are correlated into the specific objectives there are credit policy and procedures credit assessment, disbursement procedures and project follow up system.

4.2.1 Credit Policy and Procedures

Under this category, the study tries to examine

- the adequacy of credit policies and procedures
- whether credit policies & procedures frequently updated or not
- the existence of monitoring &controlling of loan status
- the existence of portfolio management policy &updated annually
- whether DBE has reasonable loan repayment period or not .

A, The Adequacy Of Credit Policies &Procedures

Table 3 have adequate procedures & guideline

	Number Of Respondents	percent
Agreed	55	65.1
dis agreed	32	34.9
Total	87	100.0

Like all other institution's, DBE has credit policy that guides and governs its operation. the study attempted to find whether there is adequate credit policy and procedures in the bank or not. as can be seen from the table3 65.10% of the respondent agreed that the bank has adequate policies

and procedures, but the rest 34.90% of the respondents disagreed . the reason for the disagreement was:

The banks policy & procedure do not classify categorize the economic sector when ever the project have been held as collateral. for instance, when project is financed in the agricultural sector, the bank treated equally as an industrial sector by 70:30 ratio method 70:30 means in loan manual of DBE , defined as article number 2.4.17 as project promoters should at least meet the 30% of the total project cost , meet by co-financers. That is in line with DBE establishes policy of debt-equity ratio for all priority area project the policy does not encompass the responsibility and accountability of the employees those who have involved in the loaning process, the policy do not also properly applied due to external organs innervation

B) Credit Policy Frequently Reviewed &Update

in addition to the adequacy of policy &procedure, the respondent also replied whether DBE credit policy frequently update or not. the research finding indicated that 15% of respondents agreed but 84.20% or 52 respondent dis agree the reasons for their dis agreement were:DBE does have trend to review and update credit policy and procedure by its initiation unless & other wise instruction is issued by the regulatory body

table 4 credit policy frequency update

	number of respondents	Percent
Agree	10	12
dis agree	77	88
Total	87	100

C)Loan Portfolio Management Policy

the study is also sought to identify whether the banks loan portfolio management policy is reviewed or not based the changing of industrial market condition . as it can be seen from table - 5 61.40% of the respondents did not agree that the banks does not have trend to review update

changing of market condition on the other hand 22.90% are agreed & the rest 15.7% respondent were neutral.

table -5 loan portfolio management policy reviewed frequency

	number of respondent	percent
Agreed	21	22.9
dis agreed	53	61.4
Neutral	13	15.7
Total	87	100

D) Loan Repayment Period

Table 6 Repayment Period Respondent For All Loan

	number of respondent	Percent
Agreed	38	44.6
dis agreed	47	54.2
Neutral	2	1.2
Total	87	100

According to the above table 44.6% of the respondent were agreed that the bank has proper & fair repayment period which could not be able to affect the loan recovery performance 54.2% of the respondents dis agreement, & rest 1.2% respondent were neutral the reasons for their dis agreements was the bank should not determine the repayment period is usually performed based on assumption & determined by the term of loan that is short , medium & long term.

4.2.2 Credit Assessment

I, credit information for existing & new borrower

The study tried to assess the bank credit assessment practice & raised the following question to the respondent

- Whether the credit unit verifies outstanding liabilities of the borrower before additional and new loan are granted.
- The existence and adequacy of feasibility study
- Whether the bank has proper way of gathering credit information internally & externally.

out of the total 53.6% respondent agreed that DBE's credit unit verifies outstanding liabilities of the borrower before additional and new loan are granted, and 42.7% of the respondent did not agree and the rest 3.7% were neutral to respond, it is for obvious reason the national bank of Ethiopia has established net worked central credit reference center to check the credit worthiness of the borrower and if there is any liability of borrower from other financial institution.

table 7 credit information for existing borrower

	number of respondent	percent
Agreed	47	53.7
dis agreed	37	42.7
Neutral	3	3.7
Total	87	100

II customer credit history

the study requested the respondent to obtain the date whether DBE is properly gathering information in related to customer credit history from financial institution or not.

Table 8 Properly Gather Previous Credit History Information

	number of respondent	Percent
Agreed	34	38.6
dis agreed	49	56.6
Neutral	4	4.8
Total	87	100

the research finding indicates that 38.6% of respondents agreed, 56.6% disagreed and the rest 4.8% were neutral. the majority of the respondents disagreed due to the fact the credit information which has been sent by the concerned body, is inadequate since it does not reveal the entire history of the customer. it shows only the amount of debt recorded of accomplishment of the customer and unable to identify the source of own contribution of the borrowers.

III Collaterals Estimation

Table Are Collator A Is estimated properly

	number of respondent	Percent
Agreed	40	44.6
dis agreed	45	53
Neutral	2	2.4
Total	87	100

can be seen from the table-9 out of the total respondent 53.6% of the did not agreed 44.6% of them agreed and the reaming 2.4% were neutral. the respondent dis agreed because in the collateral manual of the bank engineering estimation considered only material cost, equipment cost, labor cost, starting value of the lease overhead and profit cost of the contractor and does not consider the market value of the collateral, there is also lack of check and balance with the estimation process.

4.2.3 Loan disbursement procedure

a) Disbursement procedure manual

	number of respondents	Percent
Agreed	43	49.4
dis agreed	42	48.2
Neutral	2	2.4
Total	87	100

the respondent were asked whether the procedure manual has problem or not the finding indicated that 49.4% of the respondent said there was no problem in the procedure manual 48.20% did not agree. and the rest 2.4% were neutral. the reasons for their dis agreement were the procedure manual did not show precise and clear explanation how the loan disbursement would be conduct when there were deviation and exception in the loan approval time. and also did not show clear authorization limit when ever exception and deviation were existed for the bank's president and board of management in addition to thus, disbursement procedures manual were similar for all types of economic sector or did not consider the nature of the project.

b) Loan disbursement based on project progress

table 11 does loan disbursed based on project progress

	number of respondents	percent
Agreed	53	61.4
dis agreed	32	36.1
Neutral	2	2.4
Total	87	100

as out of the respondent 61.4% agreed that the bank effect the disbursement based on the on the progress of the project 36.1% are dis agreed and the rest 2.4% were neutral .the reason of disagreement was loan disbursement based on project progress can be done for industrial loan however for agricultural it was difficult the risk and sensibility of the project.

4.2.4 Project follows up system

one of the major function's which enhance loan recovery performance is project follow up system of the bank. if the bank fails to do it means an alarmingly increase the bank's NPL position.

a) repayment of loan with in the contract date

Table12 does repayment made as per contract date

	number of respondent	Percent		
Agreed	13	13.3		
dis agreed	72	85.5		
Neutral	2	1.2		
Total	87	100		

the research wants to distinguish whether the bank has collected and recovered all types of loan as per the repayment schedule stated on the contract schedule or not. the finding indicates that 13.3% of the respondent were agreed 85.4% respondent did not agreed and the remaining 1.2% was neutral. the respondents justification of the dis agreement were.

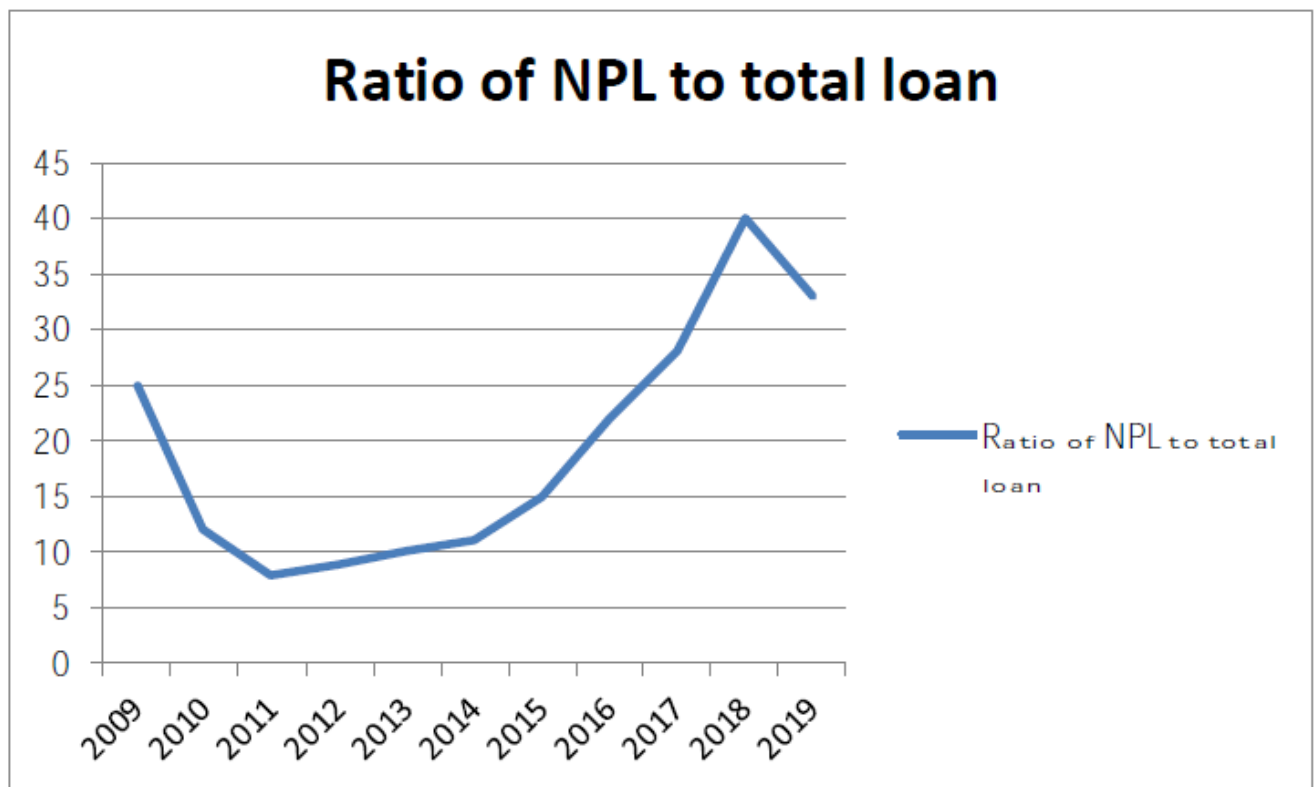
- Delay in the project implementation
- Lack of commitment to repay from the customer side
- Diversification of the project and market problem .
- Foreign currency fluctuation which affects the cost of raw material
- Poor project appraisal and follow up
- Infrastructure problem .
- weak equity contribution and in sufficient collateral of the project.

the bank trend analysis of loan recovery performance of the bank reveals that the bank loan repayment did not collected as per the repayment schedule stated on the loan contract.

4.1.2 secondary data

4.1.2.1 trend of non-performing loans

Figure 4 trend of NPL in DBE 2009-2019



the above figure shows the trend of non-performing loans ratio for the past ten years period under review . as it is stated in the literature non-performing loan ratio refers to the total amount of bad loans expressed as percentage of the total loan portfolio during the period . the ratio of non-performing loans for the years 2018 was the highest rate registered in the bank during the last ten year while the year 2011/12 shows the lowest NPL ratio which is 7.5%.the trend of NPL ratio decline from 33.5% in 2008/09 to7.5 % in 2011/ 12 and increasing from 7.5% to 40% 2017/2018 shows smooth incremental after the year 2012 and decrease to 34% in 2018/2019 the main result for decrease in the ratio is that the bank take the measured and strengthen its loan follow up by tracing each and every loan. The trend shows significance increase in NPL ratio. The rate were stall mach greater than 5% level which high according to NBE guide line 2018 generally the trend show low loan recovery performance the bank

4.1.2.2 Analysis Of Interview

in order to get deep understanding about the factors affecting Non-performing lone, in-depth interview was conducted with senior bank officials . all of the interviews have had over 10 years credit experience in addition to their several years of banking experience in term of profile, credit vice president, credit process manager and senior credit analysis members non-performing loans, according to the interviewers response the five Cs of credit character, capacity, capital, condition, and collateral. Together, these serve as away for lenders to evaluate the credit worthiness of potential borrowers. according to the respondent's response in DBE the five Cs are not properly considered when loans are given to borrowers in addition to this malpractice of loan policy and procedures, lack of close follow up , inadequate customer due diligence assessment , lack of skilled and efficient management for the project and poor infrastructure in the project area plays greats contribution in lowering loan recovery performance in DBE.

4.1.2.3 The Loan Recovery Performance Ratio Of The Bank

by using secondary date, the study examined the level of the loan default on recovery performance . it showed the annual loan amount disbursed and percentage of the amount repaid during the financial year 2019-2020/21 table 4.12 below showed the trend of loan performance and default rate.

The Overall Credit Performance Of DB

description	2019/20			2020/21		
	Principal	Interest	total	principal	interest	total
Total disbursements	215192000	20091320	235283320	218850009	18602250	237452250
recovery against disbursement	171940000	15314900	187254900	143998900	13239316.5	154238216.5
recovery rate	79.9%	76.2%	79.6%	63.8%	71.2%	66.22%
balance in arrears	43252000	4776420	48028420	74851100	5362933.5	80214033.5
percentage in arrears to total	20.1%	23.8%	20.4%	34.2%	28.8%	33.78%

description	2019/20			2020/21		
	Principal	interest	total	principal	Interest	total
total disbursement	22100000	18785009	239785000	236700000	20119500	256819500
recovery against disbursement	117321250	10349308.25	1276705583	73160154	6378133.09	79488287.09
recovery rate	53.08%	55.09%	53.24%	30.91%	31.35%	30.95%
balance in arrears	103678750	8400691.75	1120974417	163539846	13741366.91	177331212.91
percentage in arrears to total disbursement	46.92%	44.91%	46.76%	69.09%	68.65%	69.05%

as show in table 4.11 above , total disbursement for the period under review 2019/20-2020/21 was about birr 969,340,070 of which birr 551,651,961,90 were recovered. the total disbursement shows various trend for period to period. principal disbursement was increasing through out the period .interest disbursement for the period shows fluctuation trend.

as indicate in table 4.12 above ,principal recovery rate was decreasing . similarly to the principal recovery rate the interest rate was also shows that decreasing trend. Constructing the recovery rate and interest rate amount in arrears rate was increasing continuously through out the four year. Generally, the report implies that the bank disbursed large amount of birr in its principal during the period 2019/20-2020/21while the loan recovery amount was low.

Chapter--Five

Conclusion & Recommendation

5.1 Summaries Of Findings

the study survey has conducted to assess the loan recovery performance of DBE which intended to identify better approaches of improving efficiency in connection with loan recovery performance. the study tries to indicate the impact of inadequate credit policy and procedures, credit assessment , loan disbursement procedures ,inefficient project follow up on the loan recovery performance of the bank.

5.2 *Conclusions*

based on these findings this paper concludes that the credit policies and procedures of the bank is not adequate since it does not address the risk area in different sectors. more over the policy does not clearly stipulate accountability and responsibility of officers if loan is defaulted.

* collateral is basic requirement to grant loan.it helps to measure the borrower position on repayment of the credit. therefore, non-collateralized loan may leads to low loan recovery performance rate.

* Gathering, processing and analyzing of quality information as away of discerning clients credit worthiness and reduce the incentive problems. failure on collecting information about the client past credit experience may results default on the recovery rate.

* Training that gives to the borrowers on the term of loan and credit usage. reduce the risk of uncollectible loans & increase the profitability of the bank. if the bank does not give training on the rules and regulations of the credit, the borrowers may is utilize the money. as result the customers fail to pay the debt.

* in addition, monitoring of the loan recovery performance of the client & the project operation regularly may results, the borrowers to give better attention to their loans. besides, it improves the recovery rate of the loan.

* finally the study also gives the idea that government strategies may cause low recovery rate especially on the government owned financial institutions.

5.3 Recommendation

based on the research finding and conclusion the following recommendation are suggested to improve the efficiently and effectiveness of loan recovery performance of the bank.

* the bank's policy and procedure should be prepared based on the natural of the project including clear explanation of exception and deviation to avoid doubt and confusion

* The bank should. Incorporate the exact responsibilities and accountabilities of the employees those who have involved in the loaning process whenever the loan is defaulted due to ineffectiveness of loan officer appraisal, lack of strict follow up & other reasons.

* the loan repayment period should consider the nature and cash flow of the project instead of performing based on assumption & in terms of loans period

* The procedure manual should encompass clear explanation of how the loan disbursement would be carried out whenever there are deviation and exception in the loan approval time.

* The bank should design adequate follow up and supervision that focus on the loan collection activities to enhance loan recovery performance.

* DBE should exert maximum effort, to be conducted awareness in related to analysis of customer's financial statement since analysis of the financial statement of borrowers is an important means to obtain information about how the borrower operated in the previous period. More ever, insured to enhance the performance of operation and to build up the capacity of employees, DBE should give prior attention to the human resource development through short term training, job rotation, experience sharing.

* The bank should separate customer recruiting, loan processing implementation and monitoring and controlling activates to strength pre & post due diligence assessment. Further more. The bank should assign or open follow up and collection unit, which could enhance the loan recovery performance.

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Appendix I

Wolkite University

College Of Business And Economics Department Of Accounting And Finance

Dear Respondent

this questionnaires is designed to collect data to assess the loan recovery performance of [DBE]. the information obtained from this questioner would be used as secondary data for my research, which i am conducting as partial fulfillment for the requirement of BA degree.

part one -back ground information

1. please tell me your current position in DBE

- a) loan officer
- b) senior officer
- c) principal officer
- d) process/regional
- e) junior officer

2. please indicate your work experience in DBE(years of experience

- a) 1to 5
- b) 11 to 15
- c) 6 to 10
- d) 16 to 20
- e) above 20

3. have you been working in the bank's credit process, project rehabilitation or loan recovery or credit risk management process? if your answer is agree, please indicate your work experience in the loaning units

- a) 1 to 5
- b) 11 to 15
- c) 6 to 10
- d) 16 to 20
- e) above 20

part 2

under this part the question have both close ended and open ended asides to this it divided into the following categories:

1. credit policy & procedures
2. credit assessment
3. loan disbursement procedures
4. project follow up system

credit policy & procedures

1.1 are credit policies and procedures frequently reviewed & updated

agreed disagreed neutral

if your answer is disagreed please state the reason

1.2 does the bank have adequate procedures & guid lines to monitor and control the loan?

agree disagree neutral

if your answer is disagree please state the reason

1.3 does the bank have loan portfolio management policy?

agree disagree neutral

1.4 if your answer for question number 1.3 is agree are loan portfolio management policy reviewed at least annually to determine if they are compatible with changing market conditions.

agree disagree neutral

1.5 are you satisfied with the credit policy and procedures of the bank?

agree disagree neutral

1.6 if you say no for question number 1.5 please give your reason

1.7 what appropriate action should be taken by the bank in order to improve its credit policy and ensure high loan recovery performance?

I _____

II _____

III _____

1.8 is the repayment period schedule reasonable for all loan?

agree disagree neutral

1.9 if your answer to question 1.8 is disagree, what do you think is the suitable repayment period ?

2) Credit Assessment

2.1 are borrowers outstanding liabilities checked to the appropriate lines of credit, before an additional loan is given

agree disagree neutral

2.2 if your answer is agree, what criteria's does the DBE use to evaluate them?

2.3 does the bank perform credit investigation on proposed and existing borrowers for new loan application?

agree disagree neutral

2.4 if your answer is agree, what criteria's does the DBE use to evaluate them?

2.5 are feasibility studies obtained and do they support the viability of new development projec?

agree

disagree

neutral

2.6 does the bank have proper way of gathering information all applicants from other financial institution about their previous credit history?

agree

disagree

neutral

3) Loan disbursement procedure:

3.1 is there any gap (problem)in the disbursement procedure manual of the bank

agree

disagree

neutral

3.2 if your answer is agree, please state the problems?

3.3 does the bank effect disbursement based upon progress of the project?

agree

disagree

neutral

4. Project Follows Up

4.1 does the bank collect and recovery all loans as per the repayment schedule stated on the contract?

agree

disagree

neutral

4.2 if your answer is disagree, why?

4.3 does the bank have trend to assess its customers financial statement periodically

agree

disagree

neutral

4.4 if your answer is dis agree, why?

4.5 does the bank have well designed system of controlling and monitoring of the status of the loan as per bank schedule?

agree

disagree

neutral

4.6 is there any well -designed follow up program of loans undertaken by the bank particularly for NPL loans?

agree

disagree

neutral

4.7 are there outstanding non-performing loans whose cases are transferred to foreclosure /process and dis agree. decision are made to them so far?

agree

disagree

neutral

4.8 what improvements do you recommend for successful loan recovery performance of the bank?

Thank Your For Your Valuable Comment & Precious Time !!