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**St. MARY'S UNIVERSITY  
BUSINESS FACULTY  
DEPARTMENT OF ACCOUNTING**

**AN ASSESSMENT OF CHALLENGES AND  
PROSPECTS OF CREDIT MANAGEMENT  
PRACTICE IN THE CASE OF AWASH  
INTERNATIONAL BANK S.CO**

**BY**

- **ERMIAS ZEWDU**
- **SOLOMON DESALGNE**
- **YEMANEBERHAN TEKLAY**

**June 2014  
Addis Ababa**

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**AN ASSESSMENT OF CHALLENGES AND  
PROSPECTS OF CREDIT MANAGEMENT  
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INTERNATIONAL BANK S.CO**

**A SENIOR ESSAY SUBMITTED  
TO THE DEPARTMENT OF ACCOUNTING  
BUSINESS FACULTY  
St. MARY'S UNIVERSITY**

**IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS  
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ACCOUNTING**

**PREPARED BY**

- **ERMIAS ZEWDU**
- **SOLOMON DESALGNE**
- **YEMANEBERHAN TEKLAY**

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**FACULTY OF BUSINESS  
DEPARTMENT OF ACCOUNTING**

**APPROVED BY THE COMMITTEE OF EXAMINERS**

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Department Head

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Signature

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Advisor

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Signature

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Internal Examiner

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Signature

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External Examiner

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Signature

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## Acronyms

- AIB- Awash International Bank
- ATM- Automated Teller Machine
- DLL- Discretionary Lending Limits
- NBE- National Bank of Ethiopia
- NPV- Net Present Value
- NLR- Net Liquidity Ratio
- NPL- Non Performing Loan
- POS- Point of Sale
- S.C- Share Company

## CHAPTER ONE

### 1. Introduction

#### 1.1 BACK GROUND OF THE STUDY

Commercial Banks render a number of services; such as provisions of different credit facilities, mobilizing savings, fixed time, demand deposits, local and foreign money transfers, transaction of currency, credit and debit cards and other related activities. The principal business line of commercial banks extends credit service to customers. (Banking Business Proclamation No. 592/2008)The word 'Credit' (which is also called 'loan') is derived from the Latin word "Ceditum", which means to believe or trust. In economics, the term 'credit' refers to a promise by one party to pay another for money borrowed or goods/services received. It is a medium of exchange to receive money or goods/ services on demand at some future date (money banking and international trade, M.L. Thingan, 1997, P.65)

Bank advances credit ranging from single individual to a large corporation as well as projects as a means of income generating. However, the power or capacity of commercial banks to create credit facilities is not infinite or limitless. It depends on many factors such as the reserve requirement of central bank, unable to collectability of loans, credit policy etc. Within these and other limits, commercial banks should lend their money to those who repay the principal, interest and service charges. For this reason proper credit management is a crucial issue in any commercial bank. ([www.awash-international-bank.com](http://www.awash-international-bank.com) on Jan 21, 2014)

The process of credit management begins with accurately assessing the credit-worthiness of the customer base. This is particularly important if the bank chooses to extend some type of credit line or revolving credit to certain customers. Proper credit management calls for setting specific criteria that a customer must meet before receiving this type of credit arrangement. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer. ([www.awash-international-bank.com](http://www.awash-international-bank.com) on Jan 21, 2014)

Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the potential customer's current financial condition, including the current credit score. The current ratio between income and outstanding financial obligations will also be taken into consideration.

Competent credit management seeks to not only to protect the vendor from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner.

Being the major income bearing line of business, credit keeps any commercial bank alive, placing it in a profitable venture. In addition, it plays the role of stimulating economic growth and alleviating poverty by promoting investment and savings. Therefore, this paper will study about credit management by taking Awash International Bank S.C. as a representative of the real world.

## **1.2 Back ground of the organization**

Banking history in Ethiopia goes back to February 15, 1906 which marked the beginning of banking in Ethiopia when the first Bank of Abyssinia was inaugurated by Emperor Menelik II. It was a private bank whose shares were sold in Addis Ababa, New York, Paris, London, and Vienna. One of the first projects financed by the bank was the Franco-Ethiopian Railway which reached Addis Ababa in 1917. In 1931, Emperor Haile Selassie introduced reforms into the banking system The Bank of Abyssinia was liquidated the newly established Bank of Ethiopia, a fully government-owned bank, took over management, staff and premises of the ceased bank. The Bank of Ethiopia provided central and commercial banking services to the country. ([http://en.wikipedia.org/Wiki/National\\_Bank\\_of\\_Ethiopia](http://en.wikipedia.org/Wiki/National_Bank_of_Ethiopia) on Jan 21, 2014)

On April 15, 1943, the State Bank of Ethiopia became the central bank and was active until 1963. In December 1963, by the bank proclamation separated the National Bank of Ethiopia and Commercial Bank of Ethiopia come into existence. Moreover the bank proclamation allowed foreign banks to operate in Ethiopia limiting their maximum ownership to be 49 percent while the remaining shares were owned by Ethiopians. During the Empire Haile Selassie there were private banks. ([http://en.wikipedia.org/Wiki/National\\_Bank\\_of\\_Ethiopia](http://en.wikipedia.org/Wiki/National_Bank_of_Ethiopia) on Jan 21, 2014)

Following the economic policy change of 1991 the financial sector reform took place in 1994. Thus monetary and banking proclamation No 83/1994 and the licensing and supervision of banking business No 84/1994 laid down the legal basis for investment in the banking sector. Consequently at time of the proclamation the first private bank, Awash International Bank S.C was established in November 10, 1994 by 486 shareholders with an authorized and subscribed capital

of Birr 50 million and 30 million respectively. It started operation through five branches in February 13, 1995. It was named after the popular river “Awash” which is the most utilized river in the country especially for irrigation hydro electric power. Awash River plays a pivotal role in the economic development of the country. ([www.awash-international-bank.com](http://www.awash-international-bank.com) on Jan 21, 2014)

The number of shareholders and paid-up capital increased continuously and currently reached over 3000 and birr 1.2billion respectively. Presently Awash International Bank S.c is the first and only private bank to build and operate in its own headquarters at the named “Awash Tower” built at cost more than birr 217 million in collaboration with its sister company, Awash Insurance S.c inaugurated in 2010. ([www.awash-international-bank.com](http://www.awash-international-bank.com) on Jan 21, 2014)

**The major objectives of the banks are**

- Engage in all types of commercial banking business
- Make investment in public or private securities
- Promote and deal in stock exchange business

And carry on other activities that were customarily carried out by commercial banks (AIB, 2012 Annual Report)

**1.3 Statement of the Problem**

Commercial banks are the largest group of financial intermediaries, which play a major role in the business world by handling transaction that primarily deal with providing loans to business entities and individuals. As a means of earning their income, most banks provide credit service to various classes of customers and properly manage their credits. Credit management includes a number of activities ranging from credit investigation to sign of contract with borrowers, approval review, follow up, documentation, inspection recovery and written off. These activities require decision making skills. This can partly be developed through experience but partly it has to be learned externally.

The field of credit management is the critical activity that should be taken as a core point to meet the interest of the commercial bank and the need of borrowers. However, our pilot study shows that Awash International Banks face mainly the following problems:

First and for most Awash International Bank customers has no practical of keeping proper financial records. This happened due to lack of reliable financial statements. As such, credit analysis on the basis of these statements lead to wrong decision. Therefore certain precaution must be taken to rectify the situation.

Secondly it takes time to respond to loan application in decision making. It also adds to fuel for money lent after the right time to be spent on unplanned purpose on the part of the customers.

The remedy of to this failure is to use collateral position than project viability with lack of proper credit follow up system.

These demands, the Banks to investigate their borrowers, the practicality of their policies, procedures, and the method of evaluating the credit requests in respect with their collateral. Therefore, the main reason of this study was to assess the related problems in credit management mechanisms of Awash International Bank S.C in particular reference of Arada Giyorgis Branch.

#### **1.4 Research Question**

The proposed research seeks to investigate and answers the following specific questions concerned with credit management.

- What does the policies and procedures look like in credit granting decision of AIB?
- What are the major problems underlying in the credit management, before and after loan?
- What measures should be taken in order to give quality credit service in credit management of AIB?

#### **1.5 Objective of the study**

##### **1.5.1 General Objective**

The main objective of the study is to assess the strengths and weaknesses of credit management system policies and procedures with its real practice at Awash International bank S.C.

### **1.5.2 Specific Objective**

More specifically the objective of the study was:

- To find out the main problems in connection with credit provision and collection.
- To examine the strength and weakness of the credit management system of AIB.
- To suggest possible solutions for underlying problems, in the credit management of the organization.

### **1.6 Significance of the study**

Experience shows that the awareness of using credit facilities is widely shown on banks and different finance institutions. On the other side, banks credit management is show a poor credit management due to various reasons which was described in this research and the research team has realized that this topic is critical for both banks and their borrowers.

This study tries to, reasonably contribute the following comments:

- For the benefit of credit management of the case company, to shed light on the nature of the credit management problem and to propose the possible solutions to the problems.
- For other researchers, to use as a reference stone for a further studies on this matters.
- For other similar companies, to extend their frontiers of knowledge.

### **1.7 Delimitation/scope of the study**

The credit policies of banks are conditioned, to a great extent, by the national policies at large to the extent of World Bank policies. Within the international policy framework, every bank has to apply its own judgment for arriving at a credit granting decision, keeping of course and other conditions. The policies and procedures used to implement the credit management systems may differ from Bank to Bank.

The research would be more comprehensive if it was conducted widely by including the credit management practices of other similar Banks. However, due to time and money constraints, it will be too tedious to include other banks. Thus, the study is delimited to assess the problem only in Awash International Bank S.C credit department and the representative Branch, Arada Giorgis branch for the fiscal year of 2013/2014.

## 1.8 Definition of terms

- **Credit Line** – credit facilities that have no fixed number of loan repayments (monthly, quarterly, semi-annually and yearly). The customer can repay its loan when he/she get some money on hand at any time before the expiry date.
- **Revolving Credit** – credit limits having expiry date on which loan given and its settlement has no fixed time with in the expiry date. This type of credit is especially for export loan facilities.
- **Credit Follow-up** – visitation, observation and communication made between the banks and borrowers how the business is going so far for regular loan repayments.
- **Commercial Credit** – all types of loan facilities excluding consumption (loans given for personal use) loans. (Awash International Bank's Credit Policy and Lending Principle, Revised June 2012)

## 1.9 Research design and methodology

### 1.9.1 Research Design

The study was expected to assess the practices and problems of the credit management in the credit extending and collecting process of the Awash International Bank S.C., descriptive study research (descriptive research studies are those studies which are concerned with describing the characteristics of particular, individual, or of a group. Book of Research Methodology Methods &Techniques, C.R Kothari, 2007 Dharmeshi Printers, Delhi) design used to examine the credit extending and collection process. The main reason for choosing descriptive research is to describe characteristics of loan and importance of credit management. The type of the data that issued both qualitative and quantitative and was acquired from both primary and secondary sources.

### 1.9.2 Population and sampling technique

In selecting the sample respondents the research team has used both judgmental and stratified random sampling by grouping loan types in each sector. The major reason for choosing judgmental sampling is the questionnaires (both open ended &closed ended) filled by the senior staffs selected from Arada Giorgis branch and credit analysts at head office credit department. This sampling was also applied to select the employee respondents who are related with the study.



Types or classifications (based on the purpose of loan taken by borrowers, like Manufacturing production, domestic trade services, Export, Import, building & construction, personal loans and transport) of the loans have been distributed to the borrowers by using stratified random sampling method (A method of sampling that involves the division of a population into smaller groups known as strata. In stratified random sampling, the strata are formed based on members' shared attributes or characteristics. A random sample from each stratum is taken in a number proportional to the stratum's size when compared to the population. These subsets of the strata are then pooled to form a random sample. [www.investopedia.com/terms/stratified.asp](http://www.investopedia.com/terms/stratified.asp)) to get relevant information from all different types of loan users (borrowers).

### Sample size and Units

The research team has conducted an interview with the credit & Risk manager. Moreover, for the purpose of administering questionnaires, the respondents have been classified into two broad categories; staffs and clients (borrowers).

The staff respondents that (we filled the questionnaires for all Arada Giorgis & Head office staffs that involved in loan):

➤ Branch Managers	1
➤ Loan Officer	1
➤ Credit Analysts	5
➤ Engineers*	7
<b>Total number of staff respondents</b>	<b><u>14</u></b>

(\*Engineers mean those who have graduated in different engineering field like civil and mechanical and their estimates any collateral than market)

And client respondents were as follows:

The sample size was 77% (Using Table for Determining Sample Size from a Given Population, EDUCATIONAL AND PSYCHOLOGICAL MEASUREMENT 1970, 30, 607-610. By the formula of  $s = \frac{X^2 NP(1-P)}{d^2(N-1) + X^2 P(1-P)}$  of the target population (Arada Giorgis Branch borrowers) by using stratified random sampling method. The strata were the classification of the loans & Advances by sector. Thus the questionnaires were distributed as follows;

**Table 1 Questionnaire distributions of Sample borrowers**

<b>Types of Loans &amp; Advance</b>	<b>No. of borrowers (100%)</b>	<b>Sample size (77%)</b>
Manufacturing Production	10 X 77%	8
Domestic Trade Services	29 X 77%	22
Export	8 X 77%	6
Import	23 X 77%	18
Building & construction	11 X 77%	8
Personal Loans	7 X 77%	5
Transport	20 X 77%	15
<b>Total</b>	<b>108</b>	<b>82</b>

**NB:** Data Gathered as at Dec 25, 2013 in Arada Giyorgis Branch (those are active borrowers for the fiscal year of July 1, 2013 to June 30, 2014)

### **1.9.3 Data sources and Data Collection methods**

In our study we collected both primary and secondary data. The primary data were collected through personal interview and questionnaire based on objective of the study

Questionnaire was close and open ended, distributed to those employees who were involved in loan and the responsible bodies.

Secondary data sources were from loan files, different articles, books, journals, annual report, related website and other documents that were related to the topic under study.

### **1.9.4 Data Analysis tools**

The method of data analysis that the research team used to different types of descriptive and frequency counts with percentages. Finally, the collected data was analyzed and interpreted by using tables.

### **1.10 Limitation of the study**

In preparing this paper, the research team has faced problems concerning

- Constraints of information,
- Time and finance, to go through deeply all the activities of credit management.
- Lack of transparency of the staff

As a result, only key management employees were interviewed, and a few key employees who were related to the credit operation and a few selected clients filled the questionnaires and only relevant documents were used. Because of time constraint this research was as a case study, so tell us about Awash International Bank S.co Arada Giorgis Branch only. In other words not representative.

### **1.11 Organization of the study**

The study was organized in four chapters. The first chapter was an introductory part which included background of the study, statement of the problem, objective of the study, significance of the study, scope and limitation of the study, research methodology and sources of data of the study and how the final report will be organized. The second chapter could give an overview of related literatures about theoretical and empirical frame works, which includes the definition of credit and credit creation, the importance of credit and credit management, credit management process, operations in credit management and record keeping of customer. The third chapter was present the analysis and interpretation of data collected. The fourth chapter is concerned about bring to an end of this study with summary, conclusion and recommendation.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1 Definition of Credit and Credit Management**

##### **2.1.1 Definition of Credit**

Credit is a medium of exchange to the extent that it facilitates the transfer of value from buyer to seller, but it is not available to everyone. Credit is a medium of exchange with limited acceptance. Because of the potential losses the credit manager or loan officer will not allow everyone to use credit programs. Credit personnel conduct investigations and assess the risk a particular client portrays before accepting a promise to pay. Credit is a privilege that must be earned and protected by those who wish to use this form of exchange (Cole, 1991).

##### **2.1.2 Definition of Credit Management**

Credit management is a term used to identify management functions usually conducted under the receivables of money lent to borrowers. Essentially, this collection process involves qualifying the extension of credit to a customer, monitors the reception and logging of payments on outstanding loans. When functioning efficiently, credit management serves as an excellent way for the business to remain financially stable. (Vaish, 2003, Pages 369-370).

##### **2.1.3 Commercial Banks and Credit Creation**

Commercial banks are the private and public corporate bodies which, like any other commercial firm, strive to maximize their profit by carrying on transactions in money.

Banks earn some income by providing banking services to the public, such as opening the current and saving deposits accounts, providing safe deposit boxes and remittance facilities, collecting cheque monies etc. to their customers. Bulk over 75 per cent of commercial bank's profit is, however, earned from interest on loans and investments which the bank makes by using the money belonging to its depositors. The commercial bank is able to use its depositors' money in this productive or profitable manner because on any normal working day the difference between total withdrawals and total deposits is likely to be either very close to zero or the deposits may marginally exceed the withdrawals. In order to be prepared to meet those rare days when

withdrawals exceed deposits, the bank cash reserves (or immediate claims to cash) equal a certain reserves ratio. (Vaish, 2003, Pages 369-370).

It is essential for a bank to maintain this cash reserves ratio because otherwise it will not be able to meet the withdrawal demand of its depositors and failure to meet the demand of depositors for withdrawals could by precipitating a run on the bank result in its failure. In India, unprecedented runs of depositors for withdrawals on the commercial banks have now become a thing of the past because of the establishment deposit holders kept in commercial banks. The commercial banks have to maintain a certain net liquidity ratio (NLR) which is determined for them by the Reserve Bank of India (Vaish, 2003, Pages 369-370).

#### **2.1.4 Limitations of Credit Creation**

The power or capacity of the commercial banks to create is not infinite or limitless. In fact, it is circumscribed by certain well-defined limits. In modern times, every country has a strong central banking system which controls and regulates the lending activities of commercial banks in the country. By suitably altering the minimum legal cash reserves ratio for the member banks the central bank can and does influence the total lending capacity of the banks in the country. The cash reserves with the banks serve as the base of multiple credit pyramid erected by the banks. A narrow base can support only a relatively small superstructure of credit and vice versa. By raising or lowering the minimum legal cash reserves requirements for commercial banks, the central bank increases or decreases the excess cash reserves with the banks and consequently expands or contracts their capacity to create credit in the country. (Vaish, 2003).

The second limitation on their power to create credit is self-imposed by banks in self-interest. The banks must always arm themselves against the possibility of sudden and unexpected cash withdrawals by their deposits. To be able to meet the demand for cash of its depositors every bank must keep a certain part of primary deposits as vault cash. Consequently, it reduces the excess cash reserves of the banks and in turn adversely affects their power to create credit. (Vaish, 2003).

Thirdly, the behavior of public also influences the credit creating capacity of banks in the economy. If the public decides to economize on the cash balances, it will either not withdraw or withdraw only marginally the derived deposits created by the banks in cash. Consequently, the excess cash reserves of the banks will not be significantly reduced and their credit-creating capacity will not be significantly diminished. Conversely, if the public withdraws a large part of loans advanced by the banks in the form of cash the excess cash reserves of banks would be depleted and would not be available for the purpose of credit creation (Vaish, 2003).

## **2.2 Importance of Credit and Credit Management.**

### **2.2.1 Importance of Credit**

In a developing economy as that of ours, shortage of capital has always been stumbling block on the road to industrialization progress, the role of commercial bank in overcoming the difficulty by extending large credit facility is abundantly clear. This is because, credits become so important in modern society so that to imagine a modern economy without credit is rhizome. Today, almost all bulk economic transactions are settled by means of credit instrument. By a mere stroke of bank check transactions involving large sum of money are settled without involving any money payment. (Vaish, 2003)

Credit is frequently called "the life blood of businesses," and it is true if we ponder over the functions performed by credit on modern times. Some of the benefits that credit contributes to the economy are as follows. (Vaish, 2003)

1. Credit provides conventional and economical medium of exchange by supplementing or superseding other forms of money. It saves the community the cost of acquiring large sums of standard money, the labor and cost involved in handling metals and the loss through wear and tear incidental to the use of precious metals. It renders the monetary system of the country elastic by permitting expansion and contraction of the fiduciary money supply based on the metallic reserves
2. Credit facilitates the production and exchange of goods and services in the economy. It enables the state to finance its expenditure for rooting and socialized activities for in excess of its immediate revenue.

3. Credit also increases consumption. Through installment credit consumers are enabled to enjoy consumption of large of goods.
4. Credit promotes thrifts by providing productive employment for saving. Thus, by promoting saving, credit encourages capital formation on the economy which is essential for the economic development in the economy.
5. Credit facilitates development of large scale enterprise and specialized industry by encouraging the assembling of substantial amount of capital.
6. Credit makes the optimum use of economy's capital resources possible. Through the use of credit not only are the funds formed together; they are also apportioned between the different competing uses in the most efficient manner. The borrower is more efficient because he could use capital formed as result of saving in his own productive activities. When by means of credit the funds are given to those who pay the highest price in the form of interest. Control of the productive capital is entrusted to those who are most likely to provide additional consumer commodities for the community at low cost of production.
7. Credit benefits the lender in at least two ways: firstly; it enables them to earn income on their savings, secondly; it helps the saver-lender to get greater total utility or satisfaction by differing consumption from time of low satisfaction to high satisfaction.
8. By influence the rate of capital formation credit influences output and employment in the economy. Expansion of credit helps to pull the economy out of depression while a restriction of it may exercise a restraining influence upon a boom. A cyclical expansion the employments of unused factors and thus help in increasing the output which may stimulate spending and saving and vice versa (Vaish, 2003, Pages 367-368).

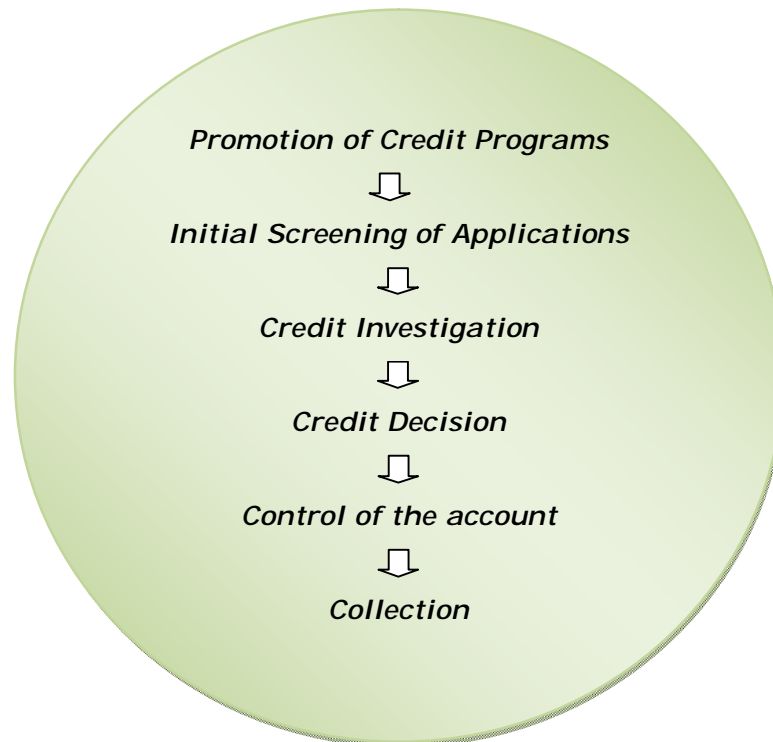
### **2.2.2 Importance of Credit Management**

As in the case of any other commercial entity commercial banks also strive to earn a profit. But while earning profit, commercial banks should never forget the fact that they are doing business with others' funds, which is acquired because of deposits made by the customers. These deposits

are either payable on demand or after expiry of a fixed period. In either case the bank must be ready to make the liabilities as and when necessary or, as such, it has many outstanding contracts for the future delivery of money. It should also bear in mind that commercial banks are guardian of a very delicate mechanism which gave the way for future economic development. Therefore, development of good credit management system helps to solve the problems and meet the above contradicting objectives. (Vaish, 2003).

### 2.3 Credit Management Process

Figure 2.1 – the credit management process diagram



The credit management process is a series of steps that involves promoting credit purchase options, analyzing the risk of credit applicants, and collecting the payments after the debt is created. The process is universal and applies to both consumer and business credit operations. At each stage, the credit manager must develop operating policies that will help ensure that each credit account is handled in a consistent, cost-effective manner. (Bacha Gina, 2008).

#### Promotion of Credit Program

Promotion describes any effort undertaken to encourage product sales or to increase the number of customers using credit purchase options. The promotion of credit programs is undertaken to



increase sales as more people will purchase products if credit programs are available. Once the credit programs are in place, promotion may be needed to attract appropriate customers. The credit manager must oversee these activities to ensure that quality customers are attracted using acceptable promotion activities. Direct mail, special sales and terms, direct solicitation by company sales staff, and media advertising are used to encourage customers to open credit accounts. Existing customers with good credit histories must also be encouraged to use their credit accounts more often. Higher credit volume generally results in lower costs per credit customer and, if finance charges are levied, more customers (and sales) will increase the income from credit operations. (Bacha Gina, 2008)

The promotion activity also requires that the application process is relatively easy. The application form must be short, but it must collect enough information to allow an adequate investigation .A steady flow of application will allow the credit manager to improve credit sales. (Bacha Gina, 2008)

### **Initial Screening of Applicants**

- An executive summary
- A description of the project, product or services to be financed
- An analysis of the industry and market
- Marketing, production, management plans
- Cash flow forecasts (usually through the length of the loan repayment period and showing various scenarios): and,
- Financial statements.

### **Credit Investigation**

- Investigate the quantity of the items declared
- Determine cost of sales and net profit
- Verification of ownership (fixed asset, stocks, receivable, payable etc.)
- Surprise checking of the business
- Marketability of the products fast proving or obsolete.
- Estimation of property given as collateral.
- General condition of business location, competition, mgt, sales strategy, sales promotion.

## **Credit Decision**

Making a decision is what to do with the measured risk. Once decided it is important to have a proper – follow-up with the objective of reducing the risk.

Generally, Credits risk management among other things includes:-

- Credit organization
- Credit evaluation
- Negotiation (repayment, covenants, security, etc)
- Credit approval
- Documentation (legal, ...)
- Disbursement
- Administration & follow-up
- Loan repayment management
- Management of problem loans

## **Control of Accounts**

- Strength and Reliability of cash flow
- Meeting bank obligation
- Maintenance of books of accounts
- Financial and Operational results

## **Collection**

- Lending process require sound judgment related to credit worthiness of a borrower but this judgment doesn't always prove to be accurate.
- Credit may decline overtime due to various factors both internal & external factors.
- A bank should have strong and neutral credit follow-up wing. The outcome of any loan depends largely on the type of supervision/follow-up should be made before loans fallen under non – performing or sick loans (Bacha Gina, 2008).

## **2.4 Credit Management Operations**

### **2.4.1 Collection Policy and Procedures**

The responsibility for collection and follow up should be explicitly fixed and the accounting department maintains the credit records and information. Though collection procedures should be firmly established, individual cases should be dealt with in their merits collection power is needed because all customers do not pay in time. Some customers are slow payers while some are non - payers. The collection effort should therefore aim at accelerating collection from slow payers and reducing bad debt losses. The collecting policy should ensure prompt and regular collection. Prompt collection is needed for fast turnover of working capital, keeping collection costs and bad debts within limits and maintaining collection efficiency. Regularity in collection keep debtor alert, and they tend to pay their due promptly (Pandey, 2005, Pages 863-864).

The collection policy should lay down clear-cut collection procedures. The collection procedures for past due of delinquent accounts should also be established in unambiguous terms. The slow paying customers are to be handled very tactfully. The collection process initiated quickly, without giving any chance to them, may antagonize them, and the firm may lose them to competitors (Pandey, 2005, Pages 863-864).

Lending is to extend credit facility of affecting an advance to business on the basis of certain rules, regulation and under prearranged set of conditions entered between the parties concerned; the bank and the borrower. Procedures are a series of steps followed in a regular definite order. Lending has its own disciplines that are to be strictly followed by all who deal with bank credit matter.

Properly implemented procedures in a bank credit are good indicators for loans to be repaid without any problem. Step by step follow-up of procedures are the cornerstone to a credit facility to be healthy throughout its term of repayment. If the other hand, wrong procedures are applied or irregularly implemented, repayments turnout to be doubtful, resulting in increase in overdue, arrears and finally non-performing loans (Bacha Gina, 2008).

### **2.4.2 Establishing Credit Standards**

Credit standards are the criteria which the firm follows in selecting customers for the purpose of credit extension. It influences the quality of the firm customers. There are two aspects of the

quality of customers.

1. The time taken by customers to repay credit obligation.
2. The default rate

On the basis of past practice and experience, the financial of credit manager should be able to form reasonable judgment regarding the chance of default. Information may be collected from the customers themselves, published financial statements, and outside agencies which may be keeping credit information about customers. The lender should use this information sources in preparing categories of customers according to their credit worthiness and default risk, these would be an important input for the financial of credit manager in formulating its credit standards. Using the credit standards, the firm may categories its customers at least in one of the following three categories;

- 1) Good Accounts-financially strong customers
- 2) Bad Accounts-financially very weak, high risk customers
- 3) Marginal Accounts;-that is, customers with moderate financial health and risk falling between good and bad accounts.

The firms have no difficulty in quickly deciding about the extension of credits to good customers and rejecting the credit request of bad customers (Pandey, 2005, Pages 851-852).

#### **2.4.3 Identification of Potential Accounts**

For effective management of credit, banks and other credit institutions do not extend their credit service to all credit requests but they analyze the request from different angles. The firm need not follow the policy of treating all customers equally for the purpose of extending credit. It requires adequate information system at a regular interval for ensuring the selection of potential customers who are capable of repaying the credit and service charges and safeguarding bank interest against uncollectible risk. To identify these potential customers, it is necessary to collect credit information, analyze it, and reach the final decision (Pandey, 2005, pages 851/852).

#### **2.4.4 Collecting Credit Information**

Whether the applicant is new to the bank or existing as a borrower, credit information should be obtained on behalf of the customer spouse, mortgager, company and its general manager and major shareholders from credit information center maintained at national bank of Ethiopia. Such

information may usually be related to his honest, ability operational efficiency repayment history gathered from trade partners, supplies and other sources (Bacha Gina, 2008).

#### **2.4.5 Credit Processing**

Good Credit is a function of:

- a) The quality of the borrower
- b) The purpose, size and tenure of the loan and
- c) The economic conditions expected to exist during the life of the loan.

The evaluation of a loan proposal is, in the final analysis, an evaluation of the various kinds of risk that an extension of the desired credit poses for the lending bank.

Important initial questions directly related to the probability of a future default include:

- a) How well does the bank know the borrower's moral and ethical reputation as well as his reputation as a successful entrepreneur in term of prediction, marketing and financial management capabilities?
- b) How well has the borrower prepared the loan request: is it realistic from a business and economic point of view?
- c) Is the purpose of the loan acceptable to the bank?

It is the banker's responsibility to obtain clear answers to all of the above questions. For example,

- a) Is particularly important in the case of new customers including small and medium sized enterprises for which little or no public information is available.
- b) Requires that the lending bank/branch provide the prospective borrower with clear instructions as to the specific information to be included in the borrower's loan request.

The information demanded must include:

- Schedule of loan repayment
- A cash flow forecast (especially for medium and long-term loans)
- Details of the financial condition of the borrower.
- Advising the requirement is not only for the benefit of the lending bank, but also of equal benefit to the borrower as informational tool in the successful management of the enterprise.

- As for question (s), the bank must evaluate whether or not the bank fits in its loan products.
- Does the loan contribute to a greater diversification and thereby to a reduction in the bank's portfolio risk? Or.
- Does the loan increase the portfolio's industry, maturing or any other type of concentration; thereby adding to the profiles risk?

Another important consideration is whether or not the bank has the adequacy in house expertise to evaluate the credit? (Bacha Gina, 2008).

#### **2.4.6 Credit Evaluation**

The evaluation of loan proposal submitted by a potential borrower is, in the financial analysis, or evaluation of the various kinds of risk that an extension of the desired credit poses on the lending bank important initial criteria to be assessed is included. (Bacha Gina, 2008).

##### **Character:**

The borrower's willingness and determination to meet the obligations of the loan must be evaluated consisting of interview, and background checks, both personal (based on references supplied by the borrower, specifically in the case of individual and partnership loans) and business (checking with borrower's creditors, suppliers, and customers). Information should be in written form when possible. (Bacha Gina, 2008).

##### **Capacity:**

The borrower's ability to generate cash from the business operations (total cash flow generated in the borrower's normal course of business long its operating cycle) or from the project. The borrower's ability to manager cash as reflected in previous operations or projects. (Bacha Gina, 2008).

##### **Capital:**

Borrowers' equity position and willingness to contribute own capital to the business for which the loan is requested and the borrower must be willing and able to share project risk with the lending bank by providing an acceptable portion of equity capital. (Bacha Gina, 2008).

**Conditions:**

The current state and outlook of the local, regional and national economy the borrower's business sector industry and marketing of the items produced or imported is considered. (Bacha Gina, 2008).

**Collateral:**

Collateral is the protection against loss in ability and willingness of the customer to repay borrowing.

- The quality of the collateral:
- What are its obsolescence and physical deterioration characteristics?
- How liquid and marketable is it?
- In case of default, is the claim against the collateral easily legally enforceable?
- What is an acceptable ratio of the market value of the collateral to the sides of the credit, and how often should this ratio be reviewed.

Collateral is a "second way out" due to uncertainty of forecasting future profitability and cash flow. As we can never be certain of how the future will turn out, the longer the forecast, the greater the uncertainty. This is the main reason a bank takes collateral from customers (Bacha Gina, 2008).

**Attributes of good collateral**

**a) Marketability**

The branch manager or credit officer should ensure that the collateral taken is readily saleable at a price equal to or higher than its estimated value for fixed assets and at prices close to the depreciated value of movable assets by maturity dates of the loans. It should be noted that without this essential attribute the security backing a loan would be worthless. (Awash International Bank's Credit Policy and Lending Principle, Revised June 2012)

**b) Stability of price**

It is not only enough for a lending officer to ascertain the value of a particular security, but he/she should also satisfy himself/herself that the value does not fluctuate widely over a short period of time. Securities that are subject to wide variations in prices over a short period must be accepted only with

high margin. Similarly, depreciated values of movable assets should be seen in relation to outstanding balance of the loan they back, and additional collateral should be requested where the depreciated market value of the movable assets are considered to be inadequate. (Awash International Bank's Credit Policy and Lending Principle, Revised June 2012).

**c) Durability**

A security should reasonably be durable. Perishable commodities do not serve the purpose of a security for a bank loan. Likewise, securities that require special care in handling or storage should be avoided as much as possible. (Awash International Bank's Credit Policy and Lending Principle, Revised June 2012).

**d) Transferability of title**

A security title which can easily be ascertained and transferred with minimum formality and expense is another desirable attribute. The title must be clear and undisputed and should be free from prior encumbrances or charges. In general, securities that have known deficiencies or problems in handling or selling must be avoided. (Awash International Bank's Credit Policy and Lending Principle, Revised June 2012).

**2.4.7 Credit Granting Decision**

Once the bank has assessed the credit worthiness of customers, it has to decide whether or not credit should be granted. All credit decisions are based primarily on the lender's assessment of the creditor's lonely hood of payment. In deciding to provide credit to customer, the credit manager must evaluate the chance of no payment and estimate the benefit of extending credit. The lender also uses the concept of the net present value (NPV) to assess the cost benefit of extending credit before making credit decision. Using the result of NPV is positive. Setting a maximum of the amount of credit offered to a customer limits the exposure of the lender to the risk that the customer won't pay. If the lender decided not to grant any credit, the lender avoids the possibility of any loss but also losses the opportunity of increasing its profitability (Pandey, 2005, Pages 866-867).



### 2.4.8 Credit Authorization Scheme

- Inform the decision in writing and advise the next step the customer has to do ‘
- If the approved facility is not utilized within three months it is deemed cancelled
- If customer strongly complains about the size, form, duration accepting an appeal for eventual reprocessing is appropriate.
- Preparation and signing of contracts by the parties concerned.
- Mortgagee registration
- Insurance coverage
- All properties securing bank loan must be insured for their full value
- The premium is borne by customer
- Credit customer account with the proceeds of the loan and advise
- Credit individual ledger.
- If the banks arrange the coverage, customer should consent in writing.
- Properties are considered insured only when the relative policies are received (or renewed)
- 30 days before expiry of insurance, notice to customer shall be given (for renewal of insurance).
- Policy will be endorsed in the bank’s name and client’s name
- Immediate notification to the insurance company in case of accident (Bacha Gina, 2008).

### 2.5 Role of Lending Officer and Credit Decision

Bankers succeed when the risks they assume are reasonable, controlled and commensurate with their resources and credit competence. Lending officers in turn must accurately measure and manager risk’s if their banks are to succeed (Bacha Gina, 2008).

The loan officer must balance two often-conflicting responsibilities, those of marketing officer and those of a credit officer. While budget require the loan officer to develop new banking relationships credit responsibilities enquire that these new relationships do not sacrifice credit quality or short term profits (Bacha Gina, 2008).

The costliest mistake that a bank management can make is to book unworthy ban in order to achieve budget goal. The lending institutions credit policy should give loan offices guidelines

enabling them to balance loan quality and quantity and achieve the banks earnings objective. The lending institution and its shareholders expect loan officers to understand a credit thoroughly before initializing their approval to lend the bank's capital (Bacha Gina, 2008).

The final decision as to whether the loan request should be approved or rejected is reached comparing the statement made by the applicant with the information derived through the credit process and analyzing various factors such as capital, collateral, credit worthiness, conditions and other factor for credit decision (Bacha Gina, 2008).

## **2.6 Credit Rating**

Credit Rating is the classification of credits in to various degrees of assets quality though proper valuations of the variables affect credit risk exposure. (Pandey, 2005, Pages 856-857).

## **2.7 Record Keeping of Customers**

A lender should maintain credit file for each customer that serves as a reference in analyzing later credit requests. The lender experience with the customer and his performance report based on financial statements submitted by him should also be recorded in the client's credit file. A regular examination of the customer's credit file will reveal to the lender the credit standing of the customer. The intensity and depth of credit review on investigation will depend upon the quality of the customer's account and the amount of credit involved. A little review will be required in case of the customers who have had clear deals with the firm in the past. But a comprehensive investigation will be regard in case of the customers who have had clear deals with the firm in the past. But a comprehensive investigation will be required in case of the customers whose; quality of account is falling and who have not been able to honor the lenders credit terms regularly on the past. This is possible only when the lender kept a record of past credit customers (Pandey, 2005, Pages 856-857).

## **2.8 Common Deficiencies of Credit Management**

- Absence of written polices
- Absence of portfolio concentration limits
- Excessive centralizing or decentralization of lending authorities

- Poor industry analysis
- A cursory financial analysis of borrows
- An excessive reliance on collateral
- Infrequent customer contact
- Inadequate check and balance in credit process
- The absence of loan supervision
- A failure to improve collateral position as credit's deteriorate
- Poor controls on loan documentations
- Excessive overdraft lending
- Incomplete lending files
- The absence of asset classification and loan loss provisioning standards
- A failure to control and audit the credit process effectively (Bacha Gina, 2008).

## **2.9 Credit follow - up**

Lending process require sound judgment related to credit worthiness of a borrower but this judgment doesn't always prove to be accurate. Credit may decline overtime due to various factors both internal & external factors. (Awash International Bank's Credit Policy and Lending Principle, Revised June 2012).

A bank should have strong and neutral credit follow-up wing. The outcome of any loan depends largely on the type of supervision/follow-up should be made before loans fallen under non – performing or sick loans. (Awash International Bank's Credit Policy and Lending Principle, Revised June 2012).

The main duties of credit follow-up division among other things are:-

- Speedy recognition and recovery of NPLs.
- Searching different workout strategies to reduce NPLs to an acceptable level.
- Facilitating and coordinating the overall recovery activities of the bank.
- Creating synchronized effort bank wide to reduce NPLs.
- Etc. (Awash International Bank's Credit Policy and Lending Principle, Revised June 2012).

## 2.10 Non –Performing Loans (NPLs) and NBE Provision

All loans and advances shall be classified according to NBE’s directive. AIB thus adopts the five classifications based on the NBE’s Directive No BB/43/2008 as follows.

### **i. Pass**

Loans or advances in this category are fully protected by the current financial and paying capacity of the borrower and are not subject to criticism. Thus, any loan or advance, or portion thereof, which is fully secured, both as to principal and interest, by cash, cash-substitute or guarantee from federal government, first class foreign guarantee shall be classified under this category regardless of past due status or other adverse credit factors. (Awash International Bank's Credit Policy and Lending Principle, Revised June 2012).

### **ii. Special mention**

The following loans and advances at a minimum shall be classified as special mention.

- A. Loans or advances with pre-established repayment programs past due 30 days more, but less than 90 days,
- B. Over drafts and loans and advances that do not have a pre-established repayment program.

If

- a) The debt remains outstanding for 30 consecutive days or more beyond the scheduled payment date or maturity, but less than 90 days; or
- b) The debt exceeds the borrower’s approved limit for 30 days consecutive days or more, but less than 90 days; or
- c) Interest is due and uncollected for 30 consecutive days or more; but less than 90 days, or
- d) The account has been inactive for 30 consecutive days or more, but less than 90 days or the account fails to show the following debit balance at least once over 360 days preceding the date of loan review.

- One to four percent of the approved limit over 365 prior to the date of expiry. (Awash International Bank's Credit Policy and Lending Principle, Revised June 2012).

**iii. Substandard**

The following non-performing loans and advances at a minimum shall be classified substandard.

- A. Loans or advances with pre-established repayment programs past due 90 days or more, but less than 180 days.
- B. Overdraft and loans or advances that do not have a pre-established repayment program, if
  - a) The debt remains outstanding for 90 consecutive days or more beyond the scheduled payment date or maturity, but less than 180 days; or
  - b) The debt exceeds the borrower's approved limit for 90 consecutive day or more, but less than 180 days; or
  - c) Interest is due and uncollected for 90 days or more, but less than 180 days; or
  - d) The account has been inactive for 90 days or more, but less than 180 days, or the account fails to show the following debit balance at least once over 360 days preceding the date of loan review.
    - Five to nineteen percent of the approved limit over 365 days prior to the date of expiry. (Awash International Bank's Credit Policy and Lending Principle, Revised June 2012).

**iv. Doubtful**

The following non-performing loans and advances at a minimum shall be classified doubtful.

- A. Loans with pre-established repayment programs past due 180 consecutive days or more, but less than 365 days.
- B. Overdrafts and loans or advances that do not have a pre-established repayment program, if
  - a) The debt remains outstanding for 180 consecutive days or more beyond the scheduled payment date or maturity, but less than 360 days; or
  - b) The debt exceeds the borrower's approved limit for 180 consecutive days or more; but less than 360 days; or
  - c) Interest is due and uncollected for 180 days or more, but less than 360 days; or
  - d) The account has been inactive for 180 consecutive days or more, but less than 360 days; or the account fails to show the following debit balance at least once over 360 days preceding the date of loan review.

- Twenty to forty-nine percent of the approved limit over 365 days prior to the date of expiry. (Awash International Bank's Credit Policy and Lending Principle, Revised June 2012).

**v. Loss**

The following non performing loans and advances at a minimum shall be classified as “Loss”

- A. Non-performing loans or advances with pre-established repayment programs. Past due 360 days or more.
- B. Overdrafts and loans or advances that do not have a pre-established repayment program. If
  - a) The debt remains outstanding for 360 consecutive days or more beyond the scheduled payment date or maturity; or.
  - b) The debt exceeds the borrower’s approved limit for 360 days or more; or
  - c) Interest is due and uncollected for 360 days or more;
  - d) The account has been inactive for 360 consecutive days or more, or the account fails to show the following debit balance at least once over 360 days preceding.  
(Awash International Bank's Credit Policy and Lending Principle, Revised June 2012).

**CHAPTER THREE**  
**DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

**3.1 Back ground of the respondents**

**3.1.1 Back ground of customer respondents**

**Table 2 Characteristics of customer familiarity with AIB**

Criteria	< 1 year	1-3 years	4-6 years	7-9 Years	>9 years	Total
Customer familiarity with AIB	9	15	33	10	7	74

(Source: on survey)

Characteristics of customer by loan and advance

<u>Types of loan &amp; Advance</u>	<u>No of Respondent</u>
Manufacturing	8
Domestic	19
Export	6
Import	16
Building & Construction	7
Personal	5
Transport	13
<b>Total</b>	<b>74</b>

**3.1.2 Back ground of staff respondents**

**Table 3 Work experience in AIB**

Criteria	1-3 years	3-5 years	5-7 years	>7 years	Total
Work experience In AIB	2	3	8	1	14

(Source: on survey)

**Table 4 Educational back ground of staffs**

Criteria	Diploma	BA	MA	PHD	Total
Educational background	-	13	1	-	14

(Source: on survey)

Characteristics of staff respondent work position

Branch Manager	1
Loan officer	1
Credit analyst	5
Engineer	<u>7</u>
Total	<b>14</b>

**3.2 Questionnaires for customers of AIB**

The primary data used for this study were collected from two types of respondents: from AIB staff working on loan area and from Arada Giyorgis branch borrowers. These two groups are selected because their opinion gathered through practical evidences is believed to be relevant and meaningful to for this study furthermore; Questionnaires were developed and distributed to borrowers selected from different loan categories. Respondents were made aware of the objective of the study so that they could give genuine and relevant information.

**3.2.1 Attitude Questions in Credit Management Process**

82 questionnaires were developed and distributed to Arada Giyorgis Branch’s different types of loan borrowers and 74 were properly filled out and returned.

**Table 5: Adequately granting of loans for the intended purposes**

Item	Service	Freq	S.A	A	D.S	S.D	Total
1	AIB grants a loan adequately for the predetermined purpose	No.	33	21	4	16	74
		%	44	28	6	22	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey)

As can be seen from the above Table respondents were asked about their attitude for the statement, 44% were found to be Strongly agree, 28% Agree, 6% Disagree, 22% Strongly disagree. These percentages implies that majority of the respondents agreed with the statement. However, according to the bank's objectives and current situation of the country, with regarded to private



banks competition, the percentages agreed with the statements are not much because still 22% of the respondents Strongly Disagreed with the statement.

**Table 6: Timely approval of requested loans**

Item	Service	Freq	S.A	A	D.S	S.D	Total
2	The requested loan is approved timely	No.	33	33	8	-	74
		%	44	44	12	0	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey)

As can be seen from the above Table respondents were asked about their attitude for the statement, 44% of respondents Strongly Agree, 44% Agree, 12% Disagree, none Strongly Disagree. This shows that the credit approval and granting decision of the bank is timely managed.

The final decision as to whether the loan request should be approved or rejected is reached by comparing the statements made by the applicant with the information derived through the investigation process and by analyzing various credit factors, such as capacity, capital, collateral, track record for repayments and other.

**Table 7: Consideration of Market value for collateral estimation**

Item	Service	Freq	S.A	A	D	S.D	Total
3	The collateral estimation considers the current market value	No.	4	21	16	33	74
		%	6	28	22	44	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey)

We can learn from the above Table that, 6% of respondents were Strongly agree, 28% Agree, 22% Disagree, 44% Strongly disagree that market value is considered in estimating collaterals. This implies bank engineer’s estimation is not good. Thus, we can learn from the percentages that majority of the respondents strongly disagree with the statements. Though one of the credit evaluation criteria is collateral it has to be give emphasis for inspection, valuation and estimation

of the property. In this case the collateral should neither estimate the exaggerated nor the underestimated, because while exaggerating it maximizes the risk of the Bank and while underestimating it minimizes the risk of the Bank and there by offends the client.

This implies that the client loses the ability to pay and on the other hand it increases the uncollectable loan of the bank's risk.

The collateral security a bank takes to back an advance is a cushion to fall back upon in case of need. But it is not always correct to presume that an advance should be granted purely on the basis of security offered. A bank would not ordinarily like to recover the advance from sale of the security, but from normal business sources otherwise the consequence might be scarce for the bank's future lending quality. The importance of adequate and acceptable security, however, cannot be ruled out.

**Table 8: Convenience loan repayment schedule procedure**

Item	Service	Freq	S.A	A	D	S.D	Total
4	The loan repayment scheduling procedure is convenient	No.	24	50	-	-	74
		%	33	67	0	0	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey)

When we look through the above Table from the respondents 33% were found to be Strongly Agree, 67% Agree none are the rest. This implies that all of the respondents agreed with the statement which means the Bank loan repayment scheduling procedure is good and desired by customers.

**Table 9: Friendly Credit follow-up system**

Item	Service	Freq	S.A	A	D	S.D	Total
5	AIB's credit follow-up system is friendly and encouraging people to do business with a bank	No.	49	21	4	-	74
		%	66	28	6	0	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey)

As shown in the above Table respondents were asked about their attitude towards. The finding shows that 66% of respondent Strongly Agree that is good, 28% Agree, 6% Disagree Almost all respondents agreed with the statements. This indicates that the Bank utilizes friendly follow-up system.

**Table 10: Bank assistance for adverse effect of granted loans**

Item	Service	Freq	S.A	A	D	S.D	Total
6	If an adverse effect happened to repay the loan granted, the Bank helps the borrower aggressively	No.	21	42	7	4	74
		%	28	56	10	6	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey)

As we can learn from the above Table respondents were asked their attitude with statement, 28% were found Strongly Agree, 56% Agree, 10% Disagree and 6% Strongly Disagree. Here also we can see that majority of the respondents Agree, it indicates that the respondents were faced an adverse effect on their credit utilization. However, there are still respondents who disagreed and Strongly Disagreed with the statement even though the percentage is small. Thus, there is a little bit inconvenience procedure in terms of bank's assistance towards the non - performing loans.

**Table 11: Grace period's procedure for new loans considers borrowers Paying Ability**

Item	Service	Freq	S.A	A	D	S.D	Total
7	AIB's grace period procedure for new loans recognize the Borrower's paying ability	No.	16	35	23	-	74
		%	22	47	31	0	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey)

As shown from the above Table respondents were asked to express their attitude, 22% were found to be Strongly Agree, 47% Agree, 31% Disagree and none are Strongly Disagree.

We can observed from the percentage, majority of the respondents were agreed. However there are still large percentages of respondents disagreed with the statement. It implies that the Bank's

grace period doesn't perfectly consider the borrowers paying ability for the new business lines (credit beginners). This also might frustrate the new credit applicants for Projects and new business lines.

Similarly if the proper grace period is not arranged to the borrowers the loan may not be repayable and will categorized to undesired account (NPL) due to inappropriate time scheduling.

Lending is to extend credit facility of affecting an advance to business on the basis of certain rules, regulation and under prearranged set of conditions entered between the parties concerned; the bank and the borrower. Procedures are a series of steps followed in a regular definite order. Lending has its own disciplines that are to be strictly followed by all who deal with bank credit matter.

Properly implemented procedures in a bank credit are good indicators for loans to be repaid without any problem. Step by step follow ups of procedures are the basis to a credit facility to be healthy throughout its term of repayment. (AIB's Credit Policy and Lending Principle, 2012).

Based on the above main points, respondents were asked to rate the following different Bank's Credit Management Services.

### 3.2.2 Attitude Questions in Credit Management Service

**Table 12: Borrowers attitude for bank's Credit Services Management**

Item No.	Credit Service	Freq	Exc	VG	G	F	P	VP	Total
1	Types of loan by the bank compared to the client's desire	No	4	22	28	8	8	4	74
		%	6	28	38	11	11	6	100
2	Handling of special mentioned loans	No	8	25	4	4	33	-	74
		%	11	33	6	6	44	-	100
3	Handling of doubtful loans	No	8	13	8	-	45	-	74
		%	11	17	11	-	61	-	100
4	Criteria and credit standards set by the bank	No	50	16	4	-	4	-	74
		%	66	22	6		6	-	100
5	Accessibility of staffs for borrowers discussion	No	70	-	4	-	-	-	74
		%	94	-	6	-	-	-	100

6	Willingness of managers for borrowers discussion	No	58	8	8	-	-	-	74
		%	78	11	11	-	-	-	100
7	Technical/Professional advise	No	21	49	-	4	-	-	74
		%	28	66	-	6	-	-	100
8	Visiting customers business	No	4	8	4	4	12	42	74
		%	6	10	6	6	16	56	100
9	Reminding for repayments	No	33	33	4	4	-	-	74
		%	44	44	6	6	-	-	100
10	Recognizing good borrowers	No	8	12	4	4	30	16	74
		%	11	16	6	6	39	22	100
11	AIB grants a loan adequately for the predetermined purpose	No	62	9	3	-	-	-	74
		%	84	12	4	-	-	-	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey)

When we go through the above Table we can observe the following rates including their interpretation for different types of Credit Management;

**Item No. 1** Credit management is rated 6% are Excellent, 28% Very Good, 38% Good, 11% Fair, 11% are Poor, 6% Very poor. Still 6% of the respondents ranked Very poor, meaning that the types of product (credit) are not much suitable for the borrowers. The bank should have to research for other new products based on the customers demand to increase customers satisfaction.

To address the credit of the business society banks have different classification of loans. However, each classification of the loan is granted to deserving business, so as to match the need of the business to the type of facility. Though there are many, the major loan products (credit facilities) practiced in AIB are Manufacturing Production, Merchandising, Agriculture, Domestic and Trade Service, Import, Export, Transport, Building Construction and Personal (Consumption) loans.

**Item No. 2** Credit management is rated 11% Excellent, 33% Very Good, 6% Good, 6% Fair, 44% Poor, none Very poor. Here the large percentages of respondents are poor the service, meaning they may not face a problem to pay back the loan granted.

**Item No. 3** Credit management is rated 11% are Excellent, 17% Very Good, 11% Good, none Fair, 61% Poor and none Very poor. Here the majority of the respondents are poor the service like Item No. 3. Both Special mentioned and doubtful loans should have to be handling tactfully before they are getting bad loans.

**Item No. 4** Credit management is rated 66% are Excellent, 22% Very Good, 6% Good, none Fair, 6% Poor and none Very poor. The percentages indicate the Bank makes good communication with the borrowers. This motivates the client to borrow again and further to plan for other new business by doing with bank for their financial assistances.

**Item No. 5** Credit management is rated 94% Excellent, none Very Good, 6% Good, none Fair, Poor, and Very poor.

In these days of free competition it is the banker who has to go extra miles to please his customers and to make life easy for him in his dealings with the Bank. With this regard, the bank is doing properly as per the manual, almost all respondents ranked above Excellent.

**Item No. 6** Credit management is rated 78% are Excellent, 11% Very Good, 11% Good, none Fair, Poor and Very poor. Here also we can observe that the bank managers are willing for borrowers' discussion.

**Item No. 7** Credit management is ranked 28% Excellent, 66% Very Good, none Good, 6% Fair, none Poor and Very poor.

Usually it is observed that either the borrower will come to the Bank seeking for a loan, or the Branch Manager initiates the customer to take out a loan for his business because a customer may not always know how to obtain credit from a Bank especially if he is a new one as a borrower or as a business man. The latter is usually emphasized.

Accordingly, as the percentage shows the majority of respondents rated the service very good and all are rated above fair which implies the Bank has emphasized to technical advises to its borrowers.

**Item No. 8** Credit management is rated 6% Excellent, 10% Very Good, 6% Good, 6% Fair, 16% Poor, 56% Very poor.

We can observe from the percentage majority of the respondents rated the service very poorly. It is remarkable, because it contradicts with the Bank's manual. If the borrower business is not visited regularly the granted amount might not be spent for the intended purposes.

Site visit is necessary for a more detailed business assessment. Site visits are useful:

- To become more familiar with the customers
- To review changes that are taking place when customers have been granted a continuing line of credit.
- To review such changes when a significant new loan is to be considered.
- To assess the business in general a visit has to be arranged informal to witness the actual existence of inventory, work in progress finished goods and other relevant assessment
- To witness the actual progress of the project from own
- To get overview of the location and status of collateral proposed. (AIB's Credit Policy and Lending Principle, 2002)

**Item No. 9** Credit management is rated 44% Excellent, 44% Very Good, 6% Good, 6% Fair, none Poor and Very poor. Here we can learn from the ranks almost all respondents ranked above fair meaning that the Bank is strictly remind borrowers for repayment.

**Item No. 10** Credit management is rated 11% Excellent, 16% Very Good, 6% Good, 6% Fair, 39% Poor, 22% Very poor. It is terrible the large percentages rated poor and very poorly. The Bank should have to be keep its prominent credit record and award for those top performed; this encourages peoples to do more with the bank.

**Item No. 11** Credit management is rated 84% Excellent, 12% Very Good, 4% Good, none Fair, Poor and Very poor.

### **3.3 Questionnaires for Credit Managements of AIB**

#### **3.3.1 Attitude Questions in Credit Management Process**

14 (fourteen) questionnaires were developed and distributed to different Credit management staffs at AIB and all of them were properly filled out and returned.

**Table 13: Credit Management Policy is Practical and Effective**

Item	Service	Freq	S.A	A	D	S.D	Total
1	AIB's credit management policy is practical	No.	9	5	-	-	14
		%	67	33	-	-	100
2	AIB's credit management policy is effective	No.	9	5	-	-	14
		%	67	33	-	-	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey)

As can be seen from the above Table respondents were asked their attitude for the statement 67% were found to be Strongly agree, 33% Agree, none Disagree and Strongly disagree. These percentages implies that majority of the respondents are agreed with the statement. Therefore there is no doubt for the practicality of the policy and procedure at AIB in the management perspective.

Although there is no hard and fast rule in the techniques of lending, which essentially is an art, it is however necessary that a defined procedure has to be followed by a banker to properly address the credit needs of its customers. AIB's customers must also have a feel of what the Bank's requirements are as regards to procedures and documentation necessary to obtain credit facility from the Bank. Besides, it is quite important that customers perceive the Bank as transparent and fair in its dealings and lending operation.

**Table 14: Promotes its credit management effectively**

Item	Service	Freq	S.A	A	D	S.D	Total
3	AIB promotes its credit management program effectively	No.	6	5	3	-	14
		%	43	36	21	-	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey)

As can be seen from the above Table employees were asked their attitude for the statement 43% of respondents Strongly agree, 36% Agree, 21% Disagree and none Strongly disagreed. Here we observed that the credit management agrees the promotion of its credit management program.

The successful and quality management of a commercial bank's funds requires careful consideration and when a bank lends, it must be certain that the advances will be repaid. To this



end, the character, capacity, capital and collateral of the borrower must be evaluated in advance. Character is important because it determines the borrower's willingness to repay the loan. The capital and capacity of the borrower to run his business successfully also determines the capabilities to repay. Collateral provides cushion against unfavorable events in the business.

Along with a written loan application, the following and other documents should be submitted as may be demanded by the Bank:

- ✚ Trade licenses, registration certificate, investment certificate from the appropriate ministry or bureau,
- ✚ Financial statements (preferably audited and reflecting the current year's position), including cash flow statement, especially if the borrower runs a sizable business.
- ✚ Feasibility study, where applicable (ordinarily for project loans extending beyond two years). This also calls for projected financial statements to judge whether the plans are financially viable or not.
- ✚ Memorandum and articles of association, where appropriate, and
- ✚ Other documents that may justify the need for the loan as may be required by the Bank on the merit of each application.

It is absolutely necessary that the branch manager requests the submission all documents necessary to process the loan request all at one go to allow speedy consideration and decision.

**Table 15: Developed a well defined system of screening customers**

Item	Service	Freq	S.A	A	D	S.D	Total
4	AIB has developed a well defined system of screening applicants	No.	5	9	-	-	14
		%	33	67	-	-	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, =Disagree, S.D =Strongly Disagree

(Source: on survey)

We can learn from the above Table respondents 33% were found to be Strongly Agree, 67% Agree, none Disagree and Strongly Disagree. This indicates that identifying each client is for credit needs is well defined by the bank and we can learn from the percentages majority of the respondents disagree with the statements.

Despite the basic importance of the three key principles (Safety, liquidity and profitability), they are inherently conflicting, when viewed individually, because one cannot be achieved without sacrificing the others. Therefore, skilful balancing of these diverse objectives is always of prime importance. And other things should be considered are Purpose of the loan, Diversification concerned with the industry, and security offered for the loan request.

**Table 16: Convenience loan collection procedure**

Item	Service	Freq	S.A	A	D	S.D	Total
5	The loan collection procedure of AIB is convenient	No.	5	9	-	-	14
		%	34	66	-	-	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey )

When we look through the above Table for the statement from the respondents 34% were found Strongly Agree, 66% Agree and none Disagree and Strongly Disagree. This implies that all of the respondents are agreed with the statement which means the Bank loan collection procedure is good and desired by customers.

**Table 17: Relevancy of credit information for managing loans**

Item	Service	Freq	S.A	A	D	S.D	Total
6	Collecting credit information is relevant for managing loan	No.	14	-	-	-	14
		%	100	-	-	-	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, N=Neutral, D=Disagree, S.D =Strongly Disagree

(Source: on survey )

The above Table shows respondents attitude with the statement 100% the credit management staff strongly agreed with the statement.

Whether the applicant is new or not to the Bank, it is particularly necessary to obtain as much information as possible. Such information may usually be related to his honesty, ability, stability, managerial capacity, operational efficiency of the firm, financial history, etc. The information can

be gathered from various sources, including banks, trade partners, suppliers and the like. Credit information from banks must be requested at the earliest possible time, while other lending formalities continue, to avert unnecessary delays in processing the loan application.

Credit information should be obtained on behalf of the customer spouse, mortgager, company and its general manager and major shareholders from credit information center maintained at National Bank of Ethiopia.

**Table 18: Credit granting decision is worthy**

Item	Service	Freq	S.A	A	N	D	S.D	Total
7	AIB's credit granting decision is worthy for customers	No.	6	8	-	-	-	14
		%	44	56	-	-	-	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey)

As shown in the above Table 15 respondents were asked their attitude for the statement of " AIB's credit granting decision is worthy for customers" and 44% were found to be strongly agree, 56% Agree, none Disagree and strongly disagree. This is very interesting; almost all respondents are agreed with the statements, it indicates that the Bank's credit decision is worthy.

**Table 19: Management of credit authorization scheme is strong**

Item	Service	Freq	S.A	A	D	S.D	Total
8	The credit authorization scheme is strongly managed by AIB	No.	14	-	-	-	14
		%	100	-	-	-	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey)

As we can learn from the above table respondent attitude for the statement 100% of the respondents strongly agree with the statement.

As per the banks Lines of credit limit communication to ensure the timely dissemination of credit risk management policies and other credit risk management information to all bodies involved in the process, it has the following Discretionary Lending Limits of loan approval.

<u>Management Party</u>	<u>Discretionary Lending Limits (DLL)</u>
Board of directors .....	More than 18 million
President of Bank .....	500,000 up to 18 million
Head office loan committee beyond branch.....	30,000 up to 500,000
Branch Manager .....	≤ 30,000 Birr

**Table 20: Significance of identifying potential customers for credit management**

Item	Service	Freq	S.A	A	D	S.D	Total
9	Identification of potential customer is significant for proper credit management	No.	5	9	-	-	14
		%	33	67	-	-	100

**Key;** Freq =Frequency, S.A =Strongly Agree, A=Agree, D=Disagree, S.D =Strongly Disagree

(Source: on survey)

As shown from the above Table respondents attitude for the statements 33% were found to be Strongly agree, 67% Agree, none Disagree and Strongly disagree. We can observe from the percentage, majority of the respondents were agreed with its significance.

Either the bank will go to the customer and initiates the customer to take loan for his business or the borrower will come to the bank seeking for a loan. Whichever is the case, we have to cheerfully greet our customer respectfully and explain in clear term to him/her the credit processes and alternatively listen to his side of query.

To assess the borrower’s credit needs. If branch Manager is not sure about loan requested, it is advisable to consult credit department and provided appropriate reply. During discussion one can obtain information such as his credit history with banks, purpose of loan required previous repayment habit and more and it is necessary that a defined procedure has to be followed by a banker to properly address the credit needs of its customers.

3.3.2 Attitude Questions in Credit Management service

**Table 21: Credit staff attitude for bank's Credit Services Management**

Item No.	Credit Service	Freq	Exc	VG	G	F	P	VP	Total
1	Classification of the loan	No.	12	2	-	-	-	-	14
		%	89	11	-	-	-	-	100
2	Handling of special mentioned loans	No.	5	9	-	-	-	-	14
		%	33	67	-	-	-	-	100
3	Handling of doubtful loans	No.	3	11	-	-	-	-	14
		%	22	78	-	-	-	-	100
4	Criteria and credit standards set by bank	No.	8	5	1	-	-	-	14
		%	56	33	11	-	-	-	100
5	Accessibility of staffs for borrowers' discussion	No.	12	2	-	-	-	-	14
		%	89	11	-	-	-	-	100
6	Willingness of managers for borrowers discussion	No.	11	3	-	-	-	-	14
		%	78	22	-	-	-	-	100
7	Technical/Professional advise	No.	3	8	3	-	-	-	14
		%	22	56	22	-	-	-	100
8	Visiting customers business	No.	5	9	-	-	-	-	14
		%	33	67	-	-	-	-	100
9	Reminding for repayments	No.	11	3	-	-	-	-	14
		%	78	22	-	-	-	-	100
10	Recognizing good borrowers	No.	12	2	-	-	-	-	14
		%	89	11	-	-	-	-	100
11	AIB grants a loan adequately for the predetermined purpose	No.	8	6	-	-	-	-	14
		%	55	45	-	-	-	-	100

**Key;** Freq = Frequency, Exc = Excellent, VG = Very Good, G=Good, F = fair, P = Poor, VP=Very Poor

(Source: on survey )

When we go through the above Table, we can observe the following rates including their interpretation for different types of Credit Management;

**Item No. 1** Credit management is rated 89% are Excellent, 11% Very Good, and none for the rest. Means majority of the respondents rated Excellent for loan classifications.

**Item No. 2** Credit management is rated 33% Excellent, 67% Very Good, and none for the rest. These means the bank strictly handles special mentioned loans.

High NPLs are a sign of weaknesses in loan administration or it is a lack of good credit risk management. However, as lending is a risky business, an acceptable level of loss is always expected. Special mention loans are Loans & Advances within 1-3 months in arrears (no repayments were made for three consecutive months). (AIB's Credit Policy and Lending Principle, 2012)

**Item No. 3** Credit management is rated 22% Excellent, 78% Very Good and none for the rest. Here the large percentages of respondents are agreed in handling doubtful loans (no repayments were made from four to six consecutive months).

**Item No. 4** Credit management is rated 56% are Excellent, 33% Very Good, 11% Good, none Fair, Poor and Very poor. Here also the majority of the respondents agreed that criteria and credit standards set by the bank is excellent.

**Item No. 5** Credit management is rated 89% are Excellent, 11% Very Good and none for the rest. As we have seen on the clients' response the percentages indicate the Bank makes good communication with the borrowers. This motivates the client to borrow again and further to plan for other new business by doing with bank for their financial assistances.

**Item No. 6** Credit management is rated 78% are Excellent, 22% Very Good and none for the rest also, therefore we can observe that the bank managers are willing for borrowers' discussion.

**Item No. 7** Credit management is rated 22% are Excellent, 56% Very Good, 22% Good, none Fair, Poor and Very poor. Here also we can observe that the bank managers give technical and professional advice for their customers.

**Item No. 8** Credit management is ranked 33% are Excellent, 67% Very Good and none for the rests. This percentage indicates that the management of AIB makes visit their businesses.

**Item No. 9** Credit management is rated 78% are Excellent, 22% Very Good and none for the rest. Here we can learn from the ranks almost all respondents ranked above fair meaning that the Bank is strictly remind borrowers for repayment.

**Item No. 10** Credit management is rated 89% are Excellent, 11% Very Good and none for the rest. The percentage indicates that the bank is recognizing its good borrowers' future good credit awareness on those clients.

**Item No. 11** Credit management is rated 55% are Excellent, 45% Very Good and none for the rest. The percentage indicates that customer of the bank is the loan adequately used for pre-determined purpose.

## **CHAPTER FOUR**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **4.1 Summary**

The study focuses on the Assessment of the Challenges and prospects of Credit Management in Ethiopia – the case of AIB Arada Giorgies branch. The research has been conducted mainly to find the major problems in credit management.

In order to undertake the study various literature reviews, questionnaires and procedure manuals were employed. Literature review helped the research team to have broader knowledge while going through this research process. The questionnaire method was designed to obtain the attitudes views and comments of borrowers and key personnel's from Head Office credit department analysts, Branch managers and loan officers of AIB.

The data obtained were presented and analyzed by using descriptive statistical method under Chapter three.

Next, based on the analysis and findings the following summary, conclusions and recommendations are made and presented.

Based on the primary data through questioners and interview the following summary of the major findings are gathered.

1. From staffs respondents point of view, all of them (100%) stated that Awash International Bank's credit policy and procedure is carefully formulated but it is general, highly centralized by the top management, less flexible and not up to dated.
2. From borrower respondents' point of view, around 44% strongly agreed and 44% agree with Bank timely approval of loan request.
3. Majority of borrower's respondents strongly disagreed with the bank's property estimation procedure, because the estimation doesn't consider the market value.



4. The majority of borrower's and staff respondents agreed about Bank's convenient loan repayment schedule.
5. The bank procedure to assess borrower's credit history, financial statements and repayment capacity considered while evaluating credit request is good.
6. 100% of borrowers respondents agreed that AIB's credit follow up system is convenience.
7. About 94% of borrower's respondents agreed with friendly follow up system.
8. Almost all staff respondents agreed about relevancy of credit information for managing loans, worthiness of credit granting decision, importance of identifying potential customers for credit management and strongly agree in strength of AIB's management of credit authorization scheme.
9. The majority of borrower's respondents, about 66% rated above good about classification of loan. However, all staff respondents has agreed but, said that the bank doesn't introduce new type of product suitable for customers.
10. Almost all borrowers rated the accessibility of managers for borrower's discussion above good. Specifically, 94% of them rated the service excellent and 89% of staff respondents rated above very good.
11. Similarly, all respondents rated above good the manager's willingness for the borrower's discussion, specifically 78% of them rated excellent and all staff respondents rated above very good for the statement.
12. For the Bank's service, in terms of giving technical/professional advice is rated above good by borrowers and staff respondents.
13. About 72% of borrower's respondents rated service of visiting customers business is not adequate. But all staff respondents have rated above very good.

14. More than 61% of borrowers respondents rated service of recognizing good borrowers is poor and very poor but staff respondents have rated above good.
15. About 44% of borrower's respondents rated Handling of special mentioned loans poor. But all staff respondents have rated above good.
16. About 44% of borrower's respondents rated Handling of doubtful loans poor. But all staff respondents have rated above good.
17. All of borrowers and staff respondents rated criteria and credit standards set by the bank above good.
18. Almost all borrowers and staff respondents rated reminding for repayments above good.
19. All of staff and borrowers respondent rate AIB grants a loan adequately for the predetermined purpose above.

#### **4.2 Conclusions**

The following conclusions are raised based on the above summary of primary and secondary data findings.

1. In the credit facility request approval process, the manual doesn't include detail assessment and it is done in a conservative way. Though the credit approval process is said on time by borrower's respondents. In contrary said lengthy by staff personnel's. Obviously, the staff response is acceptable because it is practically justified. As per the discretionary lending limit all loan requests above Birr 30,000 go to head office credit department from all 120 Branches and wait their order for approval. These affect the quality of the service and dissatisfied loyal customers because one of the determinants factor of quality is time.
2. Lowering the collateral value resulted in inadequate financing. This makes a borrower in shifting the loan for unintended purposes, also it create customers dissatisfaction.

3. Though emphasizing on collateral for credit approval minimizes a bank's risk in case of an adverse effect, it doesn't give a chance for new idea promoters who don't have collateral. By the same token it affects innovation and development.
4. Considering other factors rather than collateral like, Assessments of borrower's credit history, analysis of financial statement and repayment capacity are essential. It allows the credit management decision to give a right credit, to the right borrower for the right purpose.
5. In credit follow-up activities if the relationship between borrowers and the Bank is friendly and if the Bank remind borrowers to repay on time, the collection procedure will be smooth. This decreases Bank's NPL.
6. If an adverse effect happens in borrowers business to pay back the loan and if the Bank doesn't aggressively support a borrower, it leads to non-performing loan.
7. Irregular customer's business visiting is observed. This will lead the borrower to divert the granted loan for other purposes.
8. The Bank doesn't give recognition for good borrowers. This discourages good borrowers to do more with the bank.
9. Lack of proper financial statements submitted by borrowers affects the quality of credit process, analysis and decisions or recommendations of credit facilities.
10. Even though credit policy and procedure is carefully formulated, it is highly general, centralized by top management less flexible and not up to dated. The Credit manual depict the Discretionary Lending Limits how much the decision is centralized and not flexible for a better credit Management.

### **4.3 Recommendations**

Based on the conclusions presented in above, the following suggestions are recommending to Awash International Bank S.C management and other concerned parties.

1. AIB should make the credit policies and procedures in a clearly defined, flexible and timely way.
2. The credit procedures should include detail assessment of criteria for each credit products. The loan request approval decision has to be done in a rational way and transparent with lower level of managements. The bank must try to upgrade the discretionary lending limit at all level thereby organizing a credit committee at branch level and up grading the branch manager limit to entertain the request within a branch.
3. The Bank's engineer service should make comparable or market orient estimation, by forming competent measurement of building evaluation factors to give reasonable property estimation services.
4. Prioritization for feasibility study than collateral based, the bank should carefully investigate new borrowers loan request through their business plan (feasibility study) and to allow credit for new idea promoters, by strengthening Bank's project analysts to provide project loan widely.
5. The Bank should support borrowers while they are in an adverse effect happens on their credit by arranging recovery means like, re-rescheduling, extension of due dates and even allowing additional credit necessary to reinforce the borrower's capacity.
6. The Bank should establish criteria that can effectively and regularly evaluate borrower's performance and based on the evaluation, borrowers should be given recognition. This should be done by providing customers day (Exporters, Importers ... day) and giving a prize for best performers in front of participants. It encourages doing more for the existing customers and also attracting others.

7. To give quality service the bank should carefully investigate background of the borrower depending on the loan request. Unreliable sources like un-audited financial statement, while evaluating & selecting customers among applicants, will lead the bank in poor selection of customers. This poor selection also has an impact on future collection of loan. So that, the bank should try maintain limitation of Birr, loan request to require an audited financial statements, which will alleviate this problem.
  
8. Finally, AIB has to give due attention to the internal factors those affecting fast and timely decisions. Like hiring a necessary workforce for each level in the loan area starting from branch up to head office credit department and giving continuous credit operation training for the existing staffs to maximize their performance and to reduce shortage of human power. In addition hiring additional engineers for engineering department to get short appointment for customer's collateral inspection & estimation.

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- [www.nbe.gov.et](http://www.nbe.gov.et)

## DECLARATION

We the undersigned, declare that this senior essay/project is our original work, prepared under the guidance of Ato Alula Hailu. All sources of material used for the manuscript have been duly acknowledged.

<u>Name</u>	<u>Signature</u>
1. _____	_____
2. _____	_____
3. _____	_____

### Advisor's Declaration

The paper has been submitted for examination with my approval as the University advisors.

Name \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

# Appendixes

Appendix A Questionnaire for Credit Managements of Awash International Bank s.c

Appendix B □□□□□□□ □□□□ □□□□

Appendix C Interview of Staff Respondents



**ST MARY UNIVERSITY  
BUSINESS ADMINISTRATION  
DEPARTMENT OF ACCOUNTING**

Questionnaire for Credit Managements of Awash International Bank s.c

**Dear respondents,**

We are undertaking a project paper entitled on “**Assessment of Challenges and prospects of Credit Management Practice In the case of AIB**”, as partial fulfillment for BA in Accounting at St Mary University.

Considering that your respond will play a preeminent role for better credit management provision, you are, kindly requested to spare us your precious time in filling this questionnaire designed for gathering primary data related to the topic of the study and return it as early as possible.

Please put check mark ( ✓ ) in the box of your choice and note down your supplementary response. Your attempt to answer all questions is highly appreciated. We confirm you that all the data gathering will be held confidential, except the aggregated data from a large sample of which is going to be published. Meantime, please be aware that it is not necessary to mention your company name.

Finally, we convey our special thanks for your concern, objectivity and patience while responding to this questionnaire.

**Thank you in advance!**

Contact Address  
Tel (mobile) 0911444379/0913556417  
Email [newyeme@yahoo.com](mailto:newyeme@yahoo.com) or [ermias.zewdu88@gmail.com](mailto:ermias.zewdu88@gmail.com)  
Addis Ababa, Ethiopia

## Questionnaire for AIB Arada Giyorgis and Head Office staffs

### A. General Information:

Direction: Answer the following question by putting the (✓) symbol in the following bases or write the characteristics in the space provided.

#### 1. Working Experience in AIB

1 to 3 years  3 to 5 years  5 – 7 years  above 7 years

#### 2. Educational Back ground

Diploma  BA  MA  PHD

#### 3. Current working position

Loan Officer  Credit Analyst  Branch Manager  Engineers

Other (Specified) \_\_\_\_\_

### B. Attitude questions:

Direction: below are statement designed to assess the attitude of respondents toward title please indicate the extent to which you agree or disagree with the statement by putting a tick (✓) mark in the box.

1 = Strongly Disagree

3 = Agree

2 = Disagree

4= Strongly Agree

	1	2	3	4
1. AIB's credit management policy is practical?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. AIB's credit management policy is effective?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. AIB promotes its credit management programs effectively	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. AIB has developed a well defined system of screening applicants.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The loan collection procedure of AIB is convenient.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Collecting credit information is relevant for managing loans.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. AIB's credit granting decision is worthy for customers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. The credit authorization scheme is strongly managed by AIB.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. Identification of potential customers is significant for proper credit management at AIB.

10. What are think the major challenges of your organization's credit management policy?

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11. What do you think are the weaknesses in the bank's credit follow-up system? If any, please explain

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12. How does the bank manage initial screening of applicants in consideration with its procedures?

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13. How the bank does manage uncollectable loans?

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**N.B If you have any thing to add you can use a separate sheet, we attached to this questionnaire.**

**THIS QUESTIONNAIRE STRONGLY SECURED THAT USED ONLY FOR THIS RESEARCH PAPER (DON'T WRITE YOUR NAME)**



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## Appendix C

### **Interview will be made AIB Arada Giyorgis &Head Office Staffs**

1. Are prospective customers provided with complete check lists to enable them present all the necessary documents when loading application? If No please state the problem
2. Do you think that the policy and procedures are well defined to provide fast response to the prospective customers? If No please state the reason.
3. Is the bank's credit operations manual properly implemented? If No state the reason.
4. Is the bank's organizational hierarchy is appropriate and convenient for fast processing of credit service giving?
5. Do you think that customers are satisfied by the credit service provided by the bank? If No please state the reason.
6. What are the significant challenge of which can face credit management?
7. If you have additional suggestion please mention