ST.MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF CREDIT MANAGEMENT PRACTICE; THE CASE OF DEVELOPMENT BANK OF ETHIOPIA

BY

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ID NO: SGS/0126/2008B

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APPROVED BY BOARD OF EXAMINERS

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LIST OF ABRIVATIONS AND ACCRONYMS

ADB	African Development Bank
BIB	Buna International Bank
CRMD	Credit Management Directorate
DBE	Development bank of Ethiopia
EFCMD	External Fund and Credit Management Directorate
FREQ.	Frequency
KCB	Kenyan Commercial Bank
KYC	Know Your Customer
LAP	Loan Approval Process
LAT	Loan Approval Team
MFI	Micro Finance Institution
NPL	Non Performing Loan
PMD	Portfolio Management Directorate
PRLR	Project Rehabilitation and Recovery
RM	Risk Management
SPSS	Statistical Package for the Social Since
RCBS	Rural and Community Banks

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Abstract

Credit management is one of the most important activities in any financial institution which are engaged to provide a credit service. In the credit financing process sound credit management is the primary task of financers for the reason to secure organizational sustainability. The study sought to conduct to assess the credit management practice of Development Bank of Ethiopia (DBE). The research was carried out by analyzing different institutional factors that directly or indirectly affect the credit management practice of the bank. Descriptive research design was adopted to prepare the study. Stratified random sampling method was utilized to select respondents from the entire population. 120 respondents were drawn from the credit management directorate and other six directorates which are performed the same role with credit directorate. Both primary and secondary data were used as a source of information. Primary data was collected from respondents using questionnaires where all the issues raised on the questionnaire were addressed. Descriptive statistics methods such as, tables, frequency and percentage were used to analyze the data. The impacts of institutional factors such as, credit approval, credit appraisal, follow up and supervision, credit risk management practices, collection techniques and staffing roles on the credit management process were analyzed and discussed in detail. As the result of the finding indicates the raised factors has its own effect on the credit management practice of the bank. The major findings of the study shows that impeding loan quality is occurred due to absence of adequate controlling and monitoring, inadequate appraisal & approval, poor collection culture, absence of effective risk mitigation strategy are some of the factors raised as a challenge. The bank has gaps regarding with for all factors presented for discussion. The overall credit management practice of the bank has poor and not performed as the expected level and it needs improvements. Finally the study recommends that banks should improve the overall credit management activities through critically assess the existing challenges how to fill it according to the provided recommendation.

Keywords: Credit management, Credit Analysis, Credit Risk, Portfolio quality, Risk Management, Sound lending, Development Bank of Ethiopia.

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CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

Credit has an important role in the gross earnings and net profit of banks and promotes the economic development of the country. Credit puts to use property that would otherwise lie idle, thus enabling the world to fully utilize its resources, Emmanuel (2012). In a broad concept credit facility is important for exchange of ownership, employment encouragement, increase consumption, encourage saving, development of entrepreneurs, elasticity of monetary system and etc. it is also important for in developing many priority sector projects such as Agriculture, mining and extraction, manufacturing and other sectors.

Every country has to undergo from the continuous process of development. In this process Banks play a vital role by lending, borrowing, depositing, issuing and exchanging, safeguarding or handling of money under the laws, policies and guidelines of respective country Hgos (2010). In recent year's banks has modernized their system and mechanisms of planning to insure rapid economic growth. In the process of poverty reduction the existence of banks contain the largest share through channelizing savings to investments and consumption, in filling the investment requirements of savers by providing credit guarantees and etc. Out of all principal roles of the banks, lending is the most important role in which banks provide different types of credit service to commerce and industry. The importance of credit is not only limited to the borrower and lender point of view but its contribution has broad sense for different social benefits and community development. Credit being the principal source of income for banks and usually represents one of the principal assets of the banks, Biruk (2015). The extension of credit on sound basis is therefore very essential to the growth and prosperity of a bank in particular and the country at large. While providing credit as a main source of generating income, banks take into account many considerations as a factor of credit management which helps them to minimize the risk of default that results in financial distress and bankruptcy Tekeste (2016).

Credit management is the process by which the company designed effective systems concerned with using resource both productively and profitably to achieve a preferable economic growth. According to Asiedu-Mante (2011), credit management involves establishing formal legitimate procedures and policies that will ensure that the proper authorities grant credit, the credit goes to right people; the credit is given for the productive activities or for businesses which are economically and technically viable. Lura (2010), credit management is a system that is devised to prevent unwarranted damage to a firm or institution from unforeseen but probable events. Rosemary (2013)also defines that Credit management is one of the most important activities in any company and cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature.

The success of any financial institution which is engaged in the credit financing sector must determine in the act of effective credit management. According to Basu and Rolfes (1995) indicate that effective credit management is a key component of success in every financial institution. They also point out that if institutions want to ensure organizational success they should build and establish quality credit management systems.

Unlike its positive contribution credit is the most sensitive& risky business too. When financial institutions can't manage their credit activity from inception to final loan repayment of a client in appropriate manner, it would rise bad loan ratios of the institution. Therefore; the impact is not only reflected in the investors profitability and banks sustainability but it also affects the country at large through reduction of the government revenue in terms of profit tax, loss the income from foreign exchange, increase unemployment, knowledge transfer and in general it discourage the countries growth and transformation plan, Anmaw (2015). Due to this fact; this study is conducted in order to identify and indicate basic bank level factors that hinder the soundness of credit financing and in return to provide possible recommendations depending on the results obtained that helps to improve the credit quality of the bank.

1.2 Statement of the problem

Credit plays a vital role for nation development of once country by establishing stable economic system. Beyond its positive contribution, it is the most risky business when it is not managed properly and in a safe manner Biruk (2015). There are a number of different external and internal factors that lead to affect the credit management activity of lenders in the credit financing process. As different researchers argue that against the influence of external factors organizational level factors are the major challenges for the sound credit management practice of a lender.

Among other things as researchers agreed, from the institutional factors that degraded to provide quality credit service are, Inadequate due diligence Assessment, Ineffective Appraisal, absence of regular follow-up work, wrong Approval, interference of other stake holders in the credit process, unqualified management and employee, disbursement of loans without verifying fund utilization, absence of adequate risk mitigation strategy, less loan collection effort, inability to implement the credit policy are some of the factors raised as a challenge in the process of credit management.

According to Boakye (2015), assess credit risk management practice among rural and community banks (RCBS) in Ghana and analyzed the impacts of loan diversion and policy problems on the credit management practice of the bank. Similarly Rosemary (2013)was tried to investigate the effects of client appraisal, collection policy and competent staff on the credit management practice of Kenyan Micro Finance Institution (MFIs). The other researcher Hagos (2010)was conduct an assessment on the credit management practice of Wegagen Bank Sc. in Tigray region and describes the importance of adequate credit analysis, loan approval (LA), collection technique and staff adequacy on the banks credit management process.

Tekeste (2016), conclude that unclear credit policy and procedure is not only the problem of bankers, rather not to implement the existing policies and procedures in a proper manner is the other challenge in the credit management activity. He also argues that absence of conducting regular follow up works is one of the factors that disturb the credit management. Alebachew (2015), tries to assess the credit management policies and practices on Buna International Bank Sc. and he examine the impact of credit policy, credit analysis, credit monitoring, risk management, lending personnel or experts on project loans, and collateralized properties on the attainment of successful credit risk management.

The mentioned researchers conducted their study on the same topic at the previous time. However, those researchers were made their study in Ethiopian Commercial Banks. But this paper is conducted on Development Bank of Ethiopia and these makes different from those researchers. Because when we see the objective of establishment the bank has quit difference from commercial banks. DBE is the only state owned project financer bank. These indicate that the overall financing activity and the strategy followed to manage credits are not governed in line with the commercial banks credit management strategy. On the other side Anmew (2015), Mulugeta (2010) and Muluken (2014) were tried to see the major loan repayment determinant factors of the bank through their quantitative research. This paper is tried to see the impacts of factors differently from those researchers through conducting a qualitative study. Due to this fact, to fill the existing gaps and the current enhancement of NPL ratios at the bank level call the research to conduct an assessment about the credit management practice of the bank.

1.3 Research question

This study seeks to answer,

- ✓ Does the bank conduct the required KYC assessment of the applicant before it has to be establishing a contractual agreement?
- ✓ Does the bank conduct adequate follow up works to reduce incoming risks in relation to the credit financing?
- ✓ Does the loan disbursement strategy of the bank is effective to reduce the associated credit risks?
- ✓ Do the loan proposals submitted to the bank for credit request is prepared maintaining with the required quality?
- ✓ Does the loans are approved after the required analysis is done?
- ✓ Does the loan collection strategy of the bank is supportive to reduce NPLs?
- ✓ Does managements and employees of DBE are enough capable to run the credit financing maintaining with the expected quality?

1.4 Objective of the study

The general objective of this study is to assess the credit management practice of Development bank of Ethiopia.

Specifically, the study endeavor,

- ✓ To evaluate credit request loan proposals as it has been prepared maintaining with the required quality.
- ✓ To assess the strategies that the bank follow to collect its loan on the due date,
- ✓ To evaluate the way the bank going to recruit applicants before it has to be entered contractual agreements,
- ✓ To evaluate the trends that the bank is going to address credit risks happened in relation to follow up and disbursement work.
- ✓ To examine wither the loan proposals are approved following the required approval procedure.
- ✓ To examine the capability and efficiency of managements and staffs in managing and administering the financed projects properly.

1.5 Significance of the Study

The study is significant for bankers, policy makers and other stake holders by generating pertinent information's and in indicating best practice and concepts for sound lending to enhance the performance of credit management.

On the side of the bank, the findings will enable the bank to find out the right strategy that helps to meet its institutional objectives and the country's economic development agenda as well. The study will provide some insights that the banks management to focus on areas that need special attention through identifying and prioritizing the severity of risks that adversely affect the soundness of the credit management. It will also enable to create conducive situations that the bank to review the credit operations critically for more result oriented approach by filling the existing gaps.

Beyond the importance of DBE it will also important for other financial institutions which are interested to engage in the project financing sector through to have the information's about the challenges and opportunities in the sector.

Moreover, the study is significant for future researchers who are interested to conduct a study in the credit management area. Researchers and scholars will use this study as a benchmark for the empirical literature of their study. Also it will have its own contribution by filling the existing gaps observed in the credit management researcher. It will also important to develop theories because the study is constructed based on qualitative research approach.

1.6 Scope of the Study

The scope of the study is restricted to assess the credit management practice of DBE at corporate level only in some selected directorates which are directly and indirectly engaged in the same related role in the credit management process. DBE districts, Branches and other financial institutions involved in the banking service are not included in the study due to its broadness of the topic.

1.7 Limitation of the Study

The study is focus only bank specific factors while macro level factors, such as political, social, Environmental, technological and other external issues were not considered as part of a study. In addition to this, credit policy issues were not included in the study area. Because it has a broad concept and it requires its own research title. Similarly Customer feedbacks were also not included in the assessment part. Absence of sufficient and adequate theoretical and empirical literature for same variables such as, due diligence assessment, and loan disbursement is the other challenging problem to support the result by evidence. Despite the aforementioned limitations, the study will be expected to meet its objectives.

1.8 Organization of the Study

The research has five chapters. The first chapter consists of introduction; which includes background of the study, statement of the problem, research question and objective of the study, significance of the study, scope of the study, limitation of the study, organization of the study definitions of terms. The second chapter contains related literatures in the study area particularly theoretical literatures and empirical literatures are discussed in detail. The third chapter includes the research methodology, research approach, the research design, population and sample size, data analysis methods and data collection method. Data interpretation and discussion is presented in chapter four. Conclusion and Recommendation is presented in chapter Five.

1.9 Operational Definition of Terms

Table 1.1.Terms and their operational definitions

Due Diligence	An assessment conducting to identify the integrity of the customer
Project Appraisal	Assessment of projects in terms of its economic, social and financial viability. It is a complete scanning of the project.
Project Approval	Evaluation of projects based on the established decision criteria to ensure that they have a clearly defined objectives and requirements.
Loan disbursement	The extension of money from one party to another with the agreement that the money will be repaid.
Project follow up	It is a general process for controlling and monitoring status of project work to ensure that the project is performed on schedule, within budget as per requirements.
Loan Repayment	It is the act of paying back money previously borrowed from a lender.
Management and employee competency	Ability of managements and employees to manage the financed projects and the overall credit activity in a safe manner,
Credit Risk	The risk that financial loss will be incurred to (derivatives) transactions does not fulfill its financial obligation in timely manner.

CHAPTER TWO

2. REVIEW OF RELATED LETRATURE

This chapter describes about the theoretical foundation and related empirical studies of credit management practices of banks.

2.1 Theoretical Foundation of the Study

2.1.1 Definition and Concept of credit

Different scholars define the word credit in accordance with different contexts. Among those scholars Jhibgan (2002), defines that the word credit is derived from the Latin word Creditum, which means to believe or trust. In economics, the term credit refers to promises by one party to pay another for money borrowed or goods or services received. It is a medium of exchange to receive money or goods on demand at some future date.

The other researcher Donald L. (2008), according to the context of commerce and finance, the term credit is used to denote transactions involving the transfer of money or other property on promise of repayment, usually at a fixed future date. The transferor thereby becomes a creditor, and the transferee, a debtor; hence credit and debt are simply terms describing the same operation viewed from opposite standpoints

Credit is the power or ability to obtain money, by the borrowing process, in return for the promises to repay the obligation in the future. Credit is necessary in a dynamic economy because of time elapse between the production of good and its ultimate sale and consumption Mulugeta (2010).

2.1.2 Definition of Credit Management

Some of the definitions provided by different researchers and scholars about credit management are described here under accordingly.

Wise (2014), describe that credit management is the process of making a series of investments based upon credit relationships and managing the encountered risks involved with these investments. According to the researcher, credit management encompasses assessing the risk involved with each loan and analyzing and determines the total amount of risks for all loans. The major objective of credit management is to enhance health loans through reducing the amount of loan defaults. Bankers can reduce the loan default risk by considering the credit repayment history of the client prior to grant loans.

The same with Hempel (1994), point out that Credit management is the efficient control and co-ordination of loanable funds so as to maintain credit and the investment in credit at optimal level. According to Hampel banks can't achieve institutional objectives without following effective credit management strategies. Together with this to establish effective credit management strategies it must be supported by effective risk assessment, control and follow-up strategies. A strong and effective credit management process is one that reinforces and compliments its corporate objectives and goals. The main problem that banks encounter in credit administration is that some of the granted credit facilities are not re-paid leading to loss of depositor's funds and emergence of bad debts.

According to Emmanuel (2012), it is the process of accurately assessing the credit - worthiness of the customer base. This is important when the company chooses to extend some type of credit line or revolving credit to certain customers. The researcher also narrates that Proper credit management calls for setting specific criteria that a customer must meet before receiving the required credit service. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer.

Pandy (1997), effective credit management is the output of the credit policy that the financing institution is implemented. According to the researcher, the effectiveness of the credit management is dependent on formulation of credit policy, evaluation of credit policy, implementation of credit policy, Administering and controlling the credit policy.

2.1.3 Credit Management Process

Credit process is the core process adopted by any bank and it has the authorized organ to pass decisions whether or not lend to the requested loans to the entity or individual borrowers after assessing the credit worthiness, integrity, financial position, customer identity and repayment capacity of the entity or borrower. According to Basu and rolfes (1995), they indicate that the success of credit lending institutions are built on a proper and quality credit management process. To maintain the health of granted loans managements at each level should be eager in taking relevant decisions based on the follow up reports received. Ineffective management process is one of the reasons that led to increase the bad loan ratios of the institution. Coyle (2001), a weak credit risk management system is a means for many non-performing loans.

The fundamental objective of credit lending institutions is to make profitable loans with minimal risk Boakye (2015), Management should target specific industries or markets in which lending officers have expertise. The credit process relies on each bank's systems and controls to allow management and credit officers to evaluate risk and return tradeoffs.

According to Timothy (1995), the credit process includes three functions: business development and credit analysis, credit execution and administration, and credit review.

- **Business development and credit analysis:** Business development is the process of marketing bank services to existing and potential customers. With lending it involves identifying new credit customers and soliciting their banking business, as well as maintaining relationships with current customers and cross-selling non-credit services.
- **Credit execution and administration:** The formal credit decision can be made individually or by committee, depending on a bank's organizational structure. This structure varies with a bank's size, number of employees, and type of loans handled. A bank's Board of Directors normally has the final say on which loans are approved. Typically, each lending officer has independent authority to approve loans up to some fixed dollar amount.
- **Credit review:** The loan review effort is directed at reducing credit risk as well as handling problem loans and liquidating assets of failed borrowers. Effective credit management separates loan review from credit analysis, execution, and administration. The review process can be divided into two functions: monitoring the performance of existing loans and handling problem loans.

2.1.4 Areas of Credit Management

Every financial institution engaged in the credit financing sector is prioritizing the most focusing areas of the credit management sequentially based on the encountered risks in the loaning process. According to Edwards (2004), Credit Management process of banks can be summarized in three main stages, namely Credit Initiation, Documentation and Disbursement and Credit administration or monitoring. Lenders give due attention for more risky areas in the lending activity. The areas which need special management concentration are described here under accordingly.

- **Credit initiation: -** credit initiation is one of the credit management areas of many credit lending institutions. The credit initiation is a process that starts from a market analysis and ends at the credit application approval Emmanuel (2012). According to Emmanuel, this process includes, survey and industry studies, prospect lists, customer solicitation, negation & presentation, credit committee approval and customer advice. The credit initiation and analysis process should follow a typical diagnostic process flow, beginning with screening of potential customers and data collection, followed by identification, analysis and measurement of risks, and then moving to a series of specific risk evaluation and risk mitigation actions in preparing for a credit decision.

- **Disbursement**: - transferring the credit grant to customers through verifying wither beneficiary is fulfill all terms and conditions that is stipulated on the grant agreement Michael (2015), point out that Credit disbursement is the act of giving or paying out money to customers who have been accessed and approved to be given credit. In the loan disbursement process lenders should make sure does the credit is utilized for the planed objective as per the contracts signed between the lender and the borrower. The researcher also recommends lenders to verify the authenticity of the security and other required documentations are received certified before funds are given out to the qualified customer.

- **Credit Monitoring**: - According to Emmanuel (2012), credit monitoring refers to the credit support, control systems and other practices necessary for the effective monitoring of credit risks taken by the Bank. The researcher point out Control of Credit files, Safekeeping of credit and documentation files, Follow-ups for expirations of essential documents like CA's and insurance, Control of credits and excesses over approved lines, Monitoring of collateral inspections, site visits and customer calls, Monitoring of repayments under term credits are some of the major credit management areas in the credit monitoring process.

According to Huppi and Feder (1990), concludes that efficient monitoring leads to high repossession of loans by revealing likely dangers (like loan diversions) and reminding defaulters of their responsibilities towards the lending institution ,thus calling for redoubling of efforts in the direction of loan repayments. The same with Robinson (1962), many of the agonies, frustrations and distress financial institutions can be reduced by good credit monitoring and follow up process.

2.1.5 Credit Analysis

Effective Credit analysis plays a vital role to maintain the credit quality through identifying and reducing the upcoming credit risks. According to Boakye (2015), credit analysis is important for deciding the credit worthiness of borrowers, assessing the likelihood of default and diminishing the risk of non-reimbursement to an acceptable level. The researcher also concludes that credit risk analysis is basically default risk investigation, in which the loan officers endeavor to assess a borrower's capacity and eagerness to reimburse.

To reduce the credit risk on a loan request process conducting a Credit analysis is the most desirable method. This helps to determining the financial strength of the borrowers, estimating the probability of default and reducing the risk of non-repayment to an acceptable level. In general, the credit evaluations processes are done based on the loan officer's subjective assessment (Hagos, 2010).

Once a customer requests a loan, the credit experts analyze all available data's to determine whether the loan meets the bank's risk-return objectives. To ensure this objective every financial institutions, Bankers and lenders engaged in the loaning sector are most of the time used the 5 C's of credit to measure borrowing reliability and credit worthiness. Clearly Understanding the 5 C's of Credit will give some insights the bankers or lenders how can they work with the loan applicant following in the right way. This five C's are the key denominators of an applicant's creditworthiness.

According to Lawrence (1997:776-777), identified five C's of credit accordingly. They include; Character, Capacity, Capital, Collateral, and Conditions.

1. **Character:** The applicant's record of meeting past obligations, financial, contractual, and moral. Past payment history as well as any pending or resolved legal judgments against the applicant would be used to evaluate its character.
2. **Capacity:** The applicant's ability to repay the requested credit. Financial statement analysis, with particular emphasis on liquidity and debt ratios, is typically used to assess the applicant's capacity.
3. **Capital:** The financial strength of the applicant as reflected by its ownership position. Analysis of the applicant's debt relative to equity and its profitability ratios are frequently used to assess its capital.
4. **Collateral**: The amount of assets the applicant has available for use in securing the credit. The larger the amount of available assets has the greater the chance that a firm will recover its funds if the applicant defaults. A review of the applicant's balance sheet, asset value appraisals, and any legal claims filed against the applicant's assets can be used to evaluate its collateral.
5. **Conditions:** The current economic and business climate as well as any unique circumstances affecting either party to the credit transaction. Analysis of the general economic and business conditions, as well as special circumstances that may affect the applicant or firm is performed to assess conditions. In other context Matovu & Okumu (1996), they strongly recommend lenders to apply 5C's principle to evaluate the credit worthiness of borrowers prior to establish contractual agreement.

2.1.6 Credit appraisal

The term appraisal is the comprehensive and systematic assessment of all aspects of a proposed project. In other words, it is the professional judgment of value of the asset, property and collateral based on the recent market value. According to Tekeste (2016), credit appraisal does mean the evaluation of fresh or enhancement proposals on the basis of futuristic data. The researcher revealed that when appraising proposals, the banker tries to find out: the financial need of the client, end-use of funds, viability of operations and risk involved. In case of proposals involving working capital finance, the banker can ascertain the aforesaid factors only when he/she is supplied with the business plan of the borrower for the ensuring period. Business plan is expressed through operating statement, balance sheet, funds flow, and cash flow statements, all on projected basis. Similarly Rosemary (2013) sought out client appraisal is one of the major solution to reduce credit risks in the credit management process. Together with the credit appraisal bankers should clearly understand and evaluate the collaterals provided by the client on the replacement of the credits received. This idea is supported by Inkumbi (2009) notes that capital (equity contributions) and collateral (the security required by lenders) as major stumbling blocks for clients trying to access capital.

Financial institutions engaged in the loaning service should conduct adequate appraisal work before granting loans to borrowers. That is why project appraisal is usually seen as a major activity of lending institutions while project feasibility study is normally undertaken by project promoters/consultants. Project appraisal is one of the crucial stages in the loan processing procedures, because this stage provides relevant information about the financial strength and creditworthiness of the customer. Some of the factors considered in granting loans include; applicant's background, the purpose of the request, the amount of credit required, the amount and source of borrower's contribution, repayment terms of the borrower, security proposed by the borrower, location of the business or project and technical and financial soundness of the credit proposal (ADB Desk Diary, 2008).

2.1.7 Review of appraisal guideline reference with DBE

- **Background Information: -** Particulars of the project like name of the Appraisal Team, Applicant, Objective of the Project, Purpose of the Loan, and Status of the Project (New / Expansion), type and location of the project and form of organization shall be discussed in this section.
- **Success and Risk factors: -** Summarize the level of risk with its mitigation mechanisms and success factors of the project. Present Risk Grade in Tabular form.
- **Market and Marketing Strategy: -** The findings with regard to the market prospect of the project in terms of market penetration capability, major advantage, such as location, quality cost, and etc must be pointed out. Indicate SWOT analysis results.

- **Technical Feasibility: -** The highlights of location, layout, and cost estimates, appropriateness of technology selected, production capacity, infrastructure, and related issues will be discussed in brief.
- **Organization, Management and Manpower: -** Soundness of the proposed organizational set up and competence of management along with availability of manpower shall be indicated under this section.
- **Financial Viability: -** Summary of investment costs, and financing schemes and findings of the financial analysis made with regard to profitability, liquidity and Sensitivity test must be pinpointed.
- **Socio-Economic Justifications:-**Issues like creation of employment opportunities, utilization of domestic resources, regional development, and taxes revenue to the state, export earnings and foreign exchange saving capacity should be stated (DBE, 2008).

2.1.8 Credit Approval

Credit approval is the decision passed by the approval committee by which the lender decides whether an applicant is creditworthy or not and should receive a loan. Effective approval process is a key predecessor to favorable portfolio quality, and a main task of the function is to avoid as many undue risks as possible. The goal of credit review or examination is not only to identify current portfolio problems, but it also identifies potential problems that may arise due to ineffective policies, irrelevant trends, lending concentration, or non-adherence to policies.

In banking the approval process plays a great role in managing and controlling credit risks related with problems happened due to appraisal mistake through conducting deep analysis and review of the presented document. Every Credit lending institutions should have in their own written guidelines on credit approval process, approval authorities of individuals or committees as well as decision basis. The board of directors should always monitor loans. Approval authorities will cover new credit approvals, renewals of existing credits and changes in terms and conditions of previously approved credits particularly credit restructuring which should be fully documented and recorded (Jappelli & Marco, 2007). Prudent credit practice requires that persons empowered with the credit approval authority should not have customer relationship responsibility. Approval authorities of individuals should be commensurate to their positions within management ranks as well as their expertise (Mwisho, 2011).

Any decisions passed by the approval process should be based on a system of checks and balances. Some approval authorities will be reserved for the credit committee depending on the size and complexity of the credit transaction (Jansson, 2012). Depending on the size of the financial institution, it should develop a corps of credit risk specialists who have high level of expertise and experience and who have demonstrated judgment in assessing, approving and managing credit risk. An accountability regime should be established for decision-making process accompanied by a clear audit trail of decisions taken and proper identification of individuals/committees involved. All this must be properly documented (Hoque & Hossain, 2008).

All credit approvals should be at an arm's length, based on established criteria. Credits to related parties should be closely analyzed and monitored so that no senior individual in the institution is able to override the established credit granting process (Greuning & Iqbal, 2007). Related party transactions should be reviewed by the board of directors under due processes of good governance.

Mwisho (2011) concludes that related with credit unions approval practice, he recommended that credit unions to have a written loan policy that is approved by the board of directors of the financial institutions. The board should review the policy on an annual basis and revise where necessary. The loan policy should include the policy objective, eligibility requirements for receiving a loan, permissible loan purposes, acceptable types of collateral, loan portfolio diversification requirements, loan types, interest rates, terms, frequency of payments, maximum loan sizes per product type, maximum loan amounts as a percentage of collateral values, member loan concentrations, restrictions on loans to employees and officials, loan approval requirements, monetary loan limits, loan documentation requirements and co-signer requirements. Besides the loan policy, credit unions should also develop lending procedures which are developed by the operational management team who are responsible to up-to-date and ensure they are indicative of current lending practices (Gestel & Baesen, 2009).

Loan concentration limits is one of the critical element of the loan policy. In the practice of Development Bank of Ethiopia, the bank limits the borrowing capacity of customers by set different restrictions. Currently the bank issue the maximum of credit up to the banks 1/3 of paid up capital. This is not workable at the banks district and branch office, when applicants of the banks district & branch request credit above the districts/branches lending capacity they should be treated through head office.

The second critical component in the loan policy is the restriction placed on loans to employees, officials and their immediate families. Muranga (2011) indicated that the board of directors should approve all loans to these individuals by a simple majority vote. However the official or employee requesting the loan should not be present during the board discussion and vote. It is essential that the rates, terms and conditions on loans made to or guaranteed by an official, employee or their immediate families are not more or less preferential than the rates, terms and conditions of loans granted to other members of similar credit history subject to specific review. The audit committee or its designee should review the loan portfolio at least semi-annually. The objective of this review is to determine the quality of the loan portfolio, discover any loans which have problems and provide suggestions for loan recovery in order to minimize losses. The committee should also ensure compliance with loan policy and procedures and present their findings to the board of directors (Fredrick, 2017)

2.1.9 Powers and Duties of the Approval team reference with DBE

The Team will have the following Powers and duties:

- The Team shall based on the written policies and procedures of the Bank, review and pass its decision on all loans and project rehabilitation proposals primarily closely scrutinized and approved at multiple stages down the line and submitted for its consideration and final approval
- The Team shall ensure that loan and project rehabilitation proposals are in full compliance with the Bank's policy and procedure and loan appraisal guideline/format.
- The Loan Approval Team operates in the belief that the various organs of the Bank participating within the loan screening and multiple loan approval ladder not only function properly and efficiently to uphold their designated responsibilities but also to promote the effective implementation of Bank policy.

- The Team shall from time to time, in connection with the credit policy, loan approval and project rehabilitation processes and with the overall objectives of improving the loan and project rehabilitation approval process and system, submits its considered views, on identified shortcomings and weak points as regards the loan appraisal and approval process in general.
- The Team thus as a rule continues its work with the firm belief that its recommendations to management for the improvement of identified shortcomings in the above areas and in general in relation to the credit relations, loan administration and loan appraisal system will be taken care of without more ado so as to ensure its normal, continuous and uninterrupted operation.
- The Credit Process representative or Project Rehabilitation and Loan Recovery sub-process owner or representative shall submit a particular credit research document or proposal to the Team for consideration. In such cases he/she shall present, explain and defend that particular project without having a right to Vote.
- The loan appraiser may be summoned by the Approval Team, as and when appropriate to explain a credit research document (DBE, 2008).

2.1.10 Project Supervision and Follow-up

To ensure the financed projects are properly implemented and operating, lending institutions should conduct regular follow up works regularly. Because supervision and follow up in the current dynamic environment plays a key role the institutions seek to identify associated risks tackled in the financing process. According to the study of African Development Bank in (2010), describes that the importance of supervision and follow up work accordingly,

The study revealed that, Supervision can play a key role in achieving development results and impact, through pro-active problem solving and trouble shooting, a focus on results and long-term development objectives, in addition to this, it helps through Identifying supervisions, the institution to invest effective resources where needed, implementation assistance can contribute significantly to better aid effectiveness. Moreover, effective follow up and supervision provides some insights that Management is re-considering and redesigning the project supervision system and operations manual at the Bank. The evaluation is expected to add value to this effort to become more results-oriented by providing key evidence on supervision performance, reasons for this performance, and best practices.

Among other things, the reason loans to be entered in a bad loan category is due absence of conducting effective supervision and follow up work after the loan is disbursed. If lenders pay attention to monitoring and control they can reduce the occurrence of bad debts (Rouse 2009). In monitoring and control Rouse identified internal records, visits and interviews, audited accounts and management accounts as some of the ways that help in the monitoring and control process. This can reduce the occurrence of non-performing loans through ensuring the utilization of the loan for the agreed purpose, identifying early warning signals of any problem relating to the operations of the customer's business that are likely to affect the performance of the facility; ensuring compliance with the credit terms and conditions and enabling the lender discusses the prospects and problems of the borrower's business.

In the monitoring and control process, a lending decision can be made on sound credit risk appraisal and assessment of creditworthiness of borrowers. Though past records of satisfactory performance and integrity serve as useful guide to project trend in performance they don't guarantee future performance. Aloan granted on the basis of sound analysis might go bad because the borrower may not meet obligations per the terms and conditions of the loan contract (Norton and Andenas, 2007). The other researcher Tekeste (2016), revealed that the importance of regular follow up work to ensure the soundness of the credit management and he conclude lenders must conduct strict follow up works to the utmost degree to minimize the occurrence of bad loans.

According to the view of different researchers follow up systems are classified in to three basic categories. These are: physical follow up, financial follow up and legal follow up.

Physical follow up, this is a type of follow up which helps to ensure existence and operation of the business, status of collateral properties, correctness of declared financial data, quality of goods, conformity of financial data with other records, availability of raw materials, labor situation, marketing difficulties observed, undue turnover of key operating personnel and change in management set up among others McManus (2010).

Financial follow up, required to verify whether the assumptions on which lending decisions was taken continues to hold good both in regard to borrowers' operation and environment and whether the end use is according to the purpose for which the loan was given.

Legal Follow up, the purpose of legal follow up is to ensure that the legal recourse available to the Bank is kept alive at all times. It consists of obtaining proper documentation through registration and follows up of insurances to keep them alive Rose (2009).

Once a loan is granted to the client, it is the responsibility of the business units should administer and manage in collaboration with a credit administration support team, to ensure that the credit is properly maintained. This includes keeping the credit file up to date, obtaining current financial information, sending out renewal notices and preparing various documents such as loan agreements.

Given the wide range of responsibilities of the credit administration function, its organizational structure varies with the size and sophistication of the bank. In larger banks, responsibilities for the various components of credit administration are usually assigned to different departments. In smaller banks, a few individuals might handle several of the functional areas. Where individuals perform such sensitive functions as custody of key documents, wiring out funds, or entering limits into the computer database, they should report to managers who are independent of the business origination and credit approval processes.

In developing their credit administration areas, banks should ensure the efficiency and effectiveness of credit administration operations, including monitoring documentation, contractual requirements, legal covenants, collateral, etc. in addition to this, the accuracy and timeliness of information provided to management information systems, adequate segregation of duties, the adequacy of controls over all "back office" procedures and Compliance with prescribed management policies and procedures as well as applicable laws and regulations are the key components of credit administration consideration areas.

In the credit lending process there are common areas that all financial institutions to be focused on. Before providing credit grantee to borrowers' lenders should make adequate pre and post credit assessments. According to Lamia (2012), the following things are the most common consideration areas of in the pre and post credit assessment stage.

According to the researcher, lenders should assess Project Profile, ration analysis, financial statement analysis, management capabilities, collateral aspects and fulfillment of the required documents at the pre sanctioning stage. While, loan monitoring and post loan review assessment works are conducted at the post sanctioning stage.

2.1.11 Credit Risk

Any financial institutions which are engaged in a credit service always must consider the occurrence of upcoming risks together with the service they provide. Because the two terms never can't see separately. For every credit service there is often the expected associated credit risk. Different scholars define the word credit risk using their own words. Credit risk occurs when the debtor cannot repay part or whole of the debt to the creditor as agreed in the mutual contract (Dam Dan Luy, 2010). 'The potential that a contractual party will fail to meet its obligations in accordance with the agreed terms' Ken Brown & Peter Moles (2016). Default risk, performance risk and counterparty risk are the basic features of credit risk according to the view of scholars. They also put three basic characteristics that could define the term credit risk.

- Exposure (to a party that may possibly default or suffer an adverse change in its ability to perform).
- The likelihood that this party will default on its obligations (the default probability).
- The recovery rate (that is, how much can be retrieved if a default takes place). Note that, the larger the first two elements, the greater the exposure.

Credit risk is the most common risk which is occurred in the banking industry. The credit quality of the lenders is directly or indirectly determine by the lenders ability to control such risk. According to Giesecke (2004) he describe that credit risk is by a long shot the most significant risk confronted by banks and the accomplishment of their business relies upon exact estimation and productive management of this risk to a more noteworthy degree than whatever other risk. Chijoriga (1997) credit risk is the most expensive risk in financial institutions and its effect is more significant as compared to other risks as it directly threatens the solvency of financial institutions. Fatemi and Fooladi (2006) characterize credit risk as risk that occurs from the ambiguity in a borrowers‟ capacity to meet his/her debt. In general credit risk is the most serious issue in the banking industry and it requires special treatments in the credit financing process.

Beyond other things credit risk is the primary factor for many financial institutions failure and reason to liquidate from the industry. Therefore, to ensure the safety of the organization bankers/lenders should enforced to establish strong credit risk management strategies.

2.1.12 Credit Risk Management

Lending is the core operational activity of in a banking industry and it is the most profitable asset of the institution. Banks should ensure the health of the loan they provide to their customer through establishing strong credit management environment. According to Lillan (2013), the success of Credit management is mainly determined by the level of risk management in place, policies and procedures, professionalism and governance. The effectiveness of a bank is measured by its ability to manage the approaching credit risks properly in the loaning process. Bankers should have correctly formulated, well designed and clearly understood credit policy that supports to meet the credit risk management strategies of the institution. At all levels of the bank management should give due attention to avoid unnecessary risks and correctly assess the opportunities for business development. When financial institutions have effective credit risk management strategies it creates the comfortable situations to meet their fundamental objectives. According to the definitions of M.N. Lapteva (2009), Strategic management is a continuous process of selecting and implementing the goals and strategies of the organization. The author also describes the basic strategic goals that effective strategic management depends on; Growth, protection and development are the most ultimate goals of strategic management.

King (2008), defines the term credit management as the “policies and practices businesses follow in collecting payments from their customers”. The ultimate goal of credit risk management is to maximize a bank’s risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks should manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization. Poor credit risk management is the major cause of many business failures. Many small businesses have neither the resources nor the expertise to operate a sound credit management system (Richardson, 2002).

Credit risk management involves the policies and procedures made to assess, identify, measure, control and monitor the risk that can arise from the potentiality of the loan nonpayment or default.

2.1.13 Controlling for Credit Risk

According to Bernanke (2009b), "one of the lessons learned from the current financial crisis has been the need for timely and effective internal communication about risks". This is observed in a study conducted by the Controller of the Currency where the findings show that the main component to the failure of financial institutions was the inadequate control over loan quality Apadoford (1988). The researcher point out some determinant factors that led to affect loan quality. According to the researcher, factors such as, Inattention to loan policies, over indulgent loan terms and nebulous standards, Perilous concentration of credit, Weak control over loan administrators, Inadequate systems to identify loan problems. Excessive growths of loan portfolio are some of the means for poor control over quality.

2.1.14 Credit Collection Methods

In the credit management process the establishment of adequate credit collection strategy is the primary task for all lenders. Effective credit collection techniques are one of the necessities for financial institutions in any economic climate. Knowing how to encourage customers to pay their outstanding debts to financial institutions like banks on time can increase the cash flow of banks. Therefore to reduce bad loan ratios across the organization lenders should use different collection techniques. According to Michael (2015), Timely issuance of reminder letter to defaulters is one of the relevant steps that facilitate arrears collection. Hagos (2010), under normal circumstances loan clients are expected to pay in cash or deposit or keep their installment repayment as per the agreement made. As the loan account becomes past due or overdue the collection effort becomes more personal and strict. The researcher point out that, telephone calls, personal visits writing reminding letters, using collection agencies are some of the common techniques used in the loan collection process. Additionally, taking legal action is the other alternative in the efforts to collect loans. Kariuki (2010), organization should put their own collection policy to ensure that the credit management is done effectively maintaining with its soundness. Collection policy is one of the primary tools to assure the health of loans when customers do not pay the firms bills in time. Some customers are slow payers while some are non-payers. The collection effort should, therefore aim at accelerating collections from slow payers and reducing bad debt losses

2.2 Empirical Literature

According to Fredrick O.Nyasaka (2017), effective Loan appraisal and subsequent approvals based on borrower's capacity, character, condition, credit history and collateral reduce Non-performing loans and it has a great contribution that the institution to ensure the health of loans. In addition to this; the researcher also reaches an agreement, establishing strong controlling and monitoring mechanisms are the key points of ensuring sound credit services.

Evelyn (2014), by his research concludes that Client appraisal, credit risk control and collection policy are some of the common factors to be considered in the credit management process. According to the view of the researcher to ensure the portfolio quality lenders should follow adequate credit management strategies.

Rosemary (2013), by his study concludes that, credit appraisal; credit risk control and collection policy had directly affected the lending process of the institution. The study revealed that a unit increase in client appraisal, credit risk control and collection policy would lead to increase the loan performance of the institution. This is an indication that there was positive association between those variables and loan performance.

Spéciose (2016), by his research concludes that, financial institutions can reduce the upcoming credit risks through conducting detail analysis in accordance with five C's criteria. Occupying additional collateral Substitutes, providing different trainings about loan repayment schedule and other non-financial services to customers and the staff has appositive contribution in the credit management process. According to the researcher, following effective credit risk mechanisms influenced the loan recovery and reduces the level of bad debt.

Michael (2015) was conduct a study about the credit management practice of societies in Obuasi Municipality credit unions and he point out how poor qualified and staff affects in the credit management process. In addition to this, the researcher concludes roles of technologies to improve credit management activities in better way. According to the view of the researcher technology helps to maintain consistency in credit decision making. These indicate that this department of the credit union is not resourceful as will be expected from a sector that manages the biggest assets of the societies.

Minh (2013) revealed that establishing effective risk management is the most important tool to control the bad debt rate; the credit risk management is an important task. According to the view of the researcher factors such as, Credit analysis is one of the tools the banks use to analyze the customer data in order to make the loan approval decision. The policies and strategies are the other issues and aims to provide a risk control techniques for the banks. The last principle of credit risk management is the lending guideline. In fact, the lending guideline is a combination of many lending policies that issued by the bank for its staff members when dealing with a loan application.

Yalemzewd (2013), by his study indicate that subjective consideration in the loan approval process leads to distortion in decision and result inconsistency in decision making. To avoid credit risks occurred related with this the researcher recommends as bankers should reduce subjectivity considerations in approving a credit request and develop a sense of accountability and transparency at each level.

Yohannes (2015) mentions some important factors that lead to establish effective credit managements in the credit financing process. According to the researcher, improving the credit risk management practice, improving the quality of credit granting process, establishing appropriate credit risk environment, recruiting adequate and qualifies credit and credit risk management staffs and experts, putting a well-documented credit management strategy, policy and procedure, conducting a comprehensive credit worthiness analysis during credit offering might have a significant effect and positive effect on the credit management process.

Alebachew (2015), was conduct a study about the credit risk management practice of Buna International Bank S.CO (BIB) and he point out some internal factors that directly affect the credit management practice of the bank. According to the researcher, factors such as, poor credit policy, weak credit analysis, poor credit monitoring, inadequate risk management, lax proper procedures used for credit risk assessment and lack of trained lending personnel or experts on project loans, and overestimated of collateralized properties have a significant influence towards the attainment of successful credit risk management .

Hagos (2010), fin out the importance of effective collection techniques in order to ensure the sustainability of the institution. Banks to meet its financial obligation, they should enhance their collection capacity through convincing the client to pay their debit in accordance with the agreed terns with the bank. Without following a proper collection technique, it is difficult the banks to assure its organizational sustainability. Therefore, collection must be the primary task of all financial institution which is engaged in the credit financing role. In addition to impacts of collection Hagos also conclude that, lengthy and reluctant credit analysis and loan approval process has also a negative effect on the soundness of the credit management.

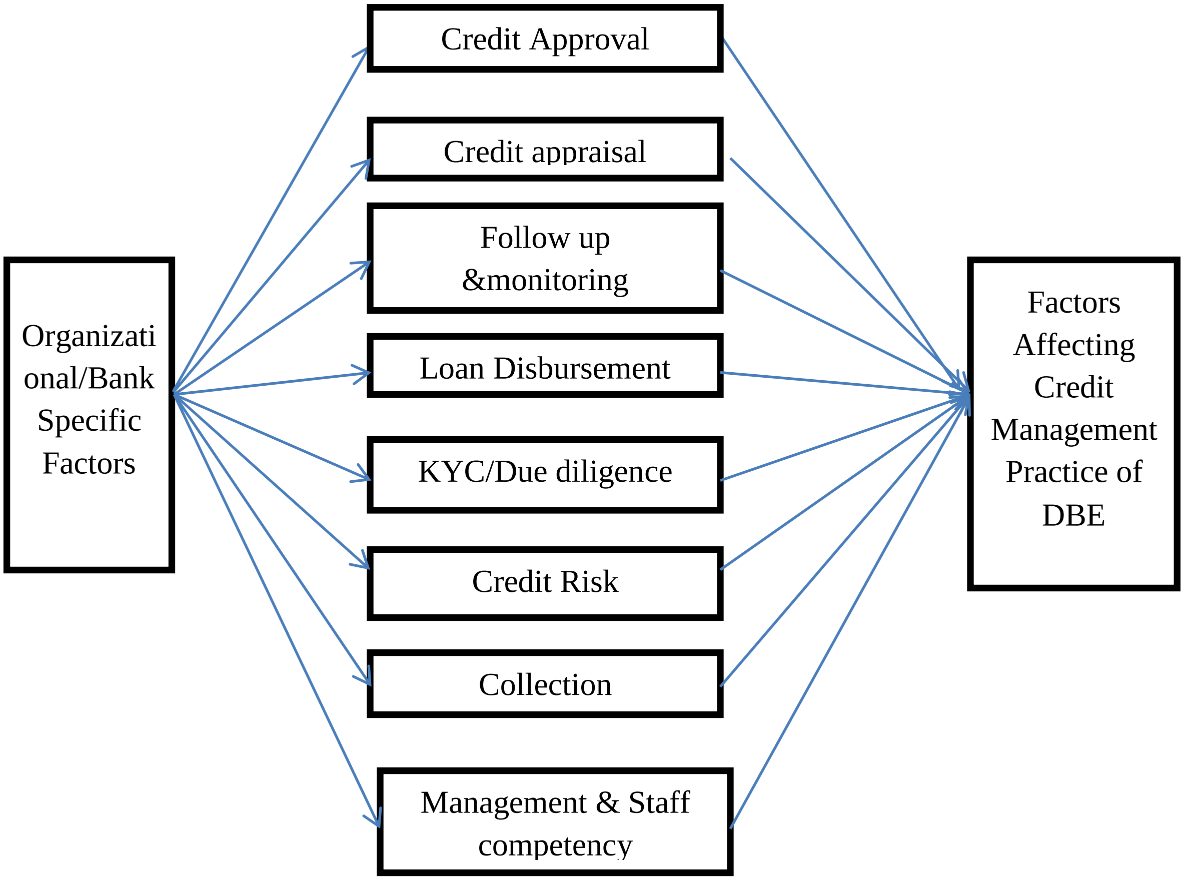
Tekeste (2016), was tried to assess the credit management practice of Berhan International Bank S.C (BIB) and he point out some relevant factors to be considered in the credit management process. According to the view of the researcher, Visiting business on regular basis after disbursement , applying due care before granting a loan, establishing payment guideline, considering prompt payment, writing reminder letter, providing incentive for prompt payment are some of advisable points to be taken by banks.

2.3 Conceptual Frame Work

The main objective of this study is to assess the credit management practice of Development bank of Ethiopia. Based on the objective of the study, the following conceptual notes are framed. As it has been explained in the literature review part, the soundness of credit management can be affected by different organizational factors. Those organizational or bank specific factors are the common obstacles for the credit management practice of every credit lending institution. Beyond external factors, internal factors are the major problems for bankers to have high NPL ratio or poor portfolio quality.

Thus, the following conceptual notes are framed to summarize the main focus and scope of this study in terms of factors included.

- Conceptual Frame Work



2.4 Summary of Literature Review

The literature review outlined the need to adopt sound credit management practice and to achieve organizational goals through ensuring the loan portfolio quality. Sound credit management entails through conducting critical assessments at various stages in the loaning process. It requires a continues process starting from credit initiation stage to final loan repayment by a borrower. Litterateurs related with credit analysis, loan approval, credit appraisal, follow up and supervision, risk management theories and collection methods are described in detail. In addition to the theoretical aspect empirical facts are also discussed in the chapter. Local studies that have been done by different researchers on various Ethiopian commercial Banks were not this much enough to fill the gaps in the knowledge area. Therefore, this research is expected to bridge the existing gaps shown in the empirical evidence session. Finally, theoretical and empirical expositions described in this chapter by different researchers on the basic credit management knowledge areas are used as a guideline for this research.

CHAPTER THREE

3. RESEARCH METHODOLOGY

The objective of the study is to assess the current credit management practices of Development Bank of Ethiopia. The chapter briefly discuss about the overall methodologies utilized in the study. Particularly it deals about research design, research approach, the type of data used, data collection method, sources of data, population and the sample size and sampling technique used.

3.1 Research Approach

Qualitative research approach is used to analyze the collected information. Qualitative research is concerned with qualitative phenomenon. This approach is preferable when the researcher wants to investigate and analyze human behavior, opinions, expectations and attitudes about the study area through conducting depth study. According to Yalemzewd (2004), qualitative research is important when the researchers have little knowledge about the investigation area. He also noted that qualitative research is not intended to test a predetermined theory or hypothesis. On the other hand it is important for developing theories about the study area.

3.2 Research Design

Descriptive research design was utilized to finalize this paper. The collected data were analyzed through a descriptive statistics method like, frequency, Percentage and table. Descriptive research design is preferable when the researcher wants to provide important recommendations in practice. It is also important the researcher to collect a large amount of data for making detail analysis. According to Rosemary (2013), Descriptive research is used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation. The study were conducted on Development Bank of Ethiopia, Particularly it includes the core credit Directorates and other six directorates which have indirectly involved in the credit activity.

3.3 Data Source and Collection Instrument

Both primary and secondary data were used to undertake the research. Primary data were collected from respondents through questionnaires. In addition to this; in order to acquire relevant information's that were not included in the questionnaire the researcher were conduct informal discussions with professionals who have enough knowledge in the research area. Secondary data were organized from various manuals, credit policy and procedural manuals, annual reports and other supportive documents of DBE. The required information's were collected from respondents through distributing structured questionnaires. Process Directors, Deputy Directors, team leaders, senior officers and officers were involved to fill the questionnaires. The contents of the questionnaires are prepared in accordance with the credit management principles and theories and it has designed in a research question form. Questionnaires are relevant for administered tasks easily and conveniently with the study. Apart from this, questionnaires are also the most cost effective, less time consuming and easy to analyze the collected data. For this study all questions were try to develop in a likert scale format. A likert scale contains several declarative items and it creates conducive situations respondents to express their felling about the viewpoints in a topic. Moreover, respondents are asked to put their level of agreement to which wither they agree or disagree within the raised question in the statement. Based on this procedure the items raised in the statement should analyze on the bases of how will it discriminates between those whose total score is high and whose score is low.

3.4 Target population

Target populations in the study were include Managements and member of staffs currently who are working at credit management directorate (CRMD) and other six directorates those who are provide technical assistance to credit directorate. The organizational structure of DBE is categorized into core and support directorates. The core directorates manage the overall loan processing activity from the initial stage to the final accomplishment of the project. Whereas support directorates provide technical support to core directorate to meet the objectives set by the bank. As a result of this, in addition to the credit directorate, respondents are also selected from directorates such as, project appraisal, Project Rehabilitation and Loan Recovery (PRLR), Risk management (RM); Lease financing, external fund and credit management (EFCMD) and Portfolio management directorate (PMD). Selected management members and staff of the stated directorate were invited to fill the questionnaires. As human Resource management information indicates that there are 172 employees who have above officer position and 33 management members in the mentioned directorate. These are the total populations that the researcher was used as the source of information for the study.

3.5 Sample size

Sample size is one element of research design and that investigates need to consider as they plan their study. Reasons to calculate the required sample size include achieving both a clinically and statistically significant result and ensuring research resources are used efficiently and ethically. For this study respondents were selected from credit directorate and other six directorates which perform the same role with the core directorate. Only management members and staffs who have above officer position were allowed to fill the questioners. From the total 205 population, only 135 respondents were selected as a study sample size using the following formula.

$$n = N/ (1+Ne^2) = 205/ (1+205*0.05^2)$$

Description:

n = required sample size

t = confidence level at 95% (standard value of 1.96)

p = estimated respondents

m = margin of error at 5% (standard value of 0.05)

Based on this calculation the researcher was determining 135 sample size to fill the questionnaire.

3.6 Sampling and sampling Techniques

To meet the objective of the study the researcher were used stratified random sampling method to select relevant respondents from the entire population. Stratified random sampling is a type of probability sampling which selects members of the sample population from each sub population. It issued when the population is too large to handle and is divided into subgroups called strata.

Stratified sampling enables the total population to be divided into seven segments in line with their working unit. Namely, (Credit Management Directorate, Project Appraisal, Project

Rehabilitation and Loan Recovery, Lease Financing, Risk Management, External fund and credit Management Directorate and portfolio management Directorate.) this method helps the researcher to draw the relevant respondents proportionally from each directorate.

3.7 Data Analysis

The purpose of this study is to assess credit management practices of DBE and evaluate the soundness of credit it provides. The study was conducted only at Development bank of Ethiopia at Head office level. The data that was collected through questionnaires was tabulated and analyzed using the Statistical Package for the Social Sciences (SPSS) software package and analyzed through the help of descriptive statistical methods like, Frequency, percentage and table.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND DISCUSSIONS

This chapter presents the findings and discussions of the study based on the information collected from respondents. To meet the objectives set in chapter one 135 questionnaires' were prepared and distributed to respondents. From these 135 questioners only 120 (89%) of questionnaires are collected and used as source of information to accomplish the study. Therefore; the data presented below is discussed and summarized based on the response of 120 respondents. The data analysis starts from the demographic characteristics of respondents and it provides detail analysis to all questions which gets a response from the respondent. Finally the data is presented, analyzed, interpreted and summarized accordingly.

4.1 Socio Demographic Characteristics of Respondents

The socio demographic characteristic of respondents includes respondents' Gender, Educational status, year of experience and current work position of management members and staffs are presented and discussed as follows.

Table 4.1 Gender of Respondents

Gender	Frequency	Percentage
Male	83	69.2
Female	37	30.8
Total	**120**	**100**

Source: own survey

As indicated in the above table, only the responses of 120 respondents are utilized to finalize the research. Out of which 120 respondents, 69.3% (83) respondents are male respondents and the remaining 30.8% (37) respondents are female respondents.

Table 4.2 Educational Status of Respondents

Educational Status	Frequency	Percent
Diploma	-	-
First Degree	78	65%
MSc/MBA & Above	42	35%
Total	**120**	**100**

Source: own survey

As it can be seen from table 4.2,from the total respondents involved to fill the questionnaire, 65% or 78 respondents are BA Degree holders and 35% or42 respondents are MSC/MBA & above Degree holders. The researcher were try to include Diploma holders in the respondents sample frame. However, as indicated in the table, the researcher confirmed that staffs who have bellow first degree didn't employed in the selected study area.

Table 4.3 Work Experience of Respondents

Work Experience	**Frequency**	**Percent**
1-5 years	35	29.2
6-10 years	65	54.2
11-15 years	15	12.4
Above 15 years	5	4.2
Total	**120**	**100**

Source: own survey

With reference to table 4.3, from the total 120 respondents 29.2% or 35 respondents have five years and bellow experience in the credit area. The remaining 54.2% and 12.4% have the experience of six to ten years and above fifteen years of experience respectively within the credit management environment. Respondents which contain the lowest portion or 4.2% have the experience of above 15 years in the loaning sector the same with other respondents.

Table 4.4 Position of Respondents

Position	**Frequency**	**Percent**
Officer	38	31.6
Sr. Officer	65	54.2
Manager	17	14.2
Total	**120**	**100**

Source: own survey

As it is presented on table 4.4, the majority of the respondents are senior officers and which contains 54.2% out of the total respondents engaged to fill the questionnaire. Therefore; these indicates that the information collected from those respondents are expected to be relevant and the most valid. Because they have long years of experience in the loaning sector and expected to have better understanding about the overall strengths and problems encountered related with the service they provide. In addition to this; the information was collected from 38 officers and 17 Managers. This contains 31.6% and 14.2% from the total sample taken for the study.

4.2 Discussions about research related questions

4.2.1 The Loan Approval Process

Every financial institutions engaged in the loaning sector are their own loan approval process or approval team. The LAP plays a vital role by which the institution not to grant loans to default borrowers through identifying and conducting detail analysis about the credit worthiness of the applicant. The main function of the LAP/LAT is to assure the loan portfolio quality and the same with to avoid unnecessary risks as it is possible. In accordance with this, the loan approval process functions and practices of DBE are presented as follows.

Table 4.5 the Loan Approval Practice of DBE

Item No	Description	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
A	Loans are approved based on the bank's written guideline	28	23.3	69	57.5	13	10.8	8	6.7	2	1.7
B	Loans are granted by the appropriate level of management	29	24.2	56	46.6	21	17.5	12	10	2	1.7
C	the bank has adequate credit decision resource that they are able to make sound credit decision in consistent with the credit policy	13	10.8	48	40	23	19.2	30	25	6	5
D	The approval process has accountable for decisions taken & absolute authority to approve loans in the credit term	10	8.3	35	29.1	20	16.7	38	31.7	17	14.2
E	The project proposal has been subjected to careful analysis by a qualified credit analysist/approval team/	11	9.2	47	39.2	18	15	34	28.3	10	8.3
F	The evaluation process for approval is adequate to make appropriate decision	9	7.5	36	30	20	16.6	44	36.7	11	9.2

Source: own survey

The study sought to summarize respondents' level of agreement with the above stated statements relating to loan approval functions of DBE. As it shown in table 4.5 item (A), the majority of respondents agree with the position that the bank has approved the loans in accordance with the banks written guideline. From the total respondents 69 employees (57.5%) of respondents agreed that the loan approval has been done based on the banks written guideline. 28 (23.3%) of respondents strongly agree as the bank is approved loans in line with written guideline. It is also found that 13(10.8%) respondents are controlled to provide a response for the raised issue. However, some of respondents have a doubt about the loan approval practices of the bank. From the respondents who have hesitation about the loan approval practice 8 (6.7%) of respondents are disagree and the remaining 2(1.7%) of respondents strongly disagree with the presented idea. From here we can understand that the bank has good experience in approving loans maintaining with the governing approval written guideline. The idea is supported by Fredrick (2017), concludes that a proving loans based on the approval policy is one of the primary task for lenders in the credit management process. The implementation of the approval guideline has a number of benefits for the approval team (LAT) in particular and the bank in general. In the case of the approval team it helps the team to perform their work consistently depending only the written guideline. On the other hand it gives full right the team to reject unqualified credit request proposals that cannot meet with the written guidelines. On the banks side, it is important the bank to establish a credit relation only borrowers who meet the stipulated credit policy. Therefore, approving loans based on the approval guideline has its own contribution to assure the overall portfolio quality in the credit management. Due to the fact that the bank should continue its approval strengthen with this effort.

In connection with loan grantee as indicated item (B), 56 (46.6%) of respondents are agreed as loans have been granted by the appropriate level of banks management. Similarly 29 (24.2%) respondents strongly agree with the loans are strictly granted by the banks management. While from the respondents 21 (17.5%) of respondents are neutral whether or not the loans are granted by the banks management. In contrary, 12 (10%) of respondents are disagree with the stated statement and 2 (1.7%) of respondents strongly disagree with the idea. When it is conclude we can understand that the loan approval as it had been granted by the concerned banks management. Mwisho (2011), point out the importance of management concentration on the credit management process. The roles of management in the loaning process are very high in terms of assuring as the credit activity has been done following sound lending procedures. Managements are more closer to verify wither or not the credit service is run maintaining with policy objectives, strategic plans and institutional goals. In addition, they are also more responsible to take the required decisions as far as possible. Therefore, the receiving of management coverage is one of the methods to insure health credit financing of the institution.

In item (C) of table 4.4, the researcher were asked respondents view weather agreed or not about the bank has adequate credit decision resources that support the approval process/team to pass relevant decisions in accordance with the banks credit policy. In connection with this majority of respondents have positively responded to the issues presented. Among from the total respondent 48 (40%) of respondents are agreed with as the bank has to utilize sufficient credit decision resources. 13 (10.8%) of respondents also strongly agree with about the utilization of credit decision resources by the bank. 23 (19.2%) of respondents are controlled to express their feeling in this regard. While some of respondents are not satisfied with the credit decision resources of the bank which is currently used for decision making. From this respondents 30 (25%) are disagree and 6(5%) are strongly dissatisfied about the credit decision resources of DBE. As it can be seen the aggregate result of respondent the bank has enough resource in making decisions. The availability of adequate credit decision resources are very important for managements to make relevant decisions scanning with the realities existed in the ground. Due to lack of adequate credit decision resource financers may obliged to make ineffective decisions.

As the response of respondents expressed the above table in item (D) in relation with the approval processes authority and accountability for the approval of loans and the decisions taken, the result indicates that majority of respondents to have negative attitude towards for the statement. As it can be seen the table, the response of 55 (45.9%) of respondents indicate that respondents are not well satisfied with the loan approvals authority and accountability for the loans approved and the same with the decisions taken. In addition to this, 20 (16.7%) of respondents are neutralize themselves from providing suggestions. From the total population 35 employees or 29.1% or respondents and 10 (8.3%) of respondents are agreed and strongly agreed respectively. As it has been described the literature part in chapter two the result of the previous studies recommends that project proposals should be subjected to careful analysis by a qualified credit analysist/approval team/ and the process/team should be independent for making decision and accountable for the actions taken. It is clear that the interference of any third party in the role of the approval process can enforce the process/team to make faulty errors in the loan approving process against the governing approval principle.

As the result indicated in table 4.4 item (E), Out of the total respondent, 47 (39.2%) and 11 (9.2%) of respondents are agree and strongly agree within the questions asked to respond them. 18 (15%) of respondents are controlled to provide decisions, and the remaining 34 (28.3%) and 10 (8.3%) of respondents have negative response and disagree and strongly disagree respectively and they have not trusted by the bank's loan approval team and the project proposals prepared as well. When it is generalize as the study revealed the approval process team are enough capable to approve loans. In the loan approval process the approval committee/team quality is one of the pre-conditions that the team should fulfill. In connection with loan approval the role of the team are great in providing corrective measures when unqualified proposals are presented for credit request. Through conducting detail analysis the process provides concert suggestions to the appraisal process to appraise credit requesting proposals based on the banks credit policy

Table 4.4 item (F) above, the response of the respondents clearly indicates that the loan approval process of the bank has a limitation in decision making. According to respondents view, 44 (36.7%) and 11 (9.2%) of respondents are disagree and strongly disagree with the evaluation processes capacity in decision making. While others 20 (16.7%) of respondents are neither agree nor disagree within the asked question. 45 (37.5%) of respondents have positive response and they are sure the loan approval process/team has to make appropriate decisions confidently. In relation to making decisions the aggregate result indicates the team has a challenge in taking decisions independently. As different studies indicated the approval process/team should be independence of any third party interference. In this regard the bank should be responsible to establish accountable and fully authorized independent approval process.

Generally when it is conclude the function of the loan approval process in accordance with respondents' view the processes scores good result in the items described at A, B &C consecutively. While the process has a limitation for the items presented for D, E & F respectively. As different researchers' conclusion indicated in the literature part of chapter two, if not the bank fill those gaps it has negative implication on the credit management practice of the institution. According to Hoque & Hossain (2008) as indicated on the literature review part they conclude that the loan approval processes/team should be well qualified, experienced and highly expertise and who are capable to pass appropriate decisions through conducting demonstrated judgments in assessing, approving and managing credit risks. They also find out that the process/team should be accountable for decisions taken and must be evaluated by establishing a clear audit trail system. The decisions taken by the process should be based on the systems of checks and balances. The approval authorities of the process/team will be determined/ reserved for the credit committee depending on the size and complexity of the credit transaction Jansson, (2012). The other researchers Greuning & Iqbal(2007) concludes that the process should approve and evaluate the presented credit requesting proposals based on the established criteria. Moreover, researchers indicate that Credits to related parties should be closely analyzed and monitored so that no senior individual in the institution is able to override the established credit granting process. This is therefore, to maintain the credit qualities and ensure the health of the loans the bank should fill the gaps observed in this regard.

4.2.2 Credit Risk

As different studies shows that banks exploit the highest amount of money for credit guarantee. In this loaning process the associated risks are come together with the service provide. Credit is the most profitable and as well as it is the most risky business too. As a result of this; to mitigate the upcoming risks banks and other financial institutions engaged in this role are always committed to formulate adequate credit risk policies and strategies. Due to the fact that, the credit risk management practice of DBE is summarized accordingly depending on the respondents' response.

Table 4.6 Credit Risk Management Practice of DBE

Item No	Description	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
A	Credit policy of the bank that supports to credit risk management, including scope of lending, credit rating standards, portfolio management etc.	23	19.2	65	54.2	20	16.6	9	7.5	3	2.5
B	The bank has the experience in reporting risk status to the board of directors & top management for decisions making	21	17.5	50	41.7	21	17.5	24	20	4	3.3
C	When introducing new products& activities, the risk management process of the bank has a trend to evaluate the locus of credit risk, by seeking opinions from legal affairs, inspection team etc.	14	11.7	61	50.8	16	13.4	25	20.8	4	3.3
D	The bank has capable credit auditing process that verifies the accuracy of credit rating, status of borrower & other relevant information	12	10	51	42.5	23	19.1	29	24.2	5	4.2
E	The risk management process of the bank provides integrated management of asset with credit risk exposure & off balanceshet items.	7	5.8	44	36.7	32	26.7	31	25.8	6	5
F	The bank has conduct adequate pre credit risk assessment	8	6.7	33	27.5	29	24.2	40	33.3	10	8.3
G	The bank has conduct adequate post credit risk assessment	5	4.2	30	25	26	21.6	42	35	17	14.2

Source: own survey

As the table 4.6 item (A) clearly shows, 23 (19.2%) and 65 (54.2%) of respondents are strongly agreed and agreed respectively with the questions asked to respond them. They said the credit policy of the bank is used as a supportive document to the banks risk management practice. While 20 (16.6%) of respondents are neither agreed nor disagreed with the asked statement. The remaining respondents said the credit policy of the bank is not supportive to the risk management policy of the bank and they have negative argument with the asked question. When it is summarized depending on the majority respondent’s result, the credit policy of the bank is supportive to meet the credit risk strategy. In reality the risk mitigation strategy of a lender should be supported by the credit policy. The importance of good credit policy is essential to reduce the risk of bad debts, manage the company’s asset in a safe manner and it helps minimize the cost of granting costs.

As it is shown in the same table in item (B), respondents are asked to put their level of agreement about the banks risk status reporting culture to the board of directors and top managements as well. In this regard the majority of respondents have replied positively. In accordance with this when 21 (17.5%) of respondents strongly agreed and the other 50 (41.7%) are agreed too similarly. The other 21 (17.5%) of respondents would not like to respond the asked question. some respondents are not comfortable with about the banks risk status reporting culture. Among the respondents who have negative attitude 24 (20%) of respondents are disagree and 4 (3.3%) of respondents are strongly disagree with the idea. Reporting risk status to the board of directors and top management provides adequate information's to make the required decisions as far as possible before the severity of the risk is enhanced. In this regard the risk status reporting trend of the bank can be seen as a positive motive.

The question indicated in item (C) in the same table, related with the experiences of risk management process to work together with legal affairs and inspection team when introducing new products& activities the majority of respondents revealed that the process has god performance in this perspective. In accordance with this, 14 (11.7%) are strongly agreed and 61 (50.8%) of respondents are agreed with the idea. 16 (13.4%) of respondents are controlled from providing responses. While 25 (20.8%) and 4 (3.3%) of respondents are dissatisfied about the experience of the process to work with other concerned body's when introducing new products and they are disagree and strongly disagree respectively with the processes initiation to do assignments with the other party. The effort that the bank is going to work with other stake holders like legal affairs and audit inspection in a new product scheme is essential to mitigate credit risks before it has to be occurred. Because working with those stakeholders creates good opportunities the process to make adequate and detail analysis, about the nature, severity and characteristics of the risk in accordance with different angles.

Table 4.6 item (D) discuss about the capability of staffs in connection with verifying and analyzing the accuracy of credit rating, status of borrower & other relevant information. As the assessment indicated 12 (10%) of respondents are strongly agreed about the capability of staff to manage properly the issues raised in this respect. Similarly, 51 (42.5%) of respondents are agreed and they believe that the process has capable and qualified staffs. 23 (19.1%) of respondents neutralize themselves to provide conclusions about the raised issue. While 29

(24.5%) and 5 (4.2%) of respondents are disagree and strongly disagree. Those respondents are not trusted about the quality of staff to fit for the position. According to the result of majority respondents, we can conclude that the staff are enough capable to manage the encountered credit risks in a safe manner. Risk management is a primary objective of every financial institution which is engaged in the credit financing sector. Therefore; to meet the institutional credit risk management objectives lenders should have organized and professional staffs in the knowledge area.

For questions asked at item (E), 44 (36.7%) of respondents have positive response and agreed about the process has to apply integrated management system considering with the exposure of risk & off balanceshete items. Similarly, 7 (5.8%) of respondents are strongly agreed with the idea. While 32 (26.7%) of respondents are neutral to providing any suggestions related with the management practice. 31 (25.8%) of respondents are disagree and they are contradict with the presented idea. The same with 6 (5%) of respondents are strongly disagree that the process not to utilize integrated management system to assure the risk management practice of the bank. to mitigate credit risks in effectively lenders should follow integrated management system considering with risk exposures and severities. Risks are by its nature dynamic and varied in different situations. Therefore, to reduce the occurrence of those risks bankers should establish strong controlling risk mitigation strategy and it must be supported by the integrated management system. In these regard the experience of DBE is evaluated in a positive side.

Table 4.6, item (F) discuss about the pre credit risk assessment practice of the bank. In this regard the researcher was try to compile the respondents' agreement and described as follows. As it can be seen from the table the majority of respondents are not interested with the pre credit assessment experience of the bank. In accordance with this, 40 (33.3%) and 10 (8.3%) of respondents are disagree and strongly disagree and they conclude that the bank doesn't conduct adequate pre credit assessment before it has to establish a contractual agreement with the borrower. 29 (24.2%) of respondents would not like to provide any suggestions. While 33 (27.5%) and 8 (6.7%) of respondents are likely agreed and strongly agreed with the pre credit risk assessment experience of the bank. according to the majority respondents view the bank doesn't have good experience in conducting pre credit risk assessment work. Making adequate pre credit risk assessment is important to protect the bank from establishing credit relationship with default borrowers.

The same table item (G) the researcher was asked respondents and tried to know wither the bank is conducting adequate post credit risk assessments after granting loans to the borrower. Related with this the majority of respondents are not agreed about the post credit assessment trend of the bank. As the result of majority respondents indicated the table, 42 (35%) of respondents are disagreed and 17 (14.2%) of respondents strongly disagreed with the question asked to respond them. 26 (21.6%) of respondents neither agreed nor disagreed and remaining 30 (25%) and 5 (4.2%) of respondents replied positively. These shows that the bank has also not good performance in connection with the strategies used to tackle credit risks due to lax post credit assessment work.

When it is conclude the bank has good experience as the issues raised from item A to item E. However, for item F and G the bank has score low performance and it should be expected to improve pre credit and post credit risk assessment works. Conducting adequate and effective pre credit and post credit risk assessment should be the primary task for every lending institution. As different studies shown in chapter two it is the most relevant way of to reduce credit risk. According to Lamia (2012), the researcher was conducted a study about the credit management practice of city bank and he point out some important findings that lenders should give due attention at the pre and post sanctioning stage. The researcher recommended lenders to effectively analyze and evaluate about borrows worthiness before it has to establish relationships. Like project profiles, ratio analysis, financial statement analysis, management capability, collateral and fulfillment of the required documents are some of the major concentration areas to be assessed in the pre sanctioning stage. The researcher also argues that granting loans are not the ultimate goal of lenders. Beside to this they should always make adequate post credit assessment works till the borrower paid the required total principal and interest value. Effective loan monitoring, post loan review and other activities should be done at the post sanctioning stage. This indicates that; DBE has a lot of assignments left to fill the observed gaps in this regard.

4.2.3 Credit Appraisal

Appraisal is the primary activity of every financial institution engaged in the credit granting service. To ensure the soundness of the credit management lenders should have well organized credit appraisal process. Among other things the majority of projects fail due to poor appraisal evaluation. Due to this fact the researcher wants to assess credit appraisal practice of DBE and the findings are presented here under accordingly.

Table 4.7 the Credit Appraisal practice of DBE

Item No	Description	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
A	Appraised collateral values are calculated objectively & rationally	16	13.3	58	48.3	19	15.8	19	15.9	8	6.7
B	Collateral values are appraised based on the most recent official & standard asset price	11	9.2	34	28.3	21	17.5	44	36.7	10	8.3
C	When any changes need in the method by which collateral is appraised, verify that there are rational reasons for change	9	7.5	30	25	27	22.5	43	35.8	11	9.2
D	The loan proposal is appraised considering with the 10 project management knowledge areas.	13	10.8	42	35	32	26.7	27	22.5	6	5
E	The appraisal process has supported by latest project software's to determine the overall project activity	3	2.5	26	21.7	19	15.8	49	40.8	23	19.2

Source: own survey

Table 4.7 item (A) above indicates that the majority of respondents have positive response and they are satisfied with the procedures that the bank used to appraise collaterals. According to the view of respondents 58 (48.3%) of respondents are agreed, similarly 16 (13.3%) of respondents are strongly agreed. As the response of respondents in the above table indicates that, the bank has good experience in appraising collaterals based on rational reasons and objective measurements. 19 (15.9%) of respondents are controlled from expressing their agreements related with the questions asked. While there are some respondents with doubt about the techniques that the bank is used to appraise collaterals based on rational reasons and objective measures. From respondents who respond negatively 19 (15.8%) and 8 (6.7%) of respondents are disagree and strongly disagree respectively. Appraising based on objective and rational measure is important to reduce the occurrence of credit risks due to over and under cost estimation. Financial institutions have faced difficulties for different reasons in the credit line. Among those challenges Ineffective cost estimation in the appraisal process is one of the problems that the lenders to incur deteriorate credit stands.

For questions asked at item (B) in the same table majority of respondents have negative response towards with raised question. They argue that the bank doesn't use recent collateral evaluation documents and the current standard asset price. Following this 44 (36.7%) of respondents are disagreed and 10 (8.3%) of respondents are strongly disagreed. 21 (17.5%) of respondents would not like to provide their agreements. 34 (28.3%) of respondents are agreed as collaterals are appraised based on the reasonable standard asset price and as it has been evaluated following with recent evaluation document. Within the same table 11 (9.2%) of respondents also strongly agreed with the methods that the bank is used to appraise collaterals. To reduce encountered risks in relation to collateral value appraisal, bankers should make adequate analysis about the durability's of the asset, the current market values of the asset, and should confirm the borrower's asset ownership right. Therefore; as it can be seen the table the bank has gaps in this respect and should improve its appraisal according to the mentioned point of view.

Respondents have gave their view for questions related to collateral appraisal methods when any changes need to conduct in the collateral appraisal process indicated in item (C). The researcher wants to know wither the bank is allowed to make changes depending on acceptable and rational reason. In this regard the majority of respondents not agreed about the reasons that the collateral reappraised methods when any changes needed. As it can be seen the table 43 (35.8%) of respondents are disagree and 11 (9.2%) are strongly disagree. Out of the total respondent 27 (22.5%) of respondents are neither agreed nor disagreed about the methods that the bank used to revise appraisal documents. Same of respondents were responding differently about the methods that the bank is going to reappraise collaterals when any changes needed. According to the view of those respondents the bank has following reasonable methods in the reappraisal process. 30

(25%) and 9 (7.5%) of respondents are agreed and strongly agreed respectively with the methods that the bank is used in the collateral reappraisal procedure. As the response of the majority respondents indicate that the bank has limitation in terms of allowing collateral reappraising without seeking acceptable and rational reasons why it needs to revaluation. This may one of the determinant factors which are negatively affecting the soundness of the bank's credit management practice.

For the questions asked in item (D) the majority of respondents have respond positively. As many scholars recommended every credit lending institution should verify the loan proposals are subjected to appraised considering with the project management knowledge areas. The knowledge areas are classified in to core and facilitator. Appraisal officers always consider quality, scope and budget in the core appraisal process. There is project integration between the core project management knowledge area and the facilitators. The project integration integrates dependent process to the independent process. Facilitator knowledge areas include time management, human resource, procurement, risk management and communication management. As a result of this, to mitigate the approaching risk due to poor credit appraisal lenders should analyze the validity of appraisal documents wither or not the contents of the document are prepared in line with this knowledge areas. Due to the fact that, the researcher wants to know does the loan proposals of DBE is prepared in accordance with this principle. Related to this majority of respondents are agreed with the issue. 42 (35%) and 13 (10.8%) of respondents are agreed and strongly agreed with the asked question. 32 (26.7%) of respondents are controlled from responding their view for the asked question. While 27 (22.5%) of respondents are disagree and the same with 6 (5%) of respondents are strongly disagree about the questions asked.

Table 4.7 item (E) respondents were asked to express their attitude related with the questions wither the bank is used different project management software's in the appraisal process. Currently there are many highly version project software's which are used to determine the total project cost, schedule, the materials consumed and other activities throughout the project life cycle. As it can be seen the table 49 (40.8%) of respondents are disagree and 23 (19.2%) of respondents are strongly disagreed and they are not sure about the utilization of project software's for appraising loan proposals. 19 (15.8%) of respondents are neither agreed nor disagreed about the questions asked to respond. only 26 (21.7%) of respondents and 3 (2.5%) respondents are agree and strongly agree respectively as the bank has to utilized project management software's in appraising loan proposals. In connection with appraising loan requisition proposals depending on recent and standard asset price the bank has great limitation. These may be one of a determinant factor which is affecting the credit management soundness of the bank. Because collaterals are the grants occupied by the bank on the replacement of loan provision to the borrower for the reason to compensate loses if the borrower may unable to pay the borrowed money. In accordance with this, many researchers argue that lenders should make their appraisal depending on recent and standard asset price. Among those researchers Lamia (2012), point out the importance of apprising market value of assets depending on realistically standard asset price for assuring the health of loans. The researcher also point out lenders to consider control, marketability, and margin of assets during in the collateral evaluation process. Related with reappraisal of collaterals when any changes needed the bank has gaps in taking actions based on rational reasons. Job Evelyn (2014), also explains the importance of effective credit appraisal on sound credit management process (CRM). Effective credit appraisal is needed to be done every time when a member requested for a loan to avoid extending credit facilities to clients who were financially incapable to repay the borrowed credit as per the terms and conditions stipulated during the contract signed. During the time of credit appraisal, researchers indicate the key focusing areas that the appraisal officer should due attention, such as credit history of the member, disposable income of the client, collateral substitutes, and other loan delinquencies. The results of the researcher concluded, if a case is appraised properly, default rate is low and thus reduced provision on bad debts translating to better performance. Alebachew (2015) indicated the impacts of overestimated collateralized properties towards the attainment of successful credit risk management. This is therefore; from here we can understand as DBE should improve the appraisal procedures in order to reduce the approaching credit risks associated with in this regard.

4.2.4 due diligence/KYC Assessment

Due diligence assessment is a powerful risk management mechanism that encompasses the bank to undertake sufficient information about the credit worthiness of the borrower. Banks should have enough information and clear understanding about the strengths and weakness of the client before it has to be established credit relationship through conducting deep analysis and reviewing about borrowers past credit history, capacities and capabilities to manage business. The information's obtained from such kind of assessment is important the bank to pass relevant decisions wither to establish credit relation or terminate relations at the inception stage. The due diligence assessment practice of DBE is presented as follows in the stated table below.

Table 4.8 The Due diligence assessment

Item No	Description	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
A	The bank collects sufficient information from different source about a customer before enter a contractual agreement.	19	15.8	51	42.5	21	17.5	21	17.5	8	6.7
B	The bank conduct proper credit analysis to evaluate credit worthiness of the borrower	17	14.2	48	40	16	13.3	33	27.5	6	5
C	The borrower's credit worthiness is measured according to the five 'c' of credit (character, capacity, capital, collateral & condition)	24	20	48	40	21	17.5	19	15.8	8	6.7
D	The bank pass decisions about credit worthiness of borrowers matched against the credit standards of loan policy	7	5.8	58	48.3	19	15.9	26	21.7	10	8.3
E	Customers are only recruited based on the eligibility criteria &checklist of the bank without any third party interference.	4	3.3	31	25.8	26	21.7	41	34.2	18	15

Source: own survey

According to the respondents view indicated in the above table 4.8 in item (A), majority of respondents are positively responded as the bank has good trends in collecting relevant information's about the credit worthiness of the borrower from different sources before it has to be entered contractual agreement. Among the respondents 51(42.5%) are agreed the methods that the bank is going to collect information's about credit worthiness of the borrower. Similarly 19 (15.8%) of respondents are strongly agreed with the presented statement. While 21 (17.5%) of respondents are controlled to provide suggestions to the asked question. The remaining respondents are not comfortable about the way that the bank is going to gather information's about the credit worthiness of the borrower. From respondents who have such kind of attitude 21

(17.5%) and8 (6.7%) of respondents are disagreed and strongly disagree respectively. Bankers can reduce credit risks through conducting detail analysis about the credit worthiness of the borrower before screen as a banks customer. In this stage bankers should see past credit histories, loan repayment cultures, management skills and other important KYC areas in detail.

As the questions asked in item (B) the same table, respondents are asked to put their level of agreement wither the bank is conduct adequate credit analysis works that to verify and evaluate the borrower's credit worthiness. In this regard above 60% of respondents believe that as bank has to be conduct adequate credit analysis to evaluate the customer's credit worthiness. Particularly 48 (40%) of respondents are agreed and 17 (14.2%) of respondents strongly agreed with the methods that the bank is followed to evaluate the credit worthiness of the borrower. 16 (13.3%) of respondents are neither agreed nor disagreed with the asked question. While 33 (27.5%) and 6 (5%) of respondents are dissatisfied with the banks credit evaluation trend and they are disagreed and strongly disagreed respectively. In connection with this the majority of respondents are satisfied the methods that the bank is going to evaluate the customer's credit worthiness.

Within the same table indicated above in item (C), majority of respondents agreed that as the bank had to be evaluated and measure the borrowers' worthiness in accordance with the 5 'C' credit measuring criteria. From the total respondents almost 70% of respondents trusted that as the bank had to be implemented practically for measuring the credit worthiness of customers. 48 (40%) and 24 (20%) of respondents are agreed and strongly agreed respectively with the statements asked to respond. 21 (17.5%) of respondents choose the third alternative (neutral) and 19 (15.8%) and 8 (6.7%) of respondents are disagreed and strongly disagreed respectively and they have doubt about the implementation of five 'C' as a measuring criteria for borrowers worthiness. The five Cs are the most respected credit worthiness measuring criteria and which are used by lenders and other financial institutions involved in the credit financing sector. The idea is supported by Hagos (2010), and he point out applying 5Cs are the most essential determinants to reduce the credit risk on a loan request process conducting a Credit analysis is the most desirable method. This helps to determining the financial strength of the borrowers, estimating the probability of default and reducing the risk of non-repayment to an acceptable level. The 5 Cs is important for lenders to evaluate the credit worthiness of borrower in respect to characteristics of the borrower, conditions of the loan, attempting to determine chance of default and in general the risk of a financial loss for the financer. The five Cs of credit includes character, capacity, capital, collateral and conditions. In relation to this the bank has good experience in evaluating borrowers using 5Cs as a guiding rule.

Table 4.8 item (D) the researcher asked at what level the bank pass decisions based on the credit policy and at what percent it is implemented as a guiding document. In connection with this 58 (48.3%) of respondents are agreed with the idea and they believe that the decisions related with credit worthiness of borrowers are passed in accordance with the banks credit policy. The same with those respondents the other 7 (5.8%) of respondents also strongly agreed and react the same way. 19 (15.9%) of respondents are controlled to express their filings about the asked question. While the other 26 (21.7%) and 10 (8.3%) of respondents are disagreed and strongly disagreed respectively and they are not sure as the bank has to be made decisions based on the credit policy. As the majority respondents conclusion indicated to evaluate the credit worthiness of the borrower the bank has good trend in making decisions following the credit policy. Table 4.8 item (E) above shows that, the majority of respondents not agree about the customers' recruitment trend of the bank. As the respondents view indicates that, when41 (34.2%) of respondents disagree, the other 18 (15%) of respondents strongly disagree the same too. This implies that, it has the possibilities customers to be recruited without fulfilling the required eligible criteria which is noted on the checklist. From the respondents 26 (21.7%) of respondents are not interested to provide conclusions for the raised idea. Among others, 31 (25.8%) and 4 (3.3%) of respondents are agree and strongly agree respectively with raised issue and they are trusted by the recruitment process of the bank as it had to be done in accordance with the banks customer recruitment checklist. When it is summarized the bank has a gap in recruiting borrowers depending on the checklist. This shows that it has situations as the bank had to be selected borrowers with the recommendation of a third person against the governing eligible customer recruitment criteria. Therefore, this indicates that it has the access to grant loans to non-credit worthy borrowers.

4.2.5 Project Supervision and follow up

Effective project supervision and follow up has a number of benefits for assuring the health of the project. One of the importance of follow up is it provides reliable information's to the managements to take the required actions at each stage of the project based on the received information. It is also important to bridge the gaps between the planning and the actual performance of the project. Effective project supervision is not only determined and predict the consequence of the project, but it also indicates the opportunities to evaluate the negative effects. The main objective of project supervision is to provide relevant information's to the concerned body for decision making through evaluating the weakness, strengths, opportunities and threats against the standards, plans , policy's and strategies set by the institution. In accordance with this the project supervision and follow up experience of DBE is presented as follows,

Table 4.9 Project supervision and follow up experience of DBE

Item No	Description	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
A	To insure the health of the project the banks management pass relevant decisions at each stage of project cycle based on the follow up report received.	6	5	33	27.5	19	15.8	47	39.2	15	12.5
B	For each project at commissioning, operation & implementation stage the required follow up work has been done	11	9.2	31	25.8	16	13.3	50	41.7	12	10
C	The follow up reports are prepared using actual& relevant data and it shows the true image of the project	18	15	51	42.5	23	19.2	22	18.3	6	5
D	The bank has the trained to supervise unstable projects more frequently & the effort is fruitful	4	3.3	35	29.2	30	25	38	31.7	13	10.8
E	On site and off site supervisions are conducted regularly & the effort is fruitful	5	4.2	35	29.2	26	21.6	39	32.5	15	12.5

Source: own survey

From table 4.9 item (A) above we understand the management of the bank not to pass the required decisions at each stage of project cycle based on the follow up reports received. As it can be seen the responses, it indicates that the majority of respondents are not agree about the efforts of management in the process of making decisions. 47 (39.2%) of respondents are disagree with the managements role in making relevant decisions about different issues related with the project. Similarly 15 (12.5%) of respondents are also strongly disagree and they share as the management has a limitation to pass decisions timely. 19 (15.8%) of respondents prefer the third alternative (neutral). On the other hand 33 (27.5%) of respondents agree as the management had to pass decisions at each stage of the project based on the information's obtained through follow up report. The same with 6 (5%) of respondents strongly agree with the questions asked to them. from here we can conclude managements are not in a position to pass decisions as far as necessary. Taking timely decision is essential for bankers to reduce financial loess happened due to different reasons. The primary aim of follow up and supervision work is to provide adequate, relevant and updated information about the project to management for decision making. In order to protect the bank from such kind of financial loss managements should take the required actions at each project life cycle based on the information's received through follow up report.

Within the same table in item (B), majority of respondents implies negatively about the trends of the bank in conducting adequate follow up works at different stages like, at the project commissioning, operation and implementation stages. From the total respondent above 60% of respondents have hesitation with the follow up work of the bank. Particularly, 50 (41.7%) and 12 (10%) of respondents are disagree and strongly disagree. This refers, as the bank should enhance supervision and follow up works to grant loans from the associated risks. 16 (13.3%) of respondents are neutralize themselves from providing suggestions about the statements presented to respond. While 31 (25.8%) of respondents are satisfied with the follow up experience of the bank. similarly, 11 (9.2%) of respondents are strongly agree and they react positively. When we see the aggregate result of respondent's majority of respondents replayed negatively against the raised issue. The type of risks occurred at each project cycle are differ from each other. Impact of the occurrence of risks at one of the project stage may also affect the soundness of the overall activities in the whole project life cycle. As a result of these, to mitigate the occurrence of such risks lenders can reduce strengthen with the follow up works at different stage.

As the questions asked in item (C), the majority of respondents view revealed the follow up reports of the bank is prepared using actual and reliable data. Here, we can understand reports are prepared keeping with the required quality and it reflects the true image of the project. From respondents 51 (42.5%) are agreed about the follow up report quality, and similarly 18 (15%) of respondents strongly agree and they support the idea without any hesitation. 23 (19.2%) of respondents are neither agree nor disagree within the asked question. While some of respondents react differently about the statements asked to respond them. Among those respondents when 22 (18.3%) disagree with the idea, the remaining 6 (5%) are strongly disagree about the qualities of follow up report. In general when it is conclude, as the response of the majority respondent indicate the bank has in a good position to maintain the follow up report quality. Adequate and well qualified follow reports are essential for decision makers to make relevant decisions about the status of the project.

In table 4.9 item (D) respondents were requested wither the bank has conduct frequent follow up works for projects found in unstable condition. For this statement as it can be seen the table we can understand the majority of respondents are dissatisfied with the follow up experience of the bank and 38 (31.7%) and 13 (10.8%) of respondents are disagree and strongly disagree with the idea. 30 (25%) of respondents are controlled from providing responses for the asked question. On the contrary same of respondents are trusted by the efforts of the bank as it had been done more frequently than stable projects, among those respondents, 35 (29.2%) are agreed with the statement and the other 4 (3.3%) of respondents also strongly agree about the actions that the bank is used to follow unstable projects. However, when it can be seen the aggregate response of respondents it indicates the bank has limitations in connection with conducting more frequent supervision and follow up works for unstable projects. Unstable projects are most of the time closer to risk as compared with stabled projects. Due the fact that such kind of projects most often requires frequent follow up work and management involvement.

For questions described in item (E), related with on site and off site supervision work, almost above 55% of respondents are not comfortable with the methods that the bank is used to follow on site and off site supervisions at the project site and out of the project site. Among respondents 39 (32.5%) and 15 (12.5%) are disagree and strongly disagree with the supervision trends of the bank in this regard. While 26 (21.6%) of respondents are not willing to express their filling towards the asked question. On the other hand 35 (29.2%) and 5 (4.2%) of respondents are agreed and strongly agreed respectively with the statements asked to respond them. When it is generalize the bank has huge gap in connection with project supervision and follow up work. The majority of respondents are respond negatively for all questions described the above table except the statements presented at item (C). This indicates that as the supervision trend of the bank is unsatisfactory and needs improvement and management concentration. As it has been described in the literature part ineffective project supervision and follow up is the means for projects to be failed. From the literatures support this idea the project supervision study of African Development Bank (AFD) 2010, briefly narrates that lack of effective project supervision hinders the institution to achieve the development goals and it invites the institution to incur additional costs. The other researcher Norton and Andenas (2007), concludes that the future performance of the credit don't grant only through conducting effective credit appraisal and credit worthiness evaluation work, instead to assure the long lasting sustainability and health of the project the financial institutions should conduct regular follow up works. Similarly Aebachew (2015), point out the impacts of poor credit monitoring on the credit management soundness and he recommends financial institutions to strengthen controlling and monitoring mechanisms. This is therefore, from this we can understand DBE has remaining works to be implemented in the future related with strengthen the project supervision and follow up work.

4.2.6 Loan Disbursement

Effective loan disbursement is one of the important factors to ensure sound credit management practice of the organization. Disbursement requires its own procedure in the credit financing process. Before making disbursements lenders should analyze as it has to be utilized for the planned objective. Based on the research respondents view the loan disbursement practice of DBE is summarized accordingly.

Table 4.10 Loan Disbursement practice of DBE

Item No	Description	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
A	The bank release disbursements only for borrowers who fulfill the required equity contribution from their own source	21	17.5	45	37.5	25	20.9	22	18.3	7	5.8
B	The bank has effective controlling mechanism that borrowers not to divert the disbursed loan to other business	3	2.5	35	29.2	20	16.6	48	40	14	11.7
C	The requested disbursement is made after the required follow up work has been done	15	12.5	60	50	18	15	23	19.2	4	3.3
D	The bank doesn't have problems related with late disbursement	7	5.8	23	19.2	15	12.5	61	50.8	14	11.7
E	The follow up report prepared by bank officers for disbursement purpose is based on the actual performance of the project	14	11.7	59	49.2	16	13.3	18	15	13	10.8

Source: own survey

The study sought to establish the level at which respondents are agree or disagree with the above statements presented in table 4.10 item (A). relating to loan disbursement practice of DBE, from the findings majority of respondents agreed as the bank had to be release funds only for borrowers who fulfill the required equity contribution from own source. As it can be seen the table 45 (37.5%) of respondents are agree with statements asked to respond. Moreover, 21 (17.5%) of respondents also strongly agree the methods that the bank is going to confirm the credit worthiness of borrowers against the client wither or not fulfill the required equity contribution. 25 (20.9%) of respondents are controlled from providing any suggestions regarding with the asked question. On the other hand 22 (18.3%) and 7 (5.8%) of respondents are disagreed and strongly disagreed respectively and they are not trusted about the credit worthiness of borrowers' in terms of their potential in contributing the required equity contribution. As it is described in the loan procedural manual of DBE equity contribution is one of the measuring criteria of credit worthiness of borrowers who apply for credit request. According to the bank's policy the bank requires 25% of the total loan request as equity contribution from local borrowers and 50% from foreign investors. In relation to working maintaining with this ratio the finding of the result indicates as the bank has found in a good position.

In table 4.10 item (B), respondents are asked wither the bank has an effective controlling mechanism to mitigate borrowers not to divert loans to other business rather than as its planed objective. For this statement the majority of respondents are not agree with the controlling mechanisms and 48 (40%) of respondents are disagree and the same with 14 (11.7%) are strongly disagree. While 20 (16.6%) of respondents are neither agree nor disagree with loan diversion controlling mechanisms of the bank. from respondents 35 (29.2%) and 3 (2.5%) of respondents are agree and strongly agree respectively with the statements asked to respond them. as different studies indicates loan diversion is a serious issue for all financial institutions. Therefore, even if when financial institutions not to avoid loan diversions through establishing strong controlling mechanisms the end result of the problem may goes up to the institution to be liquidate from the industry. As the findings above indicate it is an alarm for DBE, if the bank does not take the required actions as far as possible.

The same table in item (C), the result of majority respondent shows the bank has good experience in conducting a adequate follow up works before making loan disbursements to the borrower. Among the total respondent almost 75 % are agree with the pre follow up work trend of the bank. When it is see separately, 60 (50%) of respondents view shows agree and 15 (12.5%) are strongly agree with the idea. 18 (15) of respondents are prefer to control from responding the asked question. In contrary 23 (19.2%) and 4 (3.3%) of respondents are disagree and strongly disagree and they are not satisfied with pre follow up work of the bank. as it is described the loan procedural manual of the bank follow up is one of the risk controlling mechanism. In relation to this, the bank conducts adequate follow up works prior to make second disbursements to the borrower. This helps the bank to confirm the utilization of first disbursements as its planned objective.

In item (D) respondents are asked to reveal their opinions related with the loan disbursement culture of the bank in accordance with the agreed schedule. Related with the issue, majority of respondents are not comfortable with the loan disbursement practice of the bank and the result indicates as they are dissatisfied with the idea. From the respondents 61 (50.8%) and 14 (11.7%) of respondents are disagree and strongly disagree respectively. 15 (12.5%) of respondents are neither agree nor disagree with the statements presented to respond. On the other hand, the result of some respondents, indicate that the bank has no limitation regarding with disbursing loans following the schedules. From respondents support this idea 23 (19.2%) are agree and the same with 7 (5.8%) of respondents are strongly agree. When it is summarized based on the response of the majority respondents as shown the table the bank has limitations related with late disbursement. Late disbursement has its own impact on the soundness of the credit management, especially, in some economic sectors such as, agricultural project the disbursement should be made depending on the harvesting seasons. Making disbursements without maintaining schedules may create good situations for loan diversion and other related credit risks. This is therefore; in order to avoid such kind of risks the bank should establish effective controlling mechanisms.

In table number 4.11 item (E), the response of majority respondents confirm the follow up reports prepared for the purpose of subsequent disbursement are based on the actual performance of the project. Which means the bank confirms the utilization of prior disbursements through conducting follow up works before granting subsequent disbursements. From the respondents who support the idea 59 (49.2%) are agree and similarly 14 (11.7%) of respondents are strongly agree with the quality of follow up reports prepared for the purpose to verify the utilization of prior disbursements before the bank allowed the next disbursements. 16 (13.3%) of respondents are not interested to provide any suggestions for the asked question. While, 18 (15%) and 13 (10.8%) of respondents are disagree and strongly disagree and they are not sure the follow up report quality. When it is conclude in relation to the act of controlling risks related with loan diversion by a borrower and late loan disbursement the bank has huge gaps. These are some of the determinant factors to disturb the credit management practice of the bank. According to Michael (2015), in order to avoid loan diversion and other credit risks he recommends lenders to check the utilization of funds at each disbursement phase as it is utilized in accordance with the planed objective. The other researcher Tekeste (2016), he point outs visiting business on regular bases during disbursement is one of the important factor for controlling credit risks occurred in this regard.

4.2.7 Loan Collection

Collection is one of the most determinant factors to assure the healthy credit management practice of the organization. In this regard lenders should improve the collection strategies to maintain the portfolio quality of the organization.

Table 4.11 Loan collection practice of DBE

Item No	Description	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
		Freq.	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**
A	The bank focus more on loan collection against loan disbursement	6	5	23	19.2	25	20.8	49	40.8	17	14.2
B	The bank has a trained to enforce borrowers to pay their debt	8	6.7	31	25.8	16	13.3	42	35	23	19.2
C	The bank mobilize the highest share of fund from loan collection	12	10	49	40.8	22	18.4	27	22.5	10	8.3
D	Penalty for late payment enhances customers commitment to loan repayment	21	17.5	40	33.3	21	17.5	32	26.7	6	5
E	DBE has the experience to made Regular reviews related with collection policies to improve state of credit management.	4	3.3	28	23.3	28	23.4	44	36.7	16	13.3

Source: own survey

As it can be seen in table number 4.11 item (A), respondents are requested to express their felling towards the loan collection initiation of the bank against loan disbursement. Here, based on the respondents view we can conclude the bank has low performance in this regard. Among respondents above 55% are not agree about the efforts that the bank is going to collect its loan. Particularly, 49 (40.8%) of respondents are disagree and the other 17 (14.2%) also strongly disagree with in the loan collection procedure of the bank. 25 (20.8%) of respondents are not willing to respond for the asked question. On the other hand some respondents are agreed about the loan collection strategies of the bank. Among those respondents who respond positively 23 (19.2%) of respondents are agree and they are trusted within the loan collection effort of the bank. Similarly 6 (5%) of respondents are strongly agree too. In general the aggregate result of respondents clearly shows the bank has great gaps in loan collection. In addition to the respondents opinion, as it is indicated in the annexes part the bank has more focus on loan disbursement rather than loan collection. From here we can understand that the banks lax practice in collecting the disbursed loans. This is one of the determinant factor which leads to increase bad loan ratios of the organization.

The same with statements described in item (A) respondents are also react similarly for questions asked in item (B), here respondents are asked to describe the trends of the bank in collecting loans through enforcing borrowers. As shown in the table the majority of respondents are not agreed within the stated idea. And 42 (35%) and 23 (19.2%) of respondents are disagree and strongly disagree. While 16 (13.3%) of respondents are neither agree nor disagree with the questions asked to respond. Against those respondents there are some other respondents who respond positively. From those respondents, 31 (25.8%) are agree and 8 (6.7%) strongly agree. As many researchers recommend that, lenders should try to convince customers to pay their debt in accordance with the terms stipulated during the contract signed. If the first alternative is not implemented by the customer lenders should penalize and enforce customers to pay their debit. In addition to this, taking legal action is the other possible solutions to lenders for recollect their loan.

Hence, in order to know the fund mobilization source of the bank, the researcher raised questions for the banks management and employee. Consequently, as it is described in table 4.11 item (C) 49 (40.8%) and 12 (10%) of respondents are agree and strongly agree and they describe the bank mobilizes the largest share of fund from own source. These means instead of government budget the bank mobilize funds from collecting interest and other sources like commission income and etc. 22 (18.4%) of respondents are neutralize themselves from providing conclusions for the raised issue. From the total respondents some of respondents are not agreed with the idea. Among those respondents, 27 (22.5%) and 10 (8.3%) are disagree and strongly disagree respectively and they don’t believe as the bank had to mobilize funds by their own source. According to the majority respondents result the bank has found in good position in relation to mobilize funds from its own source. However, to make sure the sustainability the bank should strength the effort for loan collection.

Within the same table in item (D), respondents were requested to clarify the importance of penalty for late payment wither it enhances customers commitment to loan repayment. For this question majority of respondents agree the importance of penalty for the enhancement of customer commitment. In accordance with this 40 (33.3%) of respondents are agree and 21 (17.5%) are strongly agree. 21 (17.5%) of respondents are neither support nor reject the statements presented to respond. On the contrary, 32 (26.7%) and 6 (5%) of respondents are disagree and strongly disagree and they couldn't believe penalty is a solution to improve collection performance of the bank. but when we see the percentages, respondents who disagree contains the largest percent. This implies, in order to improve the loan collection performance, the bank should penalize borrowers who don't pay their debit in the due date.

In item (E), respondents were asked to describe the practices of the bank in connection with reviewing the loan collection policies depending on the situations when it is necessary. Hence, as the respondents view indicates the bank don't have the trend in reviewing the loan collection policy's regularly to improve the state of credit management. Among the respondents, 44 (36.7%) of respondents are not agreed within the raised question. Similarly 16 (13.3%) of respondents are strongly disagree the efforts that the bank is going to revise the collection policy's. 28 (23.4%) of respondents are neither agree nor disagree about the issues raised. While, 28 (23.3%) and 4 (3.3%) of respondents are agreed with banks commitment in reviewing the loan collection policy's as it is necessary to improve the required credit quality. When it is conclude the bank has gaps related with the issues raised in item A, B & E. effective collection strategy is one of the most determinant factor to reduce the occurrence of bad loans. In relation to collection many researchers recommend lenders to establish effective collection strategies. Among those researchers Hagos (2016), point out that when banks want to meet its financial obligation, they should enhance their collection capacity through convincing the client to pay their debit in accordance with the agreed terns with the bank. Moreover, the researcher briefs that without following a proper collection technique, it is difficult the banks to assure its organizational sustainability. The other researcher Tekeste (2016) concludes that establishing payment guideline, considering prompt payment, writing reminder letter, providing incentive for prompt payment are some of advisable points taken by bankers to make sure portfolio quality.

4.2.8 Management and Staff competency

The existence of capable and efficient staff is very important in managing credits effectively following as the organizations policy and procedure. The impact of staff arrangement on the credit management process of DBE is presented as follows.

Table 4.12 .Management and staff competency

Item No	Description	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
A	The bank has capable staff to manage the overall credit activities	22	18.3	55	45.8	20	16.7	20	16.7	3	2.5
B	The bank provides capacity building trainings related with credit management & project Appraisal	11	9.2	49	40.8	18	15	31	25.8	11	9.2
C	The bank assign managers &employees based on their qualification at the right position	12	10	43	35.8	21	17.6	34	28.3	10	8.3
D	Management of the bank are efficient to pass decisions timely	4	3.3	33	27.5	21	17.6	43	35.8	19	15.8
E	The bank has the trend to invite credit experts &consultants to share their knowledge& experience	5	4.2	23	19.2	27	22.5	49	40.8	16	13.3
F	Employees & managements are initiated to adopt new technologies related with their work	6	5	25	20.8	26	21.7	45	37.5	18	15

Source: own survey

For questions asked in table 4.12 item (A) Concerning with staff capability, the majority of respondents agree as the staff are enough capable to manage the aver all credit activities properly. Among respondents, 55 (45.8%) are agree and the same with 22 (18.3%) are also strongly agree about the staffs competency to manage credits. 20 (16.7%) of respondents are neither agree nor disagree with the issues asked to respond. In contrast to this, 20 (16.7%) and 3 (2.5%) of respondents are disagree and strongly disagree respectively with the ability of the staff to manage loans as the expected level. However, when we see majorities view we can conclude the bank have capable and enough qualified staff to administer loans.

Respondents have given their view for questions related to wither the bank provides capacity building trainings for topics like credit management and project appraisal as summarized in table

4.12 item (B), accordingly for questions the findings shows the bank has good experiences in providing such kind of trainings to the staff as far as required, i.e. about the respondents 49 (40.8%) of respondents are agreed with in the training need assessment trend of the bank. Similarly, 11 (9.2%) of respondents also strongly agree too. 18 (15%) of respondents are not interested to respond for the raised issue. On the other hand some respondents replay negatively and they are not agreed for the asked questions. From those respondents 31 (25.8%) and 11 (9.2%) are disagree and strongly disagree about the efforts that the bank is going to fill the staffs training need assessment.

In item (C), respondents were asked wither they agree or disagree about the staffing that the bank is assign managers &employees based on their qualification at the right position. In relation to this as the result of the majority respondents indicated in the table, the bank doesn't have weakness in assigning staffs compromising with their profession. From the respondents 43 (35.8%) and 12 (10%) of respondents are agree and strongly agree with in the staffing arrangement of the bank. 21 (17.6%) of respondents are preferred to the third alternative (neutral). In contrast to this, some respondents have hesitation in the staff arrangement of the bank as it has to be done considering employee qualification. From those respondents 34 (28.3%) and 10 (8.3%) are disagree and strongly disagree respectively.

Within the same table in item (D), majority of respondents are not agreed about the management efficiency in making timely decisions. As the findings shown the table 43 (35.8%) of respondents are not agree and they claim the managements efficiency in deciding relevant decisions timely as far as possible. The same with 19 (15.8%) of respondents are strongly disagree with the raised idea. 21 (17.6%) of respondents are neither agree nor disagree within questions asked related with management efficiency in making decisions. while some respondents are differently respond as the banks management are enough capable and efficient to make decisions timely. From those respondents, 33 (27.5%) and 4 (3.3%) of respondents are agree and strongly agree respectively within the questions asked to respond.

As the findings indicated table 4.12 in item (E), the study sought to determine the experience of the bank in inviting credit experts and consultants the reason to knowledge transfer, and in connection with these the majority of respondents replay as the bank didn't have good experience in knowledge transfer. Among the respondents, 49 (40.8%) and 16 (13.3%) of respondents are disagree and strongly disagree with the efforts that the bank is going to address knowledge gaps through inviting experts and consultants in credit management area. 27 (22.5%) of respondent are controlled from providing suggestions in these regard. From respondents who believe the idea, 23 (19.2%) and 5 (4.2%) of respondents are agree and strongly agree with the ideas as the bank had to be invite different credit management experts and consultants. When it is generalize the bank has limitations in working with different experts in the study area.

In item (F), respondents were asked to express their felling in relation to the commitment of the bank in creating good situations that employees & managements to improve their profession and skill through the help of different advanced technologies. In connection with these the majority of respondents are not agreed about DBEs commitment in facilitating comfortable situations that staffs and managements to upgrade their knowledge technologically. In accordance with these, 45 (37.5%) and 18 (15%) of respondents are disagree and strongly disagree respectively for the issues presented to respond. 26 (21.7%) of respondents are neither agree nor disagree for the statements noted above. In contrary some respondents are replayed positively and agreed about the bank's commitment in creating good situations for employees and managements to improve their skill. Among those, 25 (20.8%) and 6 (5%) of respondents are agree and strongly agree within the questions raised to answer. When we see the conclusion of other researchers the role of qualified staff is the most important factor to assure the soundness of the credit management. According to Michael (2015), unqualified personal is one of the determinant factors that lead to deteriorate the credit management quality. In addition to this, the researcher concludes roles of technologies to improve credit management activities in better way. According to the view of the researcher technology helps to maintain consistency in credit decision making.

The other researcher Spéciose (2016), by his research concludes that, providing different trainings about loan repayment schedule and other non-financial services to customers and the staff has appositive contribution in the credit management process. Yohannes (2015), recruiting adequate and qualifies credit and credit risk management staffs and experts are one of the most important aspects in the process to assure sound credit management.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

In this part, based on the analysis resulting from the previous chapter, a conclusion could be drawn. The drawn conclusion is prepared in line with to meet the objectives presented in chapter one. In addition to this, the major researcher findings and the possible recommendations are indicated accordingly.

5.1 Summary of Findings

This study assessed the credit management practice of Development Bank of Ethiopia at Head Office level. The study was carried out by analyzing the common factors that lead to affect the credit management practice of the bank. Issues related with credit analysis process, credit appraisal and approval trends, risk mitigation strategies, disbursement and follow up procedures, man power organizations and collection techniques were briefly assessed and described in detail. The implication of those factors on the credit management practice of the bank were try to evaluate practically in accordance with different theoretical literatures and empirical evidences highlighted on chapter two.

The descriptive statistics method was used for the study. Tables, frequency and percentage were utilized to analyze the data. From the total population of 202 respondents a sample size of 135 respondents was drawn from seven directorates. Stratified random sampling method was used to select a target respondent. Primary and secondary data were used as a source of information for the study. Questionnaires were used as a main instrument for the collection of a primary data.

As a descriptive statistics analysis indicates the experience of majority of respondents fall between 6-10 years. This implies that staffs who are assigned to take duties of credit management activity are enough experienced. Generally according to the demographic characteristics of respondents in terms of respondents' age, experience, educational status and sex ratio the bank has in a good position.

In relation to approving loans based on the banks written guideline, in terms of granting loans by the appropriate level of management, utilization of decision resource and in the process of evaluating appraisal documents subjected to careful analysis the bank has goes in a good track.

While in connection with the approval process/teams authority and accountability and their role in making decisions the bank has a limitation.

For the issues raised in relation to risk management, except the gaps observed in the process of making pre and post credit risk assessment work the bank has at a right position in performing tasks following the correct procedure.

The bank has in a good position in the process of appraising collaterals in line with the project management knowledge areas and calculating values based on rational and objective reasons. In contrast to this, regarding with reappraising, evolution of collaterals based on standard, recent and official asset price and utilization of project software's the bank has huge gap.

As the study revealed the bank has good experience in relation to due diligence /KYC assessment work. Even though, it has same limitations in the process to implementing the banks customer recruiting checklist as a governing guideline.

As the study indicated the bank has huge gaps in terms of making adequate and regular follow up and supervision work for the attainment of the financed projects health.

The bank has good experience in connection with making disbursements following the procedural manual. While absence of effective controlling mechanism for loan diversion and late disbursement are raised as a gap in the study.

As study sought out the efforts that the bank is going to exerted to collect its loan is totally unsatisfactory.

The bank has adequate and capable staff to manage the overall credit activities. In contrary it has limitation in relation to working with different consultants and expertise in the knowledge area. Similarly it has problems in terms of supporting staffs to upgrade their knowledge and skill technologically.

5.2 Conclusion

- As the study revealed, the loan approval process/team are not independent to pass decisions based on only the credit terms. This indicates that the process or the team are not accountable for taken decisions and the same with they don’t have complete authority in making relevant decisions in the approval process. This is therefore, the trends that the bank is implemented is contradicted to the approval process/teams right of independence. Moreover, the process/team has a limitation in making timely decisions scanning with the environment and the situation as well. In the loan approval process making relevant decisions based on the realities observed in the ground is one of the primary tasks of the approval team. However, as the result indicated in the analysis part the approval process/team does not perform accountably this duty.

- The pre and post credit risk assessment experience of the bank are not satisfactory and it is below the expected level. In the loaning process making adequate pre and post credit risk assessment work contains the largest share in the efforts to reduce credit risk.
- In the process of appraising collateral values based on recent, official and standard asset price the bank has not good trends in this regarded. Similarly when any changes need in the methods by which collateral is reappraised the bank doesn’t seek out rational reasons really the change is needed. The bank has also gaps in the adoption of new project management software’s. Currently there are different latest version project software’s are applicable in the project management area. This project software’s are preferable in comparison with the traditional approach, in terms of determining the actual project cost, the time duration it takes and to estimate the overall activities in the project life cycle. So far in connection with this the bank has not the experience in utilizing such kind of project management software’s in practically against the normative approach.
- As the study indicated, the bank has a great limitation in the process of recruiting creditworthy customers only depending on the eligibility criteria’s stipulated on the banks recruitment checklist without any third party interference. From here we can understand the possibilities that non creditworthy borrowers to be benefited from the credit access.
- The main objective of follow up work is to provide adequate, relevant and sufficient information to management for the purpose helps to take timely decisions. In connection with

this, the bank has a weakness in making decisions based on the received follow up report at each project stage like, commissioning, operation and project implementation stage. In addition to this, as the result indicated the bank doesn't conduct the required follow up work at each project stage as far as possible. In reality unstable and disturbed projects need more frequent follow up work in comparison with stable projects. However, the bank does not have different strategies that specially treated such kind of projects. Similarly, in relation to conducting on sight and off sight follow up work the bank doesn't have good track record as the study revealed.

- Loan diversion is one of the reasons for the enhancement of nonperforming loans. Due to the fact that, many credit lender institutions has developed strong controlling mechanisms to mitigate the encountered risks in this respect. However, when we see the trends of DBE as the study indicated, the bank doesn't exert special efforts to overcome the problem.
- Late disbursement is the other issue raised as a gap in the bank. In this scenario late disbursement is one of the factors that led to project delay. Especially the disbursement of some season oriented projects like, rain feed agricultural must be done considering with rainy season. So far in respect to this, as the study revealed the bank has a weakness in disbursing loans maintaining with schedules.
- As it can be seen in the loan disbursement and collection table in the annexes part together with the result of respondents, the bank doesn't give due attention in improving the loan collection strategies. To assure the soundness of state of credit management the bank should focus equally on loan collection as of loan disbursement.
- In the credit financing sector when new products are introduced knowledgeable advisory consultants and experts are needed to assure the viability of the project. Especially, banks engaged in the project financing sector like DBE, it has the possibilities to finance newly introduced and complicated projects. As a result of this, the role of project consultants and experts are very high in terms to reduce the encountered credit risks due to knowledge gap. However, as it can be seen the study the bank has not the experience in working with project consultants to mitigate the associated risks. In addition to this, the bank has also a limitation in terms of creating technologically efficient and adoptive employees and managements.

5.3 Recommendation

The following recommendations are provided based on the findings and the subsequent conclusions.

- The bank should create conducive workable environment that the approval process/team to exercise their work independently only in line of the credit term without the interference of any third parties.
- The bank should fill the observed gaps in connection with decision making by the approval process and the top management as well.
- The pre and post credit risk assessment trend of the bank is very poor. Therefore, in order to reduce risks in this regard, the bank should conduct adequate risk assessment works before and after granting loans to the borrower.
- In respect to appraising collaterals in accordance with recent, official and standard asset price the method needs improvements.
- Similarly in relation to collateral evaluation the bank should seek out rational reasons when any changes needed in the methods that the collateral re-evaluation process.
- To reduce credit risks in connection with determining the actual project cost, the time duration taken, and to monitor the overall activities in the project life cycle in a normal circumstance the bank should utilized latest version project software's practically.
- To establish a healthy relation with a customer the bank should maintain the eligible customer recruiting checklists as a guiding rule for all credit seeker borrowers.
- The bank should strength a follow up works through establishing regular schedules depending on the situation.
- The bank should give more attention for unstable or disturbed projects and those projects must be followed up more frequently.
- The bank should establish strong controlling and monitoring mechanisms to protect loan diversion.
- To avoid the coming risks due to late loan disbursement the bank should exercise in disbursing loans following workable schedules.

- The bank should establish a fruitful collection strategy which helps to reduce the observed bad loan ratios.
- When borrowers with new product apply for credit request, the bank should listen the opinions of consultants and experts in the knowledge area before establishing a credit agreement with the borrower. In addition to this, the bank should established conducive environment that helps to create technologically advanced internal staff related with their work.

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APPENDIX

Appendix I

Saint Mary University

School of Graduate studies

Project Management Department

Questionnaire to be filled by the respondents

Dear Respondents,

My name is Andualem Mekonnen and I am staff of Development Bank of Ethiopia. I am studying MA in project management in Saint Mary University and now I am going to conduct study on Assessment of Credit Management Practice in the Case of Development Bank of Ethiopia.

Objective: - this questionnaire is designed to collect primary data about the credit management practice of the bank for partial fulfillment of MA in Project Management.

General Instruction

- ✓ No need of writing your names
- ✓ In all cases where answer option are available tick (√) in the appropriate space provided

Confidentiality: I want to assure that the data which would be given is confidential, are not be future used for other purpose. Finally, I would like to thank for time you spend to fill the questionnaires.

If you have any queries concerning with the questionnaire, please contact me

Name: Andualem Mekonnen

Mobile Phone- +251-942-85-71-75

Email: aandualemmekonnen@yahoo.com

Addis Ababa

Thank you in advance for your cooperation

I. General Information of Respondents

- Sex (1) Male ☐ (2) Female ☐
- Educational background (1) diploma ☐ (2) first degree ☐ (3)MSc/MBA & above
- Year of experience (1) 1-5year ☐ (2) 6-10year ☐ (3) 11-15year ☐ (4) Above 15year ☐
- Position (1) Officer ☐ (2) Sr. Officer ☐ (3) Manager ☐

II. Specific Questionnaire

Dear the respondent the factors mentioned below are coded accordingly and please put your level of agreement by tick (√) in the appropriate space provided.

5= Strongly Agree 4=Agree 3= Neutral 2= Disagree 1= Strongly Disagree

	Stro ngly	Agre	Neut	Disa	Stro ngly
Loan Approval					
Loans are approved based on the bank's written guideline					
Loans are granted by the appropriate level of management					
the bank has adequate credit decision resource that they are able to make sound credit decision in consistent with the credit policy					
The approval process has accountable for decisions taken & absolute authority to approve loans in the credit term					
The project proposal has been subjected to careful analysis by a qualified credit analysist/approval team/					
The evaluation process for approval is adequate to make appropriate decision					
Credit Risk					
Credit policy of the bank that supports to credit risk management, including scope of lending, credit rating standards, portfolio management etc.					
The bank has the experience in reporting risk status to the board of directors & top management for decision making					
When introducing new products & activities, the risk management process of the bank has a trained to evaluate the locus of credit risk, by seeking opinions from legal affairs, inspection team etc.					
The bank has capable credit auditing process that verifies the accuracy of credit rating, status of borrower & other relevant information					
The risk management process of the bank provides integrated management of asset with credit risk exposure & off					

balanceshet items.					
The bank has conduct adequate pre credit assessment					
The bank has conduct adequate post credit risk assessment					
Appraisal					
Appraised collateral values are calculated objectively & rationally					
Collateral values are appraised based on the most recent official & standard asset price					
When any changes need in the method by which collateral is appraised, verify that there are rational reasons for change					
The loan proposal is appraised considering with the 10 project management knowledge areas.					
The appraisal process has been supported by latest project management software's to determine the overall project activity					
Due diligence					
The bank collects sufficient information from different source about a customer before enter a contractual agreement.					
The bank conduct proper credit due diligence to evaluate credit worthiness of the borrower					
The borrower's credit worthiness is measured according to the five 'c' of credit (character, capacity, capital, collateral & condition)					
The bank pass decisions about credit worthiness of borrowers matched against the credit standards of loan policy					
Customers are only recruited based on the eligibility criteria & checklist of the bank without any third party interference.					
Project supervision & Follow up					
To insure the health of the project the banks management pass relevant decisions at each stage of project cycle based on the follow up report received.					
For each project at commissioning, operation & implementation stage the required follow up work has been done					
The follow up reports are prepared using actual & relevant data and it shows the true image of the pr[illegible]					
The bank has the trained to supervise unstable projects more frequently & the effort is fruitful					
On site and off site supervisions are conducted regularly & the effort is fruitful					
Loan Disbursement					
The bank release disbursements only for borrowers who fulfill the required equity contribution from their own source					
The bank has effective controlling mechanism that borrowers not to divert the disbursed loan to other business					

After verifying budget utilization a thorough analysis The bank disburses the requested amount phase by phase & the method is effective					
The bank doesn’t have problems related with late disbursement or project delay					
The follow up report prepared by bank officers for disbursement purpose is based on the actual performance of the project					
Loan collection					
The bank focus more on loan collection against loan disbursement					
The bank has a trained to enforce borrowers to pay their debt					
The bank mobilize the highest share of fund from loan collection					
Penalty for late payment enhances customers commitment to loan repayment					
DBE has the experience to made Regular reviews related with collection policies to improve state of credit management.					
Management & employee capacity					
The bank has capable staff to manage the overall credit activities					
The bank provides capacity building trainings related with credit management & project Appraisal					
The bank assign managers & employees based on their qualification at the right position					
Management of the bank are efficient to pass decisions timely					
The bank has the trained to invite credit experts & consultants to share their knowledge & experience					
The bank encourages the staff to adopt new technologies related with their work					

APPENDIX II

General Information about non-performing loan ratios (NPL), loan disbursement and loan collection practice of the bank for the past five years the period covering from 2013 to 2017.

- **Total loan portfolios and advances by economic sector** Birr '000,000'

Description	2013		2014		2015		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	**%**
Agriculture	1,861	10.42	2,576	12	4,259	15.57	6,171	19.51	6,598	19.66
Manufacturing	13,332	74.61	15,325	71.37	19,029	69.59	21,358	67.52	22,995	68.54
Mining and energy	-	-	-	-	174	0.64	795	2.51	161	0.48
Financial service	-	-	-	-	3,041	11.11	2,497	7.9	2,385	7.11
Service	-	-	-	-	758	2.77	643	2.03	1,150	3.43
Consumer	47	0.26	74	0.34	101	0.37	166	0.52	263	0.78
Other	2,628	14.71	3,498	16.29	-	-	-	-	-	-
Total		100	21,472	100	27,362	100	31,630	100	33,552	100

Source: Annual report of DBE, 2013-2017

- **Loan disbursement and collection information's by economic sector Birr '000,000'**

Description	2013		2014		2015		2016		2017	
	Disbursement	Collection	Disbursement	Collection	Disbursement	Collection	Disbursement	Collection	Disbursement	Collection
Agriculture	1,203	520	1,111	575	1,890	544	2,140	606	731	487
Manufacturing	3,170	1,738	3,543	2,067	4,023	2,808	3,416	2,623	3,366	3,105
Mining and energy	-	-	96	32	84	48	258	126	280	118
Financial service	-	-	607	234	711	404	364	476	328	567
Service	-	-	72	129	72	241	56	230	33	231
Consumer	-	-	43	17	64	31	98	48	128	50
Other	963	282								
Total	5,336	2,540	5,472	3,054	6,843	4,087	6,333	4,109	4,867	4,557

Source: Annual report of DBE 2013-2018

- **Non-performing loan ratio**

Year	Amount of NPL Loans	Amount of Outstanding Loans	Percent (%)
2013	1,627,124	18,886,582	8.62
2014	1,853,254	22,523,263	8.23
2015	3,431,034	27,362,467	12.54
2016	5,601,862	31,630,367	17.71
2017	8,449,943	33,822,000	24.98

Source: Annual performance Report of DBE 2013-2017

DEDICATION

I declare that this thesis is my original work and that all sources of materials used for finalize the thesis have been acknowledged. This thesis has been submitted in partial fulfillment of the requirements for an executive MBA degree at the St. Mary's University. Finally I assure that this thesis is not submitted to any other University or College for academic credit.

Name　　　　　　　　　　　　　　　　　　　　　　　　　　　　　　Signature & Date

ENDORSEMENT

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

Advisor   Date

Asmamaw Getie (Asst prof.)