



SAINT MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES

CREDIT POLICY AND LOAN COLLECTION
PERFORMANCE IN THE DEVELOPMENT BANK OF
ETHIOPIA

By

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of my advisor, *Dr Samuel Kifle*. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

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ABSTRACT

Development Bank of Ethiopia (DBE) is the main actor in availing medium and long term loans to developmental projects. The bank has amended its credit policy in the year 2009 for the betterment of its operations. The purpose of this study is to analyze the results of the execution of DBE's credit policy in loan collection performance of the bank. The paper reviews the operators' performance in loan processing and collection through team work, problem identification, awareness created to the staffs and trainings taken on the credit policy, availability of different mechanisms to remember the implementation of the credit policy requirements, and feedback of the management in the implementation of the credit policy. The research involves a cross sectional study using both qualitative and quantitative research centered on credit policy practices. The data is systematically collected and presented to give exploratory analysis to particular phenomena with emphasis to cover the extent of the problem. The study is carried out among the staff of DBE. The data is collected from a total of 35 employees of the loan processing units through random selection.

Reports of the bank in loan approval, disbursement and collection performance were analyzed. The management and supervisory level staffs of the bank were interviewed to assess the importance of the credit policy and its procedures in loan processing and collection. Management decisions that are out of the scope of the bank's credit policy have limited the impact of the credit policy. The bank has registered number of achievements as the result of the new credit policy which includes the improvement of the loan approved and disbursed during the last five consecutive fiscal years (2010- 2014). Collection performance has also improved in terms of the amount of monetary figures. However, the collection performance didn't improve with the pace of the disbursement. Based on the research findings, it is recommended that the bank needs to further capitalize on its strength to benefit more from the implementation of the new credit policy and needs to improve on its limitations such as collection performance (loan recovery), exceptional treatment of loans, provision of training to its staffs and in assigning experienced and capable staffs in the loan processing units.

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Abbreviations and Acronyms

- ACP: Average Collection Period
- DBE: Development Bank of Ethiopia
- KYC: Know Your Customer
- Vs: Versus
- NPL: Non-Performing Loan
- RR: Recovery Rate