

ASSESSMENT OF LOAN ADVANCE PROCEDURE AND PRACTICE (A CASE
STUDY ON COMMERCIAL BANK OF ETHIOPIA, GUBRE BRANCH)



WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

A RESEARCH PAPER SUBMITTED TO DEPARTMENT OF ACCOUNTING FOR
PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE DEGREE OF BACHELOR
OF ART (BA)

PREPARED BY: ZENA TEMECHE

ID NO. 1312/12

ADVISOR: MSS. ASTER K (ASS PRO)

WOLKITE, ETHIOPIA

MAY, 2015 E.C

ACKNOWLEDGEMENT

First and foremost, I would like to thank almighty God, who gave me health and strength to do this research First paper Secondary deepest gratitude to my advisor Mss. Aster. K (ASS.PRO). For her valuable advice, suggestion, encouragement and offering useful hints since the date of topic selection to the submission of the research paper. Also, I would like to thank my family for giving moral and financial support for the successful completion of this paper. Lastly, my appreciation goes to...my colleagues and all staff of the commercial Bank of Ethiopia in Gubrie branch for cooperation and unquantifiable support.

THANKS, YOU ALL.

TABLE OF CONTENTS

Content	Page
ACKNOWLEDGEMENT.....	I
TABLE OF CONTENTS.....	II
LIST OF TABLES.....	IV
ABSTRACT.....	V
ACRONYMS	VI
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Background of the study.....	1
1.2 Statement of the problem	2
1.3 Research questions	3
1.4 Objective of the study.....	3
1.4.1 General objective	3
1.4.2 Specific objectives.....	3
1.5 Scope of the Study	4
1.6 Significance of Study	4
1.7 Limitation of the Study.....	4
1.8 Organization of the study	4
CHAPTER TWO	5
LITERATURE REVIEW	5
Introduction	5
2.1 Definition and concept of loan	5
2.2 Types of loan made by bank	6
2.3 Lending procedure	6
2.3.1 The principle of lending	6
2.3.2 Steps in lending process.....	8
2.4. Empirical review	9
CHAPTER THREE	11
RESEARCH METHODOLOGY	11
3.1 Research Design.....	11
3.4 Sampling techniques and sample size	11
3.8 Methods of Data Collection	12

3.9	Methods of Data Analysis	12
CHAPTER FOUR	.....	13
Data Presentation, Analysis and Discussion	.....	13
4.1	primary data analysis and discussion.....	13
4.2	Background of the Respondents.....	13
4.3	Loan Advancing Procedures and Practices	15
4.4	Effectiveness and Profitability of the Bank from the Loan Provided	18
4.5	Loan Recoverability Test According to Principles	19
4.6	Unique Features of the Bank	20
CHAPTER FIVE	.....	24
CONCLUSION AND RECOMENDATION	.....	24
5.1	Conclusion.....	24
5.5	Recommendations	25
References	.....	27
APPENDIX	.....	29

LIST OF TABLES

Table 1: demographic characteristics of respondents	13
Table 2: Loan Advancing Procedures and Practices	16
Table 3: Effectiveness and Profitability of the Bank from the Loan Provided	18
Table 4: Loan Recoverability Test According to Principles	19
Table 5: Unique Features of the Bank	21

ABSTRACT

In Ethiopia, there are various financial institutions such as banks that give financial services like money transfer, deposit and lending to their customers. As other commercial banks in Ethiopia, Commercial bank has its own loan advancing procedure and practice used to advance loan. The aim of this research is to assess loan advancing procedure and practice case study Commercial bank of Ethiopia, Gubrie branch.

To obtain the objective the researchers used descriptive research design in this research. The target population for the study were the loan officers of Commercial bank of Ethiopia, Gubrie branch. The total number of employees in the organization is 40. The necessary data for the study was gathered using primary and secondary source of data. Primary data was gathered through questionnaires and interview and secondary data was gathered from Commercial bank of Ethiopia manuals, website and reports. This study used judgmental sampling techniques. After the necessary data was collected the data 'was processed, analyzed and presented by using tubular form, frequency and percentage.

From the findings, conclusion and recommendation, the study concluded that loan is beneficial both to the bank as well as to the borrower and banks have to give a peculiar focus on it. The loan department of the bank is organized by educated and mature employees. The bank should provide regular training to all its Employees in general and loan officers in particular on how to handle customers. The bank should always collect the loans from the borrowers.

ACRONYMS

CBE----- COMMERCIAL BANK OF ETHIOPIA

LDR----- LOAN DEPOSIT RATIO

NBE-----NATIONAL BANK OF ETHIOPIA

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Banks play a major role in economic growth and development through provision of credit to execute economic activities. However, the major concern of any bank while advancing credit was how they get their money back and this implies that the engagement between lenders and borrower was accompanied by certain level of risk (OWINO, 2012). Loan is any financial asset of bank arising from a direct or indirect advance or commitment to advance funds by bank to a person that was conditioned on obligation of the person to repay the funds either on specific date or date on demand, usually with interest (National bank of Ethiopia, 2008).

Bank Lending policy is a statement of its philosophy, standards, and guidelines that its employees must observe in granting or refusing a loan request. These policies determine which retail or corporate clients the bank was approve for loans and avoided, and must be based on the bank lending laws and regulations (owino, 2012). Lending must be designed in such a way that it could be a total benefit to all different interest group of the bank, which includes the shareholders, depositors and the borrowers (owino, 2012).

In Ethiopia, there are various financial institutions including banks and Micro financing institutions that give financial services like money transfer, deposit and lending to their customers. As other commercial bank in Ethiopia, Commercial Bank of Ethiopia has its own loan advancing procedure and practice used to advance loan. The different types of loan services provided by Commercial Bank of Ethiopia bank includes term loan, overdraft loan, overdraw loan, merchandise term loan, domestic trade and service term loan, foreign trade term loan, agriculture term loan, manufacture term loan, building construction term loan, transport service term loan, mortgage term loan, letter of guarantee, pre-shipment loan, warehouse receipt financing loan, automobile term loan, microfinance loan, project finance loan (www.wegagenbanksc.com). Generally, the loan advancing procedures and practice is important issue that needs banks' close attention so as to reduce loan recovery and liquidity problems to minimum level

1.2 Statement of the problem

In modern world economic savings and investments are usually carried out by different groups. The banking system channels the transfer of funds from savers to borrowers. Loans are assets of the bank that represent the majority of earning and make profit. Loans are the most important asset held banks, lending provides the bulk of bank income. It is equally true that bank loans, as they are profitable, equally risky. Bank loans fluctuate and influenced by the changes in economy policy and the economy in general. Therefore, it is very important for the bank to formulate their loan policies in order of minimize risk associated with them.

CBE plays an important role in the Ethiopian economy that means the bank dominates participate in the country's financial system. The credit contraction and expansion mechanism to destabilize the economy as a whole is mainly done by the CBE. In the provision of loans process to the customers, CBE under takes pre application interview, accepting customers, official application, collecting necessary documents, credit information inquiry evaluating credit application customer classification, business visit, collateral evaluation, risk analysis, decision on request informing the applicant the credit decision performing administration works like registering the collateral offered by the customer, disbursing the loan and follow up. However, this credit activity which is the important role vested to it, it's becoming area of serious attention.

Based on the preliminary data examined loan repayment problems among borrowers and frequent foreclosures to sell debt collaterals indicating gaps and problems on the lending practice of the bank, on the evaluation the collaterals to secure loans and managing the credit money utilization. More specifically, there are no previous studies conducted on the loan advancing procedures and practices of CBE, Gubrie Branch. Therefore, this study was be essential to assess how borrowers request are processed, how the market situation is integrated and follow up is made on the loans advanced to borrowers.

By granting loans to their customers who fulfill the banks and country's rules and regulations. Thus, this research is intended to assess procedure and practice of advancing loan by CBE, Gubrie Branch bank due to the following reasons;

To examine the loan procedure and activity of the bank. To investigate the profitability of the bank by providing loan to their customer, to assess the applicable banks as well as countries law

towards the loan provision, here, also the research is needed to assess the loan practice activities of the bank in relation to the other financial institution loan provision.

1.3 Research questions

This research was try to answer among other things, the following questions:

1. What is the procedures and policies applied or used in the bank are appropriate for both the banks safety and customer satisfaction?
2. Is CBE, Gubrie Branch effective in advancing and managing loans?
3. Is the branch profitable from the loans provided?
4. Is CBE, Gubrie Branch effective in recovering the loan according to the procedures and agreement made with the clients?

1.4 Objective of the study

1.4.1 General objective

The general objective of this study is to assess the loan advancing procedure and practice in CBE, Gubrie Branch.

1.4.2 Specific objectives

The specific objectives of this study are:

1. To identify the procedures and policies applied or used in the bank are appropriate for both the banks safety and customer satisfaction.
2. To investigate whether CBE, Gubrie Branch was effective and profitable from the loan provided by procedure and practice.
3. To examine whether CBE, Gubrie Branch was recovered the loan according to the procedures and agreement in order to be profitable out of the loan provided to the clients.
4. To identify the unique and similar features of CBE, Gubrie Branch loan advancing procedures and practices in relation to other banks in the area.

1.5 Scope of the Study

This study was conducted on CBE Gubrie Branch due to the ease of access for information and relatively higher number of customers than any other branches in the surrounding areas. The study was focus on the assessment of the lending practice. This study was evaluate the effectiveness of the bank's lending practice, its compliance with policies and procedures; national or international standards and the quality of performance in carrying out assigned responsibilities in the bank. Five years Data was be considered (from 2018-2022) by this study.

1.6 Significance of Study

This study was provide important input in identifying major problems related with loan process and analysis performance, on discrepancies and fraud. In addition, the outcome of the study was show the strength and weakness of the Branch in applying policies and procedures, rules and regulations, which was be applied to enhance the service quality and capacity of bank in efficient and effective way. Moreover, the researchers was gain good experience on conducting researches and getting well acquainted on the overall activities of the bank in lending practice. Finally the study can be used as a reference for further study by other researchers.

1.7 Limitation of the Study

Since the researcher would be necessary to conduct the concerned bodies in many of the activities of data collection. So, the researcher must be restricted by the following problem.

- Lack of sources like reference books.
- Lack of respondent willingness for question
- Lack of secondary data

1.8 Organization of the study

This study was be organized in to five chapters. The first chapter deals with introduction, background of the study, statement of the problem, objectives of the study, research questions, scope and limitation of the study, significance of the study, and organization of the study. The second chapter deals with review of related literature. The third chapter deals with research method and methodology. The fourth chapter is data analysis and interpretation and the last chapter deals conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter deals with review of related literatures. "The literature review in research accomplishes several purposes" (Creswell,2003:29).to mention some; it shares information with reader the result of other studies that are closely related to the research being conducted.it relates a research to the larger ongoing dialog in the literature about the topic filling in gaps and extending prior studies because of this the consultation of the review research literature is a continuous process with the progress of the research work.

2.1 Definition and concept of loan

Loan is any financial asset of bank arising from a direct or indirect advance or commitment to advance funds by bank to a person that are conditioned on obligation of the person to repay the funds either on specific date or date on demand, usually with interest (National bank of Ethiopia, 2008).

Loans are some provisions was be made for repayment of the principal (the original loan amount). Loan might be repaid in equal installments or single lump sum (Jordan, 2000). Loan is the sale of goods, services and money claims in the present in exchange for a promise to pay in the future. That means the debtor and the creditor agrees to settle their transactions. In respect of bank's meaning: credit means lending or granting money to those who are in need of it (investors) who fulfill the bank's requirements. It is a liability for the individual or corporation received it but an investment comparable to bond, stock or other asset. For each borrower a loan is adept, an obligation to repay the borrower money plus interest (mishkin,2003).

We live in a world of credit. Every day in every way we become more and more involved in various aspects of this credit world. Credit contributes to the development of the country and to high standard of living. The major participants in the credit world are banks. This is because most credits directly or indirectly originated from financial institutions, and credit granting is one of the major activates of banks. It is through this credit granting activates that they made up large portion of their earnings (Bilihatu, 2007).

2.2 Types of loan made by bank

1. Real estate loan; which are secured by a real reporting, land, building and other structure and including short term loans constructions and land development and long term loans to finance the purchase of farm lands, homes, apartments, commercial structures and foreign properties.
2. Financial institutions loans: including credit to banks, insurance companies, financial companies and other financial institutions.
3. Agricultural loans: extended to farms and ranch operations to assess it in planning and harvesting crops and to support the feeding and care of livestock.
4. Commercial and industrial: granted to the business to cover such expenses as purchasing inventory, paying taxes and meeting payrolls.
5. loans to industrials: including credit to finance to the purchase of automobiles, homes, appliances and other retail goods to repair and modernized homes, cover the cost of medical care and other personal expenses with extended to directly to individuals or indirectly through retail dealers.
6. Miscellaneous loans: which include all these loans reclassified above including securities loans.
7. Loans financing receivables: when the bank buys equipment or vehicles and lease terms to its customer ([Peter, et.al. 2008)

2.3 Lending procedure

2.3.1 The principle of lending

Bank Lending policy is a statement of its philosophy, standards, and guidelines that its employees must observe in granting or refusing a loan request. These policies determine which retail or operate clients was the bank approve for loans and which was be avoided, and must be based on the bank lending laws and regulations (owino, 2012). Lending must be designed in such a way that it could be a total benefit to all different interest group of the bank, which includes the shareholders, depositors and the borrowers (owino, 2012).

Lending money is easy, it is ensuring that loan are repaid that skill is required when asked to make a loan, the first concern of a bank was be to extract as much information as possible about the

proposition so as to be able assess the probability of repayment. Some loans was become bad debts and cannot be recovered but this should never happen as the result a risk which could have been foreseen from the outset. In coming to a decision you must check how well the proposition measures up to a number of criteria. Some of the questions to be asked are vital other less so but all help the lending officer to obtain an overall view of the proposals (Bilihatu, 2007).

In one sense these criteria can be looked on as a series of hurdles. Which would be borrowers must clear, they fail to completely satisfy the bank on one of the important principles than the application was probably not be pursued all the way through the rest of the decision-making process. On the other hand, it has to recognize that few proposals for advance are perfectly satisfactory in all respects. In most cases the baker must use skill judgment and experience in balancing the good points and the bank points of the proposition to judge the probability of the outcome (Bilihatu, 2007).

Each bank should immediately undertake a sample of the information and data sought for examination of loan proposal from clients in the priority sectors for ascertain whether the demands made by the bank are excessive and or unrealistic, with a view to initiating corrective action. Banks must enjoy on their operating start to call for information data for examination of loan applications, as far as possible in two or more installments (Bilihatu, 2007).

In considering loan applications loan officers should be encouraged to adopt flexible approach here what is important is an overall appraisal backed by a good knowledge of local market prices applicant and his /her back ground and familiarity with the nature of operations of applicant loan officers should be able to comprehend the total situation and determine whether; Applicant seems honest; Applicants proposal seems reasonable; The information given by the applicant makes sense; Applicants can accomplish the purpose of the loan.; Purpose of the loan of the loan is legitimate and productive; Applicants with having with the capacity to repay the loan according to schedule under normal circumstance and; There is margin of safety, if things just do not go right.

Bank staff should perform an additional duty of consulting these applicants where ever required, with a view to converting seemingly imprecise and in attractive proposals in to reasonably bank able proportions. Controlling offices of banks should advise their branches detailed reasons for rejection of loan proposals wherever this is not already being done this was enable branch staff to understand the core lending policy and in turn do counseling to applicants in appropriate cases. It

would be desirable to advise loan applicants, in each case, the reason for rejection of their applications but this may not be possible always. Banks would be justified in refusing to make known the reason for rejection. But, wherever possible, customers should be advised of the reason backed by counseling in appropriate manner (Bilihatsu, 2007).

2.3.2 Steps in lending process

I. FINDING A PROSPECTIVE CUSTOMERS

Most loans to individuals arise from customers who approached a member of the lender staff and ask to fill out a loan application.

II. EVALUATING A PROSPECTIVE CUSTOMERS CHARACTERS

Once a customer decides to request a loan, an interview with a loan officer usually follows, giving the customer opportunities to explain his or her credit needs. Because the interview provides an opportunity for the loan officers to assess the customers character and sincere purpose.

III. MAKING SIZE AND EVALUATING A PROSPECTIVE CUSTOMERS CREDIT RECORD

If business or mortgage loan is applied, a loan officer often makes a site visit to assess the customer location and the condition of the property and to ask clarifying questions. The loan officer may contact other creditor who have previously loaned money to these customers to see their previous loan agreement and where required to keep satisfactory deposit balance.

IV. EVALUATING A PROSPECTIVE CUSTOMER FINANCIAL CONDITION

If all is favorable to this point, the customer is asked to submit several crucial documents the lender needs to fully evaluate the loan request, including complete financial statements and, in the case of a corporation, board of directors' resolutions authorizing the negotiation of a loan with the lender.

V. ASSESSING POSSIBLE LOAN COLLATERAL AND SIGNING THE LOAN AGREEMENT

If the loan committee approves the customer request the loan officer or the credit committee usually check the property or other assets to be pledged as collateral. In order to assure that the lender has immediate access to the collateral or can acquire title to the property involved if the loan agreement is defaulted [Peter, et.al, 2008].

VI. MONITORING COMPLIANCE WITH THE LOAN AGREEMENT AND OTHER CUSTOMER SERVICE NEEDS

The new agreement must be monitored continuously to ensure that the terms of the loan are being followed and that all required principal and interest payments are being made as promised. For larger commercial credits, the loan officer was periodically visit the customer's business to check on the firm's progress and see other services the customer may need. Usually, a loan officer or other staff members enter information about a new loan customer in a computer file known as a customer profile.

2.4. Empirical review

Nuru and Aleme (2012) studied on the loan advancing procedure and practices employed by banks and their role on loan repayment performance in commercial bank of Ethiopia, Hawassa branch they conclude that the success of loan repayment for particular bank significantly depends on the banks' ability to set and follow sound and applicable policies and regulations in granting loans. Assefa, et al, (2005) studied that training about the rule and regulation of the loan is one of the important requirements for the success of lending institution and they also develop it is needed not only for client but also for loan officers. Thus, the study tries to find the contribution of training to the repayment rate. According to Owino (2012) Credit granting procedure and control systems are necessary for the assessment of loan application, which then guarantees a bank's total loan as per the banks overall integrity. It is necessary to establish a proper credit risk environment, sound credit granting processes, appropriate credit administration, measurement, monitoring and control over credit risk, policy and strategies that clearly summarize the scope and allocation of bank credit facilities as well as the approach in which a credit portfolio is managed. The size of the lending institution this is very vital in determining the size of the loan to lend. Further, it also restricts the potential market for borrowers such that if a financial institution is small and therefore its geographical coverage is small, its lending decision was differ from Multinational financial decisions. It's loaning decisions was also depend on the business potential on the areas of its coverage. The small financial institutions should therefore consider their local community and immediate environment when drawing up the lending decisions. (Muluaem, et al, 2013)

Generally, one can see that the empirical studies undertaken thus far for developing countries, particularly for Ethiopia, bothers little or no to see the potential challenges faced by loan advancing

and procedure. Because the researcher believes that identifying the root cause of the problems is the best ground to provide appropriate solutions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

In order to answer the basic research questions, the researchers were using descriptive research method as it allows describing the research setting as it is and using both quantitative and qualitative approach.

3.2 Research approach

To do this study, researchers was using both qualitative and quantitative method of data analyses. A quantitative data analyses was be used to interpret data in numerical bases. Qualitative data analyses were be used to provide depth and detail answers of research question through direct quotation and full description to explore new facts or to reinterpret already known existing facts.

3.3 Target population

The target population for the study loan officers of CBE bank, Gubrie branch. The total number of employees in the organization is 40, Since it is believed that all employees are not aware of (have the same knowledge) the loan advancing procedure and practice employed by the bank, this study selected loan officers only. Loan officers of Commercial bank of Ethiopia bank, in Gubrie branch are 25. So, the 25 respondents were taken as target population.

3.4 Sampling techniques and sample size

The study was used judgmental sampling techniques by considering that all the employees of the bank are not aware of the loan advancing procedure and practice. Because the study selects judgmental sampling techniques in the sampling technique, the sample size was 25.

3.5 Type of Data Collection

The research was using both primary and secondary. The primary data was be obtained from employees and borrowers of the bank through questionnaires and interview. Secondary data source such as the company annual reports, manuals, articles, journals, directives, procedures and other published and unpublished documents relevant to the study was be used.

3.8 Methods of Data Collection

The Primary data was be collected using questionnaires that was have both open and close ended questions and by conducting Key Informant interview. Questionnaires was be administered to the employees and borrowers of the bank. Key Informant Interview was be conducted with the manager of the credit department of the branch. Desk review of documents was be used to collect the secondary data source such as the banks' annual reports, manuals, articles, journals and other documents relevant to the study was reviewed and observed.

3.9 Methods of Data Analysis

The study was using both qualitative and quantitative data analysis techniques. The responses that are collected from questionnaires was be organized in tables, graphs and analysis was be made using percentages, means and standard deviations. Moreover, qualitative data analysis was also be used.

CHAPTER FOUR

Data Presentation, Analysis and Discussion

4.1 primary data analysis and discussion

This data presentation and analysis are obtained from the Bank's employees. A section the data collected has been analyzed and interpreted from the answer, comment and suggestion of the respondents pertaining to the loan advancing procedure and practices in the commercial bank of Ethiopian in Gubrie branch.

In distributing the questionnaires, the researcher used Judgmental-sampling technique of 25 out of 40 the prominent employees in the Gubrie branch at the first respondent's character sex and educational background was identified. Next to the background of employees, the current positions and working experience in the bank employees and finally the main questionnaires related to the loan advance procedure and practices was analyzed.

In general this chapter deals with the presentation and interpretation of data collected from primary sources from respondents to distribution of questionnaires and interviews conducted with bank employees, loan officers and bank managers and secondary sources from CBE in Gubrie branch by different documents.

4.2 Background of the Respondents

Objectives of Background of Respondents Analysis

1. To know the age and maturity of the employees to respond the questionnaire honestly.
2. To know qualification of respondents who respond on the questions before concluding and summarizing based on the data collected from them.

To identify experience of the respondents before concluding and summarizing based on the data collected from them.

Table 1: demographic characteristics of respondents

No	Item	Respondents				
		Male		Female		Total
		No	%	No	%	
1,	Sex	15	60%	10	40%	25
2,	Age					
	a,25-30	8	53.33%	6	60%	25
	b,31-40	7	46.66%	2	20%	
	above 40	0	0	2	20%	
3,	Education					
	a, diploma	0	0	0	0	25
	b, first degree	15	100	10	100	
	c, masters	0	0	0	0	
	d, other	0	0	0	0	
4.	Working experience					
	a, between 0-3year	8	53.33%	0	0	25
	b, between3-5 year	0	0	4	40%	
	c, above 5 years	7	46.66%	6	60%	

Source: Commercial Bank of Ethiopia, Gubrie branch

According to the questionnaires conducted in the above table, from the 25 respondents of the bank 15(60%) are males whereas the numbers of female are 10(40%).

For the personal information (Qualification in education) asked, respondents respond or answer as follows:

∇ Diploma: Males and female zero

∇ First degree: Males 15 (60%) and females 10 (40%) total 25(100%)

∇ Masters: males and females zero

From this analysis, we can understand that all of the respondents are degree graduates in percentage of 25(100%)

For the age asked, the respondents answer their ages as follows:

∇ 25-30: males 8 (53.33%) females 6(60%) total 14 (56%)

∇ 30-40: males 7 (46.66%) females 2 (20%) total 9(36%)

∇ Above 40: male 0 and females 2 (20%) total 2(8%)

From the above we can understand that majority of the respondents are between 25-30 years range having percentage of 8(60%)

For the working experience asked in the banking industry:

∇ Between 0-3years males 8(53.33%) and females 0 total 8(32%)

∇ Between 3-5 years males 0 and female 4(40%) total 4(40%)

∇ Above 5 years males 7(46.66%) female 6(60%) total 13(52%)

From this analysis we can understand that majority 6(50%) of the respondents have above 5 years work

4.3 Loan Advancing Procedures and Practices

Objectives of Loan Advancing Procedures and Practices Analysis

1. To know what loan advancing procedures are practiced.
2. To identify the procedures and policies applied or used in the bank are appropriate for both the banks safety and customer satisfaction.

The bank should always have healthy principles and policies which help it in the healthy operation and sustainability of the bank in the future. Not only that but also survival in the bad economic conditions is dependent on what the bank is doing and the doing depends on the how to do. Therefore, to know the advancing procedures and practices in the bank the study gathered the following data from the respondents.

Table 2: Loan Advancing Procedures and Practices

No	Item	Respondent				
		Male		Female		Total
		No	%	No	%	
1,	What are the service given by your bank?					
	a, domestic banking (loan and deposit)	0	-	0	-	0
	b. international banking (import-export, letter of credit & fore service)	0	-	0	-	0
	c money transfer	0	-	0	-	0
	d, all	15	100%	10	100%	25
2,	If your answer above question domestic banking (loan and deposit) what type loan it is?					
	a, long term loan	0	-	2	20%	2

	b, short term loan	2	13.33	0	-	2
	c, both of them	13	86.66	8	80%	21
			%			
			%			
3,	If your answer above question is any what loan advancing procedure and practices are employed by the bank?					
		0	-	2	20%	2
	a, simple agreement	15	100%	8	80%	23
	b, collateral	0	-	0	-	0
	c, other					

Source: Commercial Bank of Ethiopia, Gubrie branch

The questions about loan advancing procedure and practice, is gathered from the respondents and analyzed as follows.

For the question asked to know what loan services are provided by the bank, all of the respondents (males 15(60%) and females 10(40%), total 25 (100%)) answered by choosing all type of loan services (Domestic Banking (Loans and Deposits), International Banking (Import-export, Letter of Credit, &Forex Services) and Money transfer). Also, all the respondents (100%) confirm that all the loan advances offered by the bank are based long term and short-term basis.

From this we can understand that the bank offers all type of loan services on short- and long-term basis.

For the question asked to know what loan advancing procedure and practices are employed/used by the bank, respondents answered as follows:

∇ Simple agreement: 0males and 2 females total 2(8%)

∇ Collateral: 15 males and 8 females total 23(92%)

∇ Others: nether males nor females responded

From this, the majority of the respondents that means 23(92%) employees answered “collateral loan”

4.4 Effectiveness and Profitability of the Bank from the Loan Provided

Objectives of Effectiveness and Profitability of the Bank from the Loan Provided Analysis

1. To assess whether the loan advancing procedures are contributing to the profitability of the bank.
2. To assess the effectiveness of the loan and loan return in relation to loan procedure practiced.

The banks’ life depends on the profit earned from the services provided to their respective customers. Among the services loan is one of them and the major part/portion of the income generated from it. So that, in order to check whether the bank is effective and profitable from the loan provided besides to the principles and policies as well as practices, the following table’s data show the response of the respondents both in number and percent.

Table 3: Effectiveness and Profitability of the Bank from the Loan Provided

No	Item	Respondent				
		Male		Female		Total
		No	%	No	%	
1	Is the bank effective and profitable from the loan provided by procedure and practice a, Yes b, No	14 1	93.33% 6.66%	10 0	100% 0	24 1
2	If your answer for the above question is no. why? -due to customer’s default -due to banks negligence -due to economic condition -due to the loan problem - others	1 0 0 0 0	6.66% - - - -	0 0 0 0 0	- - - - -	1 - - - -

Source: Commercial Bank of Ethiopia, Gubrie branch

For the question asked to know whether the bank is effective and profitable from the loan provided by procedure and practice, respondents answered as follows:

∇ Yes 14 males and 10 female total 24(96%)

∇ No 1 male and 0 females total 1(4%)

This shows that almost all of the respondents 24(96%) selected the choice “yes” and only one male respondent 1(4%) selected “NO”. At the same time the researcher proceeded to ask why he select “NO” and got a response saying Due to customer’s default: 1 male total 1(4%) From the analysis, we can understand that majority of respondents chosen “YES” having percentage of 24(96%).

4.5 Loan Recoverability Test According to Principles

Objectives of Loan Recoverability Test

1. To assess the degree of the loan to be recollected and invested in another portfolio.
 2. To dig out the reasons of non-recoverability of loans and how to recover them.
 3. To discuss appropriate method to collect loans with minimum effort and time to collect it back.
- Without recovering the loan provided, effectiveness and profitability are unthinkable issues. In order to know whether it is effective and profitable, the extent of recovering should be assessed. To assess the degree of recoverability, the study prepared the questionnaire in the following form. From the question asked the following data is gathered from the respondents.

Table 4: Loan Recoverability Test According to Principles

No	Item	Respondent				
		Male		Female		Total
		No	%	No	%	
1	Is the bank recovering the loan according to the procedures and agreement in order to be profitable out of the loan provided to the client? a, Yes b, No	14	93.33%	10	100%	24
		1	6.66%	0	0	1
2	If your answer for the above question is no. why? -due to customer's default -due to banks negligence -due to economic condition -due to the loan problem - others	1	6.66%	0	-	1
		0	-	0	-	-
		0	-	0	-	-
		0	-	0	-	-
		0	-	0	-	-
3	How do you do you recover uncollectable loan? a, phone call billing b, bill board noticing c, Appling to court d, other	3	20%	2	20%	5
		2	13.33%	4	40%	6
		10	66.66%	4	40%	14
		0	0	0	0	0

Source: Commercial Bank of Ethiopia, Gubrie branch

For the question asked to know whether the bank is recovering the loan according to the procedures and agreement in order to be profitable out of the loan provided to the clients, the respondents answered as follows:

∇ Yes: 14 males and 10 female total 24(96%)

∇ No: 1 male and 0 females total 1(4%)

This show that the majority of the respondents 24(94%) choose “YES” (the bank is recovering/collecting back the loans).

For the question asked to know the reason of non-recoverability, the respondents answered as follows:

- ∇ Due to customer’s default: 1 male total 1(4%)
- ∇ Due to bank’s negligence: neither males nor females choose it
- ∇ Due to economic condition: neither males nor females choose it
- ∇ Due to loan principles problem: neither males nor females choose it
- ∇ Others: neither males nor females choose it

From this we can understand that only one respondent 1(4%) choose “Due to customers default’

For the question asked to know the method of recovering non performing (uncollected) loans, respondents answered as follows:

- ∇ Phone call billing: 3 male (20%) and 2 female (20%) total 5(20%)
- ∇ Bill board noticing: 2 male (13.33) and 4 female (40%) total 6(24%)
- ∇ Appling to court: 10 males (66.66%) and 4 female (40%) total 14 (56%)
- ∇ Others: Neither nether males nor females choose it.

From this we can understand that majority of the respondents 14(56%) chosen “Appling to court”

4.6 Unique Features of the Bank

Objectives of Analysis of Unique Features of the Bank with Regard to Loan Advancing Procedures Practiced.

1. To know features of the bank which are different from other banks with regarded to procedures of loans
2. To recommend that principles and procedures to be practiced in the bank. All businesses including financial institutions are in the competition in order to attract the major part of the market because the one, who has greatest market share, was best operate in the market than those who have less market share. In order to know whether the bank has services which make it unique from the others, the study collected the following data from the permanent and experienced employees

Table 5: Unique Features of the Bank

No	Item	Respondent				
		Male		Female		Total
		No	%	No	%	
1	Do you think your bank loan advancing procedure and practice is better than others a, Yes b, no	13 2	86.66% 13.33%	10 0	100% 0	23 2
2	If your answer for the above question is yes. What is unique feature of the banks loan advancing procedures and practice in relation to other banks? a, borrowers can get loan within short time b, borrowers can get loan within long time c, both of them	10 0 5	66.66% - 33.33%	6 2 2	60% 20% 20%	16 2 7
3	If you're for the above question is any what's borrowers' feedback and comment over your policy and procedure? a, very good b, good c, medium d, poor e, no comment and feedback	9 6 0 0 0	60% 40% - - -	6 2 2 0 0	60% 20% 20% - -	15 8 2 0 0
4	If the borrower's feedback is any except E (no comment and feedback) have you took any decision and improvement? A, yes B, no	14 1	93.33% 6.66%	10 0	100% -	24 1
5	If your answer for the above question is yes, then after what do you? a, we improve the policy	14	93.33%	9	90%	23

	b, we apologize the borrower	0	-	0	-	0
	c, other	0	-	1	10%	1
6	If your answer for the above question is no, why?					
	a, we have not time to improve	0	-	0	-	0
	b, we forgot	0	-	0	-	0
	c, we ignore	1	6.66%	0	-	1
7	If your answer for the question is any, what changes do you observe on borrowers due to the bank's operation?					
	a, the number of customers was as it	7	46.66%	6	60%	13
	b, customers start to change the bank	0	-	0	-	0
	c, the return from loan increase	7	46.66%	4	40%	11
	d, we do not take it in to account	0	-	0	-	0
	e, we observe no thing	1	6.66%	0	-	1
8	If your answer for the above question customer start to shift/change the bank type strategy you start?					
	a, improvement of loan policy and procedure	10	66.66%	0	-	10
	b, nothing or no action	5	33.33%	0	-	5
	c, other	0	-	10	100%	10

Source: Commercial Bank of Ethiopia, Gubrie branch

For the question asked to know whether the bank's employee's perception and attitude towards banks services and overall operation in relation to loan advancing procedure practiced in the bank, the respondents answered as follows:

∇ Yes: 13 males and 10 female total 23(92%)

∇ No: 2 males and 0 females total 2(8%)

From this we can understand that majority of the respondents 23(92%) chosen "YES"

For the question asked to know the unique features of the bank's loan advancing procedures and practices in relation to other banks?

∇ Borrowers can get loan within short time: 10 male and 6 females total 16(64%)

∇ Borrowers can get loan in long time: 0 males and 2 females total 2(8%)

∇ Both of them: 5 male and 2 female total 7(28%).

This show that the majority of the respondents 16(64%) chosen "Borrowers can get loan within short time" Upon knowing the length of time that takes to acquire the loan, the study proceeded to know the comment and feedback of the customers given to the bank regarding authority.

For the question asked to know the borrowers' feedback and comment over your policy and procedure, the respondents answered as follows:

- ∇ Very good: 9 males and 6 female total 15(60%)
- ∇ Good: 6 males and 2 females total 8(32%)
- ∇ Medium/Average: 0 male and 2 female total 2(8%)
- ∇ Poor: neither males nor females choose it
- ∇ No comment and feedback: neither males nor females chosen it

From this we can understand that the majority of the respondents 16(60%) chosen "Very good"

For the question we asked to know whether the bank is taking decision based on the comment of the customers, the respondents answered as follows

- a) Yes: 14 males and 10 female total 24(96%)
- b) No: 1 male total 1(4%)

From this we can understand that, the majority of respondents 24(96%) chose "yes"

For the question asked to know what decision the bank taken, the respondents answered as follows:

- a. We improve the policy: 14 male and 9 female total 23(92%)
- b. We apologize the borrowers: neither males nor females chose it.
- c. Others: 1 female total (4%).

From this data we can understand that the majority of the respondents 23(92%) chosen "We improve the policy".

For the question we asked to know what changes are observed from borrowers due to the bank operation, the respondents answered as follows:

- ∇ The number of customers was as it is: 7 males and 6 female total 13(52%)
- ∇ Customers start to change the bank: males and female zero
- ∇ The return from loan increased: 7 males and 4 female total 11(44%)
- ∇ We do not take it in to account: neither males nor females chose it.
- ∇ We observe nothing: 1 male and 0 female total 1(4%)

From this data we can understand that the majority of the respondents 13(52%) chosen "The number of customers was as it is".

CHAPTER FIVE

CONCLUSION AND RECOMENDATION

5.1 Conclusion

Generally, this chapter gives a conclusion in relationship with the loan advancing procedure of Commercial Bank of Ethiopia, Gubrie branch. To this end, credit related issues are discussed and relevant data are analyzed.

The study concludes that loan is beneficial both to the bank as well as to the borrower, banks have to give a peculiar focus on it.

- ♣ The loan department of the bank is organized by educated and mature employees
- ♣ Majority of employees have above 5 years work experience.
- ♣ The bank offer almost all types of loan on long term and short-term basis.
- ♣ The bank uses collateral type of agreement to secure its loans from customer default.
- ♣ The bank is effective and profitable from most of its loan provided by the procedure and practice
- ♣ The bank is recovering/collecting back most its loans according to the procedures.
- ♣ Customer default is still problem for the bank
- ♣ The bank is using court as a tool for overdue loans or for the clients/borrowers who are not paying back the loan in a date they agree/ maturity date.
- ♣ There are unique features which make the bank different from other banks in relation to loan advancing procedure and practice.
- ♣ The time of giving loan to the most of borrowers is within short time.
- ♣ The comment and feedback that the bank got from the borrowers is “very good” when the bank ask them to comment it.

- ♣ The bank has taken measurements and decisions to improve customers comment over its operations
- ♣ The customers/borrower's numbers of the bank were as it is (no change or no increase or decrease)
- ♣ The bank is not updating g and improving the loan advancing procedures and principles timely.
- ♣ There is lack of discussion between manager and loan officers in the bank about the loan procedures to be used and customers.

5.5 Recommendations

Based on the findings from questionnaire, interview and personal observation, the following recommendations are forwarded aiming at betterment of the bank performance in loan advancing procedure.

On the basis of the assessment, Commercial Bank of Ethiopia, Gubrie branch should take the following measures to improve its credit activity and to maintain its customer from switching to other banks.

- ♣ The bank should provide regular training to all its Employees in general and loan officers in particular on how to handle customers.
- ♣ The bank should always collect the loans from the borrowers.
- ♣ The bank should work to maintain customer default to the minimum level possible.
- ♣ The bank should give loan for potential debtors and recollect the loans through other means first rather than applying to court.
- ♣ The bank should work more on developing unique features that distinguish it from other banks in order to have competitive advantage over them or increase number of customers
- ♣ The borrowers should get loan within short time the maximum of ten days after their application and providing necessary documents.

- ♣ The bank should work to maintain its good comment from the customers since customer is the greatest asset of any business and financial institutions.
- ♣ The bank should always update the loan procedures based on the prevailing changes and conditions.
- ♣ The bank should work hard to increase number of customers because the larger the customers the higher the profit.
- ♣ The bank should conduct customer's satisfaction research.
- ♣ The manager should develop good communication with loan officers and customers.

References

- ❖ Bilihatu, et al, (2007), *assessment of loan advancing procedures and practices in commercial bank of Ethiopia*. Ethiopia. : The case study of Adigrat branch, senior research paper, Adigrat University.
- ❖ Creswell, J.W. (2003). *Research Design*. USA: Sage publication
- ❖ C.R.Kothari (2007), *Research Methodology and Techniques*, new age international publication, India
- ❖ <https://www.iedunote.com/lending-process>.
- ❖ J. brand ford Delong (2002), *macroeconomics*, updated edition, McGraw hill, Illinois
- ❖ National Bank of Ethiopia, Directive No.SBB/43/2008: *Licensing and Supervision of Banking Business Proclamation No.83/1994, Addis Ababa*.
- ❖ Mishkin, Frederic S., (1989), *the economics of Money banking and financial markets*, 2nd edition, Glenview Scott, Foresman
- ❖ Owino, Michael otieno (2012), *the effect of the lending policies on the levels of non-performing loans of commercial bank in Kenya*, Kenya.
- ❖ Commercial Bank S.C. (2012) *Domestic Manual, International Banking procedure, and policies and procedures*
- ❖ National Bank of Ethiopia, Directive No.SBB/43/2008: *Licensing and Supervision of Banking Business Proclamation No.83/1994, Addis Ababa*.
- ❖ Mishkin, Frederic S., (1989), *the economics of Money banking and financial markets*, 2nd edition, Glenview Scott, Foresman
- ❖ C.R.Kothari (2007),*Research Methodology and Techniques*, new age international publication, India
- ❖ Owino, Michael otieno (2012), *The effect of the lending policies on the levels of nonperforming loans of commercial bank in Kenya*, kenya
- ❖ J. brand ford Delong (2002), *macroeconomics*, updated edition, McGraw hill, Illinois.
- ❖ Mulualem, et al, (2013), *assessment of loan related factors and loan repayment performance in commercial bank of Ethiopia*. Ethiopian.:Case study of Bahirdar branch, senior research paper, Bahirdar University,

- ❖ Assefa (2002). Factors influencing loan repayment of rural women in Eastern Ethiopia. Ethiopia,;the case of Dire Dawa Area', A Thesis presented to the school of graduate studies, Alemaya Univeristy,.

APPENDIX
COLLEGE OF BUSSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

QUESTIONNAIRE FOR THE STAFF OF COMMERCIAL BANK OF ETHIOPIA GUBRIE BRANCH

Dear Respondent:

We are paramed healthy and business college department of accounting and finance study in titled. on assessment of loan advance procedure and practice in the case study on Commercial bank of Ethiopia Gubrie branch. Here, we assure you that the information obtained from this questionnaire was be used only for academic purpose and your responds was be kept confidential and anonymous in the report.

Thank you for your participation

Instruction

- Please put tick mark (√) on your choice(s)
- You may choice more than one option when you feel applicable
- No need of mentioning your name (anonymous)

PART A: DEMOGRAPHIC BACKGROUND OF RESPONDENTS

1. Sex: A. Male b. Female

2. Age: A. 25-30 b. 30-40 C. Above 40

3. Education: A. Diploma B. 1st Degree C. Masters D. Other

4. Working experience in the banking industry?

A. Between 0-3years B. Between 3-5 years C. Above 5 years

PART B: OBJECTIVES OF LOAN ADVANCING PROCEDURES AND PRACTICE ANALYSIS

5. What are the services given by your bank?

A. Domestic Banking (Loans and Deposits)

B. International Banking (Import-export, Letter of Credit, &Fore Services)

C. Money transfer

D. All

6.If your answer for above question is ‘Domestic Banking (Loans and Deposits)’, what type loan it is?

a. Long Term Loan b. Short Term Loan c. Both of the them

7.If your answer for above question is any, what loan advancing procedure and practices are employed by the bank?

a. Simple agreement b. Collateral c. Others

8.Is the bank effective and profitable from the loan provided by procedure and practice?

c. Yes b. No

9.If your answer for the above question is No, why?

A, Due to customer’s default C. Due to bank’s negligence

B, Due to economic condition D. Due to the loan principles problem

E. Others

10.Is the bank recovering the loan according to the procedures and agreement in order to be profitable out of the loan provided to the clients?

a. Yes b. No

11.If your answer for the above question is No, why?

A. Due to customer’s default C. Due to bank’s negligence

B. Due to economic condition D. Due to the loan principles problem

E. Others

12. How do you do you recover uncollectable loan?

a, Phone call billing c. Bill board noticing

e. Appling to court d. Others

13. Do you think that your bank loan advancing procedure and practice is better than others?

c. Yes b. No

14. If your answer for the above question is yes, what are unique features of the bank's loan advancing procedures and practices in relation to other banks?

d. Borrowers can get loan within short time

c. Borrowers can get loan within long time

e. Both of them

15. If your answer for the above question is any, what is borrowers' feedback and comment over your policy and procedure?

f. Very good c. Good

g. medium d. Poor

e. No comment and feed back

16. If the borrowers' feedback is any except E (no comment and feedback), have you took any decision and improvement?

a) Yes b) No

17. If your answer for the above question is yes, then after what do you?

a) We improve the policy b) We apologize the borrowers

c) Others

18.If your answer for the above question is No, Why?

d) We have not time to improve

e) We forgot

f) We ignore it

19. If your answer for the question is any, what changes do you observe on borrowers due to the bank's operation?

f) The number of customers was as it is

g) Customers start to change the bank

h) The return from loan increased

i) We do not take it in to account

j) we observe Nothing

20.If your answer for the above question is Customers start to shift/change the bank, what type strategy you start?

d) Improvement of loan policy and procedure

e) Nothing or no action

f) Others