

# ST. MARY'S UNIVERSITY

## BUSINESS FACULTY DEPARTEMENT OF ACCOUNTING

### AN ASSESSMENT OF LOAN PROCESSING AND MANAGEMENT (IN THE CASE OF COMMERCIAL BANK OF ETHIOPIA) (HEAD OFFICE)

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Addis Abeba

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**Business Faculty  
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**APPROVED BY THE COMMITTEE OF EXAMINERS**

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Peace, love and blessings

Thank you all indeed

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## ACRONYMS

NBE  
CBE

National Bank of Ethiopia  
Commercial Bank of Ethiopia



# CHAPTER ONE

## Introduction

### 1.1. Background of the study

Loan is an arrangement in which a lender (Bank) gives money, and the borrower agreed to return or repay the money, usually along with interest, at some future points in time. Usually, there is a predetermined time for repaying a loan, and generally the lender has to bear the risk that the borrower may not repay a loan. (Thomson's Dictionary of banking)

Loan is the thing that is lent, specially a sum of money. The action of lending something or the state of being lent "for each lender a loan is an investment comparable to bonds, stocks or other assets. On the other hand for each borrower a loan is a debt and obligation to repay the borrowed money plus interest." (Thomson's Dictionary of banking)

Term lending is based on the "anticipated income theory" of commercial banks assets. Neither the traditional concept of liquidity nor the criterion of shift ability can be applied to term loans. Generally, these loans are given for long periods ranging from one to ten years. They are intended for meeting the fixed capital requirements of industry such as the expansion in plant capacity; the strengthening of the working capital of an existing industrial unit, etc. the loan is repaid over a period of years, out of the income of industrial unit concerned. Therefore, the liquidity of these loans depends upon the anticipated income of the borrowing concerns. (Varsheny: 1974:74)

The Credit Processing and Analysis Procedure is the first step towards good portfolio quality. When individual credits are underwritten with sound credit principles, the credit quality of the portfolio is much more likely to be sound. Processing loan application can be very time consuming and require a lot of paper work and supporting documentation. Understanding the process in advance will ensure you are prepared with all the required information. (Varsheny: 1974:74)

## **1.2. Background of the Organization**

The state bank of Ethiopia was founded in 1942 with twin objectives; performing the duties of both commercial and central banking in 1963, the commercial bank of Ethiopia (CBE) was legally established as Share Company to take over the commercial banking activities of the State bank of Ethiopia. In the 1974 revolution, CBE got its strength by merging with the privately owned Addis Ababa bank with a capital of 10 million birr, less than 50 employees and serve the customers only by the head office, since then, it has been playing significance role in the development endeavor of the country.

The CBE, which is striving to embark in to a world-class, rendering state –of-the art and reliable services to its millions of customer’s both locally and abroad. The business strategies of the banks focus on the public it serves.

As at the end of physical year 2012/2013, the bank has a capital of 7.617 billion birr, 762 branches stretched across the length and breadth of the country and 15,007 talented and committed employees, whom it regards as its key assets. In the current year the bank earn a total net profit of 8.4 billion birr.

(<http://www.combanketh.et>)

## **VISION**

To become a world-class commercial bank by the year 2025.

(<http://www.combanketh.et>)

## **MISSION**

We are committed to best realize stakeholders' needs through enhanced financial intermediation globally and supporting national development priorities, by deploying highly motivated, skilled and disciplined employees as well as state-of-the-art technology. We strongly believe that winning the public confidence is the basis of our success. (<http://www.combanketh.et>)

## **VALUES**

### **1. Corporate Citizenship**

- We value the importance of our role in national development endeavour and step-up for commitment.
- We abide by the law of Ethiopia and other countries in which we do business.
- We care about society's welfare and the environment.

### **2. Customer Satisfaction**

- We strive to excel in our business and satisfy our customers.

### **3. Quality Service**

- We are committed to offer quality service to our customers' and aspire to be branded with quality in the minds of our customers and the general public.

### **4. Innovation**

- We encourage new ideas that can improve customers' experience and the Bank's performance.

(<http://www.combanketh.et>)

## 5. **Teamwork**

- We recognize the importance of teamwork for our success.
- We respect diversity of viewpoints.

## 6. **Integrity**

- We are committed to the highest ideal of honor and integrity.

## 7. **Employees**

- We recognize our employees as valuable organizational resources.

## 8. **Public Confidence**

- We understand that the sustainability of our business depends on our ability to maintain and build up the public's confidence.

<http://www.combanketh.et>

### **1.3. Statement of the Problem**

Lending is the principal business activity for most commercial banks. The loan is typically the largest means to accumulate asset and the predominate source of large amount contribution to revenue.

Providing loan is one of the major activities of a bank. The study will focus on the problem which faces the creditors who want to get a loan, creditors must go through long and complicated steps and these steps are numbered about 48. This will result on the loss of creditors in the bank and also most of them are being challenged by this step in order to get loan for their project and plan.

The bank gives loan only to three sectors these are manufacturing sector, export sector and agricultural sector. It implies that the other sector has no chance to get a loan from the commercial Bank of Ethiopia. These affect not only the sectors which do not have an opportunity to get leverage from CBE and also the bank that give a credit will lose its interest income which is created by lending to the creditors. And the creditors will be affected by this

decisions in order not get in to the project quickly, pay unnecessary interest, face financial short and others.

The other problem in CBE is related with Collateral estimation. When a customer applies for loan, the Bank as usual, requests for collateral. The collateral that customers provide is estimated by professionals/employees of the Bank and there is a complain that these employees of the Bank underestimates the presented collateral thereby dismissing the customer as an ineligible for the loan.

These above mentioned long steps of loan processing and collateral underestimation are the major setbacks that need attention in the future. Last but not the least problem observed in the Bank is associated with the un-collectible loan which results from limited knowledge of customers' credit history, loose follow up and control.

This study will assess the loan management process of CBE emphasis on the raise major issue and other minor road blocks.

#### **1.4. Research Questions**

Thus, by taking the above and similar problems and facts into consideration the research tried to address the following basic questions about the problem:

- How effective is the loan procedure of CBE?
- How is the loan applications of customers evaluated and processed?
- What system does the Bank uses mitigate loan arrears/un-collectables?
- How does the bank manages un-collectable / loan in arrears?

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

### **1.5.1. General Objective**

The general objective of the study is to assess the loan processing and management of commercial bank of Ethiopia, and to indicate adequate solution for problem identified.

### **1.5.2. Specific Objectives**

The following are the specific objectives of the study

- To asses or evaluate the loan procedure of CBE.
- To assess how commercial bank of Ethiopia evaluate the loan request of customers.
- To indicate methods of avoiding un- collectability, loss of asset that caused by inefficient loan processing and management in CBE.
- To asses or evaluate the management of un-collectables in CBE.

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

This study provides benefit for the commercial bank of Ethiopia management to provide possible suggestion and recommendations. The research also helps to the customer of the bank by creating awareness about credit, steps (process) to get a loan and others. Beside this the study would use to serve as ground for further research to be in these areas.

## **1.7. Scope of the study**

In the Commercial Bank of Ethiopia there are a lot of activities performed by each concerned department. One of these practices is loan processing and management which is performed by loan department. The scope of this research is limited to assessing loan processing and management in Commercial Bank of Ethiopia. The study covers the period 2010/2011, 2011/2012 and 2012/2013 of only because of the unavailability of published annual report of Head Office.

## **1.8. Research Design and Methodology**

### **1.8.1. Research Design**

The research design is planned in such a way that could provide for the proper performance of the research. It helps for analyzing the data that is collected by using various data collection methods. Based on the data collected are relevant for the study, the research design is supposed to be flexible enough to avoid unnecessary delay. The design includes qualitative and quantitative data which have to be simple for analyzing and interpretation. In our study we apply Descriptive research method to describe the above mentioned qualitative and quantitative data.

### **1.8.2. Data To Be Collected**

In order to accomplish this study the researchers use both primary data and secondary data.

Primary data is collected from CBE Head office credit approval committee, head office credit analysts, department manager, loan officers and borrowers or customers and secondary data is collected from journals, magazines, brochures, and directives.

### **1.8.3. Data Collection Methods**

In this research both primary and secondary data collection methods used.

To collect primary data questionnaires distributed for credit approval committee of the head office, head office credit analysts, department managers, loan officers and some borrowers of the bank to have an overall insight about loan processing and management.

The secondary data gathered by collecting information from annual audited financial statements, journals, magazines, brochures, directives and other documents in order to make strong review of related literature integration with findings.

### **1.8.4. Population and Area of the Study**

As per the researchers' delimitation, the target population is the employee of Commercial Bank of Ethiopia credit approval committee (6 in numbers), credit analysts (7 in numbers), department manager (1 in number), loan officers (40 in numbers) and borrowers of the bank (20 in numbers).

However, to analyze the data collected from the bank annual reports and from other brochures and analysis made on the collected information.

### **1.8.5. Sampling Technique**

The respondents are selected by convenient sampling technique to select sample from the population. This is because of their convenient accessibility and proximity to the researchers.



### 1.8.6. Sample Size

The sample size of each respondent group is listed below:

No	Department	Population	Total Sampling
1	Credit Approval Committee	6	4
2	Head office credit analysts	12	7
3	Department Manager	1	1
4	Loan Officers	60	40
5	Borrowers	247	20
<b>Total</b>			<b><u>72</u></b>

### 1.8.7. Method Of Data Analysis

The data collected through questionnaires tabulated and analyze through qualitative and quantitative/statistical measurement methods and interpret in terms of percentage. Thus, the data obtained through the distribution of questionnaire analyzed quantitatively.

## 1.9. Limitation of The Study

In the process of conducting this research various problems and constraints confronted. Those constraints in nature are more frequent for the inexperienced researchers. Some of the confronted challenges are expressed as follows:-

- Lack of experience in this kind of field study.
- Low access to adequate information due to confidentiality of the necessary data.
- Financial shortage.
- Time restriction.

## **1.10. Organization of the study**

The paper is organized as follows; the first chapter considers the introduction of the study, statement of the problem, Objective of the study, significance of the study, limitation and scope of the study and methodology of the study. The second chapter cover the literature review part; the third chapter deals with the data presentation and analysis of the study covered. The final chapter presents the summery major findings conclusion and recommendations.

# CHAPTER TWO

## Review of Related Literature

### 2.1. Introduction

Banking and other financial service and available in Ethiopia which the national bank of Ethiopia (NBE) serves as the central bank. Commercial banking functions are performed by one state owned commercial bank and by a number of newly emerging private commercial bank and offer savings and checking accounts, extend short term loans, deal with foreign exchange transactions, provide mail and cable money transfer services, participate in equity investment, provide guarantee services and perform all other commercial banking activities. (Addis Ababa Business Directory 2001)

#### 2.1.1. Origin and Growth of Banking

The origin of Commercial Banking can be traceable in the early times of human history. In the ancient Rome and Greece, the practice of storing precious metals and coins at safe places and loaning out money for public and private purpose on interest was prevalent. (Shechar:1997:3)

There are two specialized banks. The development bank of Ethiopia (DBE) and construction and business bank (CBB), DBE extend short, medium and long term loans for viable development project including industrial and agricultural projects. It also provides other banking services such as checking and saving accounts to its clients. The CBB provides long term loan for construction, acquisition or maintain of dwellings, community facility and real estate development. (Addis Ababa Business Directory 2001)

## 2.2. Meaning and Functions of Banks

### 2.2.1. Meaning of Bank

A bank is an institution, which deals with money and credit; it accepts deposits from the public, makes the funds available to those who need them and helps in the remittance of money from one place to another. In fact, a modern bank performs such a variety of functions that it is difficult to give a precise general definition of it.

In general, the term bank in the modern times refers to an institution having the following features:

- ✓ It deals with money; it accepts and advances loans
- ✓ It also deals with credit; it has the ability to create credit i.e. the ability to expand its liabilities as a multiple of its reserve.
- ✓ It is a commercial institution it aims at earning profit.
- ✓ It is a unique financial institution that creates demand deposits, which serve as a medium of exchange and as a result the banks manage the payment system of the country (Holders Milne's:1994: 4)

#### 2.2.1.1. Major Duties of National Bank of Ethiopia (NBE)

As per the proclamation number 206/1955 National Bank of Ethiopia (NBE) and Commercial Bank of Ethiopia (CBE) were institutionalized in 1994. Main role of NBE currency notes and coins, control and administer foreign exchange of the country, supervise the financial institutions, issue monetary policy, issue license to financial institutions, dissolve and merge financial institutions, determine the duties and responsibilities of financial institutions and determine interest rates and loan limits on credit and other payments. (Belay Gidey:1993:92,93,94).

## **2.2.2. Functions of Commercial Banks**

In the modern world, banks perform such a variety of functions that it is not possible to make an all inclusive list of their function and services however; some basic functions performed by the banks are (Shechar: 1997:5)

### **2.2.2.1. Accepting Deposits:-**

The first important function of a bank is to accept deposits from those who can save but cannot utilize this saving for profit them. People consider it more relational to deposit their savings in a bank because by doing so they, on the one hand, earn interests, and on the other, avoid the danger of theft. To attract saving from all sorts of individuals the banks maintain different types of account.

#### **I, Fixed / Time / Deposit Account:-**

Money in these accounts is deposited for fixed period of time and can be withdrawn before the expiry of that period. The rate of interest on this account is higher than on other types of deposits (Shechar: 1997:5)

#### **II, Saving Deposit Accounts:-**

The aim of these accounts is to encourage and mobilize the public. Rate of interest paid on these deposits is low as compared to that on fixed deposits (Shechar: 1997:5)

### **2.2.2.2. Advancing of Loans:-**

The second important function of a bank is advancing of loans to the public. After keeping certain cash reserve, the banks lend their deposits to the needy borrowers. Before advancing loans, the banks satisfy themselves about the credit worthiness of the borrowers. The common types of loan granted by the banks are term loan, overdraft facility and others. (Shechar:1997:6)

Supply and demand at the market level determine the market interest rate on loans. A purely competitive bank must take this loan rate as given and determine how many loans to issue at this rate. The bank's goal is to maximize its profit. (Baye Jansen: 1997:134).

### **2.3. Loans and Advances**

A number of problems faced by borrowers also are in regard to deposits, remittances and collections. Basically the problems peculiar for borrowers arise due to difficulties in attitudinal adjustment of bank staff to the new client and new environments and inadequate job knowledge coupled with inexperience. It will obviously take some time to overcome these problems in their entirety. (Shechar:1997:84)

#### **I. Meaning of Credit**

The word "credit" is derived from the Latin word creditor which means to believe of trust. In economics, the term credit refers to a promise by one party to pay another form one your goods on demand at some future date. R.P kent defines credit "as the right to receive payments or the obligation to make payment on demand at some future time on account of the immediate transfer of goods. (ML Jhingan: 165).

## **II. Source of Credit**

The major source of profit for banking business is interest from loans and advances. And again the major source of loan able fund is deposit collected from customers in the form of saving deposit , current deposit and fixed deposit .( Commercial Bank of Ethiopia Training Manual June,2004 E.C)

The fundamental credit administration principles for corporate services are no different than those for lending – the key being “knows your customers”. Knowing your customer, however, may require unprecedented cooperation in many institutions. Knowledge of the customer’s service usage – including transaction volumes and dollar flows is found in the business unit of operations are responsible for sales and deliver, but knowledge of the customer’s creditworthiness lies with the account officer or credit administration (Paul F. May land: 1993:13)

## **III. Loan**

Loan is the thing that is lent, specially a sum of money. The action of lending something or the state of being lent “for each lender a loan is an investment comparable to bonds, stocks or other assets. On the other hand for each borrower a loan is a debt and obligation to repay the borrowed money plus interest.” (Thomson’s Dictionary of banking)

Large, well-known companies either issue bond or borrow from banks.

Small and medium-size firms, in contrast, find it difficult and expensive to issue bonds. Without access to the bond market, they rely on local banks and other financial institution for loans. Individuals, have little alternative to borrow from a bank or other financial intermediary in order to finance the purchase of houses, automobiles, and vacations.

Some commercial loans are long term and are used to buy machinery, land, and buildings. Many business loans are short-term, providing the working

capital needed to plug gaps between income and expense by financing the purchase of labour, materials, and unfinished goods used production. There are time lags between employing inputs and producing output, between production and sales, and between sales and receipt of payment. Loans help business bridge these gaps. Some delays are almost continual, some are seasonal, and some vary with business cycle. In economic slumps, firms accumulate unsold products. In credit crunches, they accumulate unpaid bills. In both cases- slumps and crunches- firms need extra cash. (Gary smith: 1991: 153)

#### **IV. Advances**

Advances are credit facilities in the form of written promises that should not necessarily be given in physical money as in loans.

##### **2.3.1.Type of Loans and Advance**

The major categories of bank loans are: commercial and industrial loans, real estate's loans, loans to individuals (mainly personal loans and instalment loans for consumer goods), loans to units of state and local government, security loans, loans to financial institutions, agricultural loans, lease financing receivables, and loans to foreign banks and officials institutions. This classification is based on the uses of the funds, not on the types of collateral, (Campbell Dolanp: 1984:152)

##### **2.3.1.1. Term loan**

"Term loan is debt originally scheduled for repayment in more than one year but generally less than ten years"

Term loans are physical money lent to borrowers in expectation of period repayments. It is a method of financing, which is characterized by periodic repayments that can be monthly, quarterly, and semi-annually or on a lump



sum basic (balloon repayments). This loan can be categorized into three on the duration. (Commercial Bank of Ethiopia credit manual).

Term lending is based on the "anticipated income theory" of commercial banks assets. Neither the traditional concept of liquidity nor the criterion of shift ability can be applied to term loans. Generally, these loans are given for long periods ranging from one to ten years. They are intended for meeting the fixed capital requirements of industry such as the expansion in plant capacity; the strengthening of the working capital of an excising industrial unit, etc. the loan is repaid over a period of years, out of the income of industrial unit concerned. Therefore, the liquidity of these loans depends upon the anticipated income of the borrowing concerns. (Varsheny: 1974: 74)

### **Commercial Bank of Ethiopia Credit Manual Classified Types of Loans As Follows:-**

**Short-Term Loans** (Short-term loans have duration not exceeding one year and are normally for working capital not meet financial requirements of customer).

**Medium-Term Loans** (Medium-term loans have duration not exceeding five Years and are used for purchase of capital goods, light vehicles, Public transport vehicles, completion of buildings, purchase of residential buildings, etc.) and **Long-term loans** (Long-term loans have a duration exceeding five years; such loans are granted for the construction of residential houses, commercial and industrial buildings, large- scale investments.(etc)

### **2.3.1.2. Overdraft Facilities**

It is facility where by customer is allowed to utilize a found up to certain limit set by the bank for a limited or unlimited time (commercial code of Ethiopia 1960)

It is also one method financing by which customers are allowed to withdraw beyond the deposited amounts in their current accounts. Such facilities are usually granted to well establish customers with sizable businesses as a supplement to their working capital. In order to be eligible for overdraft facilities the applicant has to be a customer of bank with good current accounts operations. However, the facility granted to new customers is based on some criteria of banks / Commercial Bank of Ethiopia Manual 1999/

### **2.3.1.3. Overdraw Facility**

It is an overdraft facility which is allowed for 15 days

An over drawl is a facility where by customers are allowed to withdraw temperately founds to bridge temporary shortage of funds. Over drawl is not a facility that is allowed in the same way banks allow overdrafts of other facilities. Over drawls can be approved by the authorized officials the banks when recovery of such over drawls is expected from reliable /substantiated remittances in transit, export bills pending negotiations or any other source or repayment considered genuine.

The facility is granted to customers to maintain current accounts with the particular banks and have a good liquidity position with acceptable swings and turnover of the accounts. Beside, the customer should present genuine and acceptable transit, export bills, pending payments agreement etc (Commercial Bank of Ethiopia, credit manual, 1995).

#### **2.3.1.4. Advance on Import Bills**

Advance on import bills is a written promise that the banks gives to foreign banks on behalf of its clients. This is designed to accommodate the non-withdraws of import documents by the importer and a letter of credit / L/C/ is used as an instrument. Imports usually request letter of credit facility when they face financial constraints to cover the payment of the L/C to be opened or when they do not want to tie up their funds until the arrival of documents." Letters of credit /L/C/ is a promise from a third party /usually a bank / for payment in the event that certain conditions are met. It is frequently used to guarantee payment of an obligation."

#### **2.3.1.5. Advances Against Export Bills**

Advances against export bills are made available to customer against presentation of complete set of export documents. Such requests for percentage advance must be presented to lending branch.

#### **2.3.1.6. Letter of Guarantee**

Letter of guarantee is written promise by banks stating that the bank will pay certain amount of money in case the client fails to perform is case the client fails to perform as promised .Letters of guarantee fall in to five main categories : Local guarantees ,short term guarantees, long term guarantees, bid bonds and performance bonds .

#### **2.3.1.7. Merchandise Loan**

This is the type of facility by which customers are provided with credits against pledge of goods, commodities and agricultural products are acceptable , the duration to this loan most of the time is of three months , while valuing the merchandise pegged banks verifies the existence and value of stored goods ( Commercial Bank of Ethiopia credit manual ).

### **2.3.2. Classification of Loans and Advances**

All loans whether such loans have pre-established repayment programs or not shall be classified into the following five categories pass / loans in this category are fully protected by the current financial and paying capacity of the borrower / Special mention / any loans past due 30days shall be classified special mention/, Substandard , / Non-performing loans or advances past due 90 days or more but less than 180 days shall at a minimum be classified substandard /, doubtful/ Non-performing loans past due 180 days or more but less than 360days shall be classified at a minimum, as doubtful/ and loss / Non performing loans or advances pas due 360 days or more shall classified loss /.

### **Secured Verses Unsecured Loans**

In order to receive loans , banks often required that borrowers assign them legal claims to real estate's corporation stock, savings deposits, life insurance policies or automobiles and other consumer durables purchased on the instalment plan . If the borrower defaults, the banks have the right to sell this collateral to recoup the amount owed ...collateral reduces the risk and enables banks to lend at lower interest rates than they otherwise could. If a borrower puts up collateral to obtain the loan, it is said to be secured, (Campbell Dolan, 1984: 150).

### **2.3.3. Loan Categories By Type of Sectors**

According to the (Commercial Bank of Ethiopia credit manual)

Agricultural production loan – these are loans granted from crop harvesting , purchase of agricultural inputs like selected seed , fertilizers ago chemicals rental or purchase of agricultural equipment and machinery and marketing of agricultural products , combined harvester , structures construction of

storage facilities , etc are classified under this category. Loans granted for the above purposes are normally short lived and are expected to be settled in one crop season, unless the financing extended has investment nature, Manufacturing loans these loans are used for purchase of basic and auxiliary raw materials, intermediate goods, or semi processed goods, such loans are granted to manufacturing enterprise. Loans availed for purchase of industrial machinery and equipment and mining fall under this category.

Consumer loan- these loans are only granted to salaried people for the purchase of household goods equipment , etc automobile loan loans that are granted for acquiring automobiles for business or personal use are classified under this category construction bridge loans these loans are granted for contractors to bridge shortage affiance and to be services by upcoming payment building construction loans-loans to be granted for contractors to bridge shortage of fiancé and to be serviced by upcoming payments .building construction loans to be granted to borrowers who are facing shortage of money at the completion phase while building . Transport service loan joins for working capital requirements to business engaged in the transport serve sector. Transport vehicle loan-loans granted for the purchase for new or used trucks bus are to be classified under this category. Hotels and tourism loan-these are loans granted for hotel business, restaurants, tour businesses, etc Wholesale or trade. The main activity of this sector is the distribution of locally produced manufactured and imported goods by way of whole selling or retailing in addition incorporates different types of services. Health service these are granted to pharmacies, hospital clinics etc miscellaneous domestic services loans grated for garage beauty salons launder etc are under this category. Import these loans are granted for importation of general goods and other export loans are granted for the export of goods and services are mortgage these loans are granted for the purchase residential and business house.

## **Limitations on the Creation of Credit**

The power of commercial bankers to create credit is limited mainly by cash reserves which they have to hold against their deposit and the total amount of legal tender currency issued by the center bank. Every bank has to meet the demands of its customers to pay cash over the country so a working reserve of liquid cash is always necessary for banker of course if the people are highly banking minded a lower cash reserve will suffice. But in the case of a community where the banking habits are not well developed a higher cash reserve is essential in either case a cause reserve is necessary and this acts as a brake on the power of the banks to create credit (Kcshekbar:1997:18,19)

### **2.4. Loan Eligibility Criteria**

It is a criterion the bank establishes for the customer to fulfil to apply for a loan and advances in order to qualify for a loan:-

1. The applicant should submit the basic documentary requirements which should include: application letter valid business license article and memorandum of association audited financial statements for all share companies power of attorney perform invoice sales agreements concluded contracts land holding certificate and vehicle ownership booklet. Testimonial letters, banks statements.
2. The purpose of the request should be clearly stated.
3. Evidence should be submitted that would show the profitability of the business which is sufficient to provide the owner with adequate returns while meeting loan obligations within a reasonable period of time
4. In the investment of projects , financial and economic rates of returns should be set and tested against national parameters for their accept ability

5. The business should have at least one year of operational experience. Unless treated exceptionally , sufficient collateral acceptable to banks is offered(Tilhun Hailu, 2005)

#### **2.4.1.Loan Evaluation**

Personal and business loans are initiated with an application and an interview with a loan officer, who sometimes given a more congenial title, such as "relationship." The loans officers' responsibility is to acquire information about the customer, the purpose of the loan and the likelihood of its repayment. Those who have a long standing relationship with the bank involving deposits previous loans and other services naturally expect to have their loans approved more readily than applications from strangers presumably continuing close relationship with customer gives bank information about the borrower that is not easily available to others. The cost of obtaining and verifying such information makes it impractical for little known firms to make public security offerings and makes it economical to maintain ongoing relationships with banks.

The evaluation of a personal loan involves an investigation of the applicant employment and credit history the loan office looks for a record of stable employment at a wage adequate to repay the loan and meet other financial obligations and for evidence of the repayment of earlier credit obligations including a home mortgage car and education loans and credit worthiness using a credit scoring system based on the economic and demographic characteristics and default on loans solon applicants are given points for job stability .

#### **2.4.2.Steps of be Follow on Loan Processing**

Loan processing which needs exertion of maximum effort in order to avoid faulty loans has to follow the following steps according to the training manual prepared for credit staffs.

### 2.4.3. Credit Analysis

Credit analysis is the evaluation of borrowers capacity of properly servicing the loan proper credit analysis the core part of quality loan in a bank in doing this there are factors considered in credit analyze is these factors are well known by the 6C is of credit capital character capacity condition and collateral

**Capital:** the level of capital will have to be evaluated to ensure that the risk is shouldered by the party with ownership interest.

Character previous credit experience which includes manner of meeting financial obligations with individual companies associations or groups.

**Capacity:** Capacity of the borrower can be seen in three forms one it represent the debt repayment of the borrower. The second form of the capacity of the borrower is the indebtedness of the borrower so far. The third form of capacity is the borrower legal capacity it might be explained as age.

**Condition:** the environment surrounding them affects borrowers for instance climate disaster is one factor that affects the agricultural sector. All condition that can affect the borrower in the future should be assessed before the loan is granted.

**Collateral:** Collateral is the securitized to back up the loan in the event of possible default. It can be anything of value which is readily sealable.

In addition, based on the financial statements presented analysis regarding the following is made. Profitability of the business capital structure and the debt servicing capacity sales asset turnover sustainability and growth (Tilahun Hailu, October 2005)

**Consultancy:** consulting the applicant on the outcome of evaluation that is made based on the information, data and documents submitted.



#### **2.4.4.Approval**

This is the loan processing stage where decision is made on the loans requested based on outcomes of the evaluation and analysis conducted.

#### **Disbursement of Loan**

After having ascertained completion of formalities required to be met prior to disbursement the branch will disburse the loan. Receipt of written instruction of the borrower to effect the disbursement is important, and conditions set at time of approval regarding the mode of disbursement have to be strictly observed

It is post disbursement activity that enforces the recovery of the loan advanced. When the fund is disbursed the end use should be controlled to avoid diversion from the intended purpose.

#### **2.5. Risks Faced in Lending**

As the magnitude of loans disbursed in the banking sector become greater and greater hand the risk associated with un-collectableness of its becomes higher and higher above signal digit ration of nonperforming loans to total loan is total loan is s symptom of poor credit analysis and follow up in order to minimize the risk associated with credit (National bank of Ethiopian memorandum ref.. No SD/290/04, dated October 26, 2004)

Credit as it has its advantages has also risks associated to it expanding credit generally reflects a period of business prosperity whereas contracting credit usually reflects a period of declining economic activity or depression fluctuations in credit in the credit system may affect the level of prices that is as credit expands the money supply increase and may cause price rise depending on the features of the economy ( opinion survey on major causes of NPL by Commercial Bank of Ethiopia 1997 E.C ) According of ML

Jhingan,2004/ there are cause where banks sometimes given to much or too little credit may lead to inflation that causes direct and immediate damage to creditors and consumer on the contrary to little credit leads to deflation that brings down the level of output employment and income such a credit leading to hyperinflation creates political instability .

### **2.5.1.Factors that Affect Loan Processing and Collection**

Corporate planning and development department of Commercial Bank of Ethiopia on its October 2005 issue classified the causes in two broad groups.

1. Internal factors are lock of continuous follow up of repayment duet to manpower shortage lack of consultation and communication with defaulter overstating the collateral value at the time of estimation lack of credit information to be gathered from other commercial banks and agency problem /i.e branch mangers focus merely on increasing their loan portfolio accepting loaners without making due analysis /
2. External factors are :- diversion of the borrowed found to other purposes un availability of demand and price fluctuation on both local and international market country economic and political condition impact of change in fiscal and monetary policy insufficient credit awareness unwilling customers to disclose the information required , unethical competition make between banks and wilful default .

**Consequence** :- providing loan over the total capital of the firms or business entitles providing loan without sufficient back up adequate safety of collateral or security providing loan without sound credit principal and appraisals , providing loan to unfamiliar borrowers and without adequate information about the borrower , providing loans with the quality and dependability of personal guarantee providing loans / large sum / without audited finical system of borrower firm company providing additional loan without additional collateral providing loans without the expertise of engineering appraisal and

without additional collateral providing loans without the expertise of engineering appraisal and without consideration of depreciation and current fair value of the property of the borrower , providing with non-existent merchandise and if there is its marketability that is not fast moving items providing loans with collateral which has no legal documents or registration with municipality providing loans with collateral which has no legal documents or registration with the municipality providing loans without sufficient credit history or information of the borrower providing loans without viable project business proposals and the damage of nonperforming loans on commercial banks occurred due to the above causes aggravated because of the way that the banks try to recover sick loans .

## **2.6. The Role of Commercial Banks to the Economy**

Besides performing the usual commercial banking functions banks in developing countries play an effective role in their economic development. The majorities of people in such countries are poor unemployed and engaged in traditional agriculture. There is acute shortage of capital people lack initiative and enterprise means of transport are undeveloped industry is depressed the commercial banks help in overcoming these obstacles and promoting economic development. The roles of commercial bank in a developing country are the following

It is well known that the lifeblood of the private sector is capital which is an input that increases productivity and creates wealth unless there is sufficient capital there will be outgrowth it is because of lack of capital that Ethiopians productive forces are categorized as the least developed in the world capital is not something that can be scooped off from the land one means of obtaining capital is through bank credit. The prime task of banks concentrates on the process of lending money that involves collection of funds from different sources by way of accepting deposits

and deployment of demobilized fund in the form of creditor areas where it is needed to support commercial activities that have economic importance commercial banks avail credits for the purpose of working capital and to finance investment bank credit can be defined as money provided by banks for eligible activities that have economic importance with an agreement to payback the principal with interest within the period specified in loan contract (opining surveyor Majorcans of NPL by Commercial Bank of Ethiopia 1997 E.C )

Literatures reviewed so far emphasize the importance of loan and advance management system.

The next chapter evaluates the loan and advance management system of Commercial Bank of Ethiopia.

As those different scholars stressed, focused and points out that how banks loans and advances are vital and essential to the existence bank hence constantly and persistently revising checking and enhancing the loans and advance management system of the bank unquestionable and advisable in line with the Scio- economic and technological development of the nation.

## CHAPTER THREE

### Data Presentation Analysis and Interpretation

In this study, we tried to cover the loan processing and management system of Commercial Bank of Ethiopia relevant documents available in credit department were reviewed thoroughly. This chapter deals with a tabular data presentations along with their immediate interpretations. The data were collected through questionnaires that were distributed to some selected credit staffs and customers of Commercial Bank of Ethiopia. The questionnaire was distributed to 52 selected credit staffs and all respondents are filled and returned.

#### 3.1. Respondents Biographic Data

The selected staffs have played a great role in the finalization of this paper by answering the asked questions in the form of questionnaire and interview. Their responses for the respective questions are analyzed as follows.

**Table.1. Respondent's General Information**

Field of work	Total No.	Sex		Educational Qualification		Work Experience		
		Male	Female	1 <sup>st</sup> Degree	2 <sup>nd</sup> Degree	3 to 5	5 to 10	Above 10
Credit Approval Committee	4	4	-	1	3	-	2	2
H.O Credit Analyst	7	5	2	5	2	1	4	1
Branch Manager	1	1	-	-	1	-	-	1
Loan Officers	40	27	13	34	6	6	24	4
<b>Total</b>	<b>52</b>	<b>37</b>	<b>15</b>	<b>40</b>	<b>12</b>	<b>7</b>	<b>37</b>	<b>8</b>
<b>Percentage</b>		<b>71.15%</b>	<b>28.85%</b>	<b>76.92%</b>	<b>23.08%</b>	<b>13.46%</b>	<b>71.16%</b>	<b>15.38%</b>

(Source: Primary Data, 2014)

Table 3.1 shows that the general characteristics of the respondents to the questionnaires with regard to sex, educational qualification and working experience. Out of the 52 respondents, 37 are male and 15 are female. It shows that the male employees are high in number. According to the information given by them, 23.08% of the respondents are master's degree holders and 76.92% are BA degree holders in relative fields and 13.46% and 15.38% of the respondents have 3 to 5 and above 10 years working experience respectively and 71.16% of them have 5 to 10 years working experience. This shows that almost all staff of credit has gained much knowledge through long years of experience and is capable of doing on the credit area.

### 3.2. Effectiveness of Loan Processing

**Table.2. Opinion of Respondents Regarding to Effectiveness of Loan Processing**

<b>Do you think the loan request evaluation process is effective in identifying a customer with good/bad credit history?</b>		
<b>Answer</b>	<b>Respondents</b>	
	<b>Number</b>	<b>Percentage</b>
Not that much effective	10	19.23%
Yes to some extent but requires improvement	31	59.62%
Yes it is so effective	11	21.15%
<b>Total</b>	<b>52</b>	<b>100%</b>

(Source: Primary Data, 2014)

As shown in the above table out of the total (52) respondents 10 (19.23%) of them feel that the loan request evaluation process is not much effective, and 11

(21.15%) of them feel it is so effective and the rest of the respondents 31 (59.62%) feel that although it is in some extent effective but it requires some improvement. This shows that the employees believe the loan request evaluation process needs some improvement.

**Table.3. Opinion of Respondents Regarding the Modification of the Application Process So As To Attract Customers**

<b>Do you think the application processing requires more modification so as to attract customers?</b>		
<b>Answer</b>	<b>Respondents</b>	
	<b>Number</b>	<b>Percentage</b>
No, the current system is good and enough for time being	13	25%
Yes, there is a need but not immediately	22	42.31%
Absolutely and there must be a change sooner	17	32.69%
<b>Total</b>	<b>52</b>	<b>100%</b>

(Source: Primary Data, 2014)

Respondents were also asked what they think about if the application processing requires modification and 13 (25%) of the respondent said that the current system is good and enough for time being, 17 (32.69%) are said that they need to change sooner and 22 (43.31%) of the respondents agreed that there is a need of modification but not immediately. This shows that majority of the respondent look forward to modify the current system through time but not immediately.

### 3.3. Evaluation of Collateral

Table .4. Bank's Engineers Evaluate the Presented Collateral

How does the bank engineer evaluate the presented collateral?		
Answer	Respondents	
	Number	Percentage
Overstate	7	13.46%
Normal	35	67.31%
Understate	10	19.23%
<b>Total</b>	<b>52</b>	<b>100%</b>

(Source: Primary Data, 2014)

From the total respondents 35 (67.31%) were replied that the bank engineers evaluate the presented collateral fairly or normal, 10 (19.23%) of the respondents agreed that the engineers evaluate the presented collateral understate or under the current market price and the rest 7 (13.46%) of the respondents replied that the engineers evaluate the presented collateral overstated from the current market price.



### 3.4. Analysis of Collateral against the Loan Permit

Table .5. The Bank Officers and Credit Analysts properly do Analysis of the Loan

Does the loan officers and credit analysts properly do analysis of the loan to be disbursed in detail and informative ways?		
Answer	Respondents	
	Number	Percentage
Yes	36	69.23%
Yes but limited	16	30.77%
No	0	0%
<b>Total</b>	<b>52</b>	<b>100%</b>

(Source: Primary Data, 2014)

On the above table there is information about the loan officers and credit analysts do properly and detail analysis, majority of the respondents 36 (63.23%) replied that the analysts do proper and detail analysis in informative ways on the other hand 16 (30.77%) respondents replied that even if there is proper and detail analysis, it also face some limitation. Among them

- Enough time to analysis
- Limitation of knowledge and
- The availability of information is limited

This shows that the employees believe the loan officers and credit analysts do proper analysis in informative ways.

### 3.5. Causes for Un collectability at Commercial Bank of Ethiopia

Credit staffs were also requested to list the internal and external factors causes for the loans to be non-performing or doubtful and their answer is organized as follows.

**Table .6. Reasons for Un collectability**

	Type of reason	Number	Percentage
<b>Internal Factor</b>			
1	Lack of adequate applicant screening criteria	8	15.38%
2	Lack of pre and post loan approval and disbursement consultancy service& follow-up	13	25%
3	Use of loan granted for unintended purpose (Diversion of loan)	25	48.08%
4	Incapability of management in leading the business	4	7.69%
5	Overstating the collateral value at the time of estimation (Wilful default)	2	3.85%
<b>Total</b>		<b>52</b>	<b>100%</b>
<b>External Factor</b>			
1	Unavailability of demand and price fluctuation on both local and international market (Economic problem of the Global Market)	42	80.77%
2	Poor Communication and other	10	19.23%
<b>Total</b>		<b>52</b>	<b>100%</b>

(Source: Primary Data, 2014)

### **Internal Factor That Aggravate the Occurrence of Un collectible**

One of the major internal factor that aggravate the occurrence of un collectability is lack of adequate applicant screening criteria according to 8 (15.38%) responses, 13 (25%) of the total respondents replied that cause of Un collectability is lack of before and after loan approval and disbursement consultancy, 4 (7.69%) of the respondents replied that incapability of management in leading their business, 25 (48.08%) of the respondents replied that due to diversion of funds for unintended purposes and 2 (3.85%) of the respondents replied that willingness less to pay (Wilful default) b/c they keep their advantage in advance. This clearly indicates that the major sources of default are controllable and determinable in nature and calls for reinforcement of the stated reasons (Ethiopian Finance and Research Institution, magazine 2012).

### **External Factor That Intensify the Occurrence of Un Collectability**

#### **Economic Problem of the Local and International Market**

According to the qualitative assessment result, 80% of the respondents agreed to the economic problem of the global market. It is the main reason for un collectability of loan. As the respondent's states, borrowers are exposed to inflation due to the alarming price increase. This price rise creates the customer not to finish their project (for example: - Building, manufacture) and lead them not to replay their obligations on a specified period of time.

## Communication

20% of the respondents agreed on that due to poor communication with borrowers and other banks which means through National Bank of Ethiopia (NBE) and others said that shortage on supply of raw material and professional man power. In previous years, communication among banks in Ethiopia was the main problem for bankers.

**Table.7. Total loan, Un collectable and Un collectable as Percentage of Total Loan**

Years	Total Loan	Un collectable	Percentage of Un collectable
2010	2,446,830,784	99,305,083	4.06%
2011	2,652,420,293	114,102,029	4.30%
2012	3,608,327,548	100,572,158	2.79%
2013	4,429,319,286	113,673,167	2.57%

(Source: - Annual Report from 2009 to 2013)

### 3.6. Effect Follows Up of Loan

The selected staffs were asked whether the bank made the necessary follow up after the loan is disbursed or not.

**Table .8. Follow up Evaluated by Staffs**

Does the bank makes necessary follow up on loan after its disbursement?		
Answer	Respondents	
	Number	Percentage
Yes	17	32.69%
Yes, but limited	35	67.31%
No	-	-
<b>Total</b>	<b>52</b>	<b>100%</b>

(Source: Primary Data, 2014)

Follow up is the key for successful loan collection in every bank. Because, the borrowed fund may be converted to unintended business or illegal business purposes and leads the loan to be doubtful. But as indicated above even though the bank made follow-up of loan 17 (32.69%) of the respondents replied that the bank made necessary follow up on loan after disbursement and 35 (67.31%) of the respondents agreed that it is too limited, limitation on borrowers not willing to faithfully disclose necessary information and not enough compared to the number of loans disbursed and much effort is expected for effective loan processing

**3.7. In addition to the above questions, respondents were given the opportunity to add any additional information and opinion they have in mind that contribute for improvement of loan & advance processing system of Commercial Bank of Ethiopia and it is organized as follows**

- "Periodic evaluation of the overall economic situation of the country should be made to find out potential areas for credit expansion and to minimize concentration on relevant sectors in order to safeguard the bank from associated risks".
- "To get required information for projects appraisal loan officers and credit analysts should get internet service from the bank".
- "Training facility for credit staffs"
- "The major weakness is the failure to bring to practice policies and procedures as they are on paper"

## Customer

### 3.8. Attitude of the Credit Customers towards Credit Facility

Some selected credit customers of Commercial Bank of Ethiopia have also been given the opportunity to express their attitude towards the credit facility that Commercial Bank of Ethiopia renders to its customers. The questionnaire was distributed to 20 selected borrowers and all respondents are filled and returned. Their response is analyzed as follows.

**Table .9.Respondents General Information**

Items	Alternatives	Respondents	
		Number	Percentage
Sex	Male	16	80%
	Female	4	20%
<b>Total</b>		<b>20</b>	<b>100%</b>
Educational Qualification	Below Diploma	12	60%
	Diploma	2	10%
	Degree	3	15%
	Above Degree	3	15%
<b>Total</b>		<b>20</b>	<b>100%</b>
Year of respondents attachment to the bank	Less than 3 years	5	25%
	3 – 5 years	9	45%
	5 – 8 years	3	15%
	Above 8 years	3	15%
<b>Total</b>		<b>20</b>	<b>100%</b>

(Source: Primary Data, 2014)

The above table shows that the general information of respondents to the questionnaire with regard to sex, educational qualification and year of

attachment to the bank according to the information which is the respondents response. Out of the 20 respondents, 16 (80%) are male and 4 (20%) are female. It shows that the male customers are high in number. From the finding it can be seen that 3 (15%) and 2 (10%) of the respondents are diploma and degree & above holders respectively and 12 (60%) of the respondents are below diploma holders in different fields but they manage their business by employing skilled manpower. 25% and 15% & 15% of the respondents stayed for less than 3 years and 5 – 8 years & above 8 years respectively and 45% of respondents have been customers of Commercial Bank of Ethiopia for about 3 to 5 years. This shows that most of the branch customers have gone a long way with the bank and hence, the bank must put much thought and also make use of serious effort to satisfy its customers by producing a more effective credit service.

### 3.9. Evaluation of Loan Processing and Problem Faced by Borrowers on Getting Loan Service

**Table .10. Evaluation of Service on Getting Loan Facility**

<b>How do you rate the loan application evaluations of the bank?</b>		
<b>Answer</b>	<b>Respondents</b>	
	<b>Number</b>	<b>Percentage</b>
Delight	16	80%
Satisfy	3	15%
Neutral	-	0%
Dissatisfy	1	5%
<b>Total</b>	<b>20</b>	<b>100%</b>

**(Source: Primary Data, 2014)**

From the above table 3.10, 16 (80%) of the respondents were they are delighted on getting loan service, 3 (15%) of the respondents replied that they are

satisfied and only 1 (5%) of them come across difficulties in getting loan service. From data gathered from interview with customers, they specify their reasons to the difficulties they faced as follows:-

- “High value collaterals are needed”
- “The time wasted in processing the loan service is very long”
- “Limited amount of loan approved”
- “They are not ask to present the required documents at a time (one time)”
- “Problem on consolidation by considering socio-economic, technological advancement and actions of market competitors”
- The bank not encourage initial or new business ideas
- Delaine on disbursement of the approved loan

The respondents agreed that the initial applicant's faced many challenges on granting loan service.

### 3.10. Evaluation of Loan and Advance Processing System Compared to the Similar Commercial Banks

**Table.11. Evaluation of Loan and Advance Processing System Compared to the Similar Commercial Banks**

Compared to Other Banks, How Do You Evaluate The Loan Processing System of The Bank?		
Answer	Respondents	
	Number	Percentage
Very good	12	60%
Good	5	25%
Poor	3	15%
<b>Total</b>	<b>20</b>	<b>100%</b>

**(Source: Primary Data, 2014)**

As shown in the above table, out of the total respondents, 12 (60%) are takes comfortable and short in time by the loan processing time, 5 (25%) respondent



said "good" but 3 (15%) respondent replied that the processing time is poor compared with other banks. From this analysis the bank's processing time is longer than the competitors, due inadequate discretionary limit of the branch, liquidity problem and long hieratical organ of loan approval system.

### 3.11. Evaluation of Collateral

One of the basic factors among C's of credit is the last but the base for granting loan is collateral.

**Table.12.Reasonableness on Evaluation of Collateral**

<b>Do you think the bank engineers reasonably evaluate the offered collateral?</b>		
<b>Answer</b>	<b>Respondents</b>	
	<b>Number</b>	<b>Percentage</b>
Yes	9	45%
No	11	55%
<b>Total</b>	<b>20</b>	<b>100%</b>

**(Source: Primary Data, 2014)**

9 (45%) of the total respondents of customers, they have come without any doubt on evaluation of collateral. 11 (55%) of the respondents said that there are problems on evaluation of collateral and they replied that some of the bank engineers are asked to pay a lot of money; others are estimate under the current market.

### 3.12. Customers were asked the Time Taken to Approve and Disburse the Approved Loan

**Table.13.Time Taken to Approve and Disburse the Approved Loan.**

Items	Alternatives	Number	Percentage
To Approve loan	3 - 10 days	-	0%
	11 - 20 days	7	35%
	21 - 30 days	10	50%
	31 - 60 days	3	15%
<b>Total</b>		<b>20</b>	<b>100%</b>
To disburse the approved loan	3 - 7 days	17	85%
	8 - 16 days	2	10%
	17 - 24 days	-	0%
	25 - 30 days	1	5%
<b>Total</b>		<b>20</b>	<b>100%</b>

(Source: Primary Data, 2014)

According to findings gathered 3 (15%) of the respondents from the customer side agreed that the bank takes to approve loan 31 – 60 days, 7 (35%) agreed that the bank takes 11 – 20 days to approve the requested loan and 10 (50%) of the respondents have come across that the bank takes 21 – 30 days to approve the requested loan, it shows the bank spent number of days to secure loans. Standard banking practice indicates that decision for a loan applied must be given within 5 days. (Money, Banking, International trade and public finance, 7<sup>th</sup> Edition, M.L. JHINGAN 2007)

Hence one can see that the bank's service in disbursing loans need improvement as customers might start looking for better offers. According to the above table, 1 (5%) of the respondents were agreed the bank takes 25 – 30 days to disburse the approved loan, 2 (10%) of the respondents were agreed the

bank takes 8 – 16 days to disburse the approved loan and 17 (85%) of the respondents were the bank takes 3 - 7 days to disburse the approved loan. Finally the bank takes exaggerated time between the loan application, approval and disbursement.

It is a sure fact that banks being intermediaries who mobilize money from the public at large, they need to utilize this public fund effectively and safely. Out of the ways banks can assure safety for mobilized financial resources is by analyzing customer’s applications following its own regulations requirement. But this does not mean that banks must erect unnecessary bureaucracies that might be found tiresome by most customers.

### 3.13. Advisory Service Given for Credit Customer

**Table.14. Advisory Services to Customer**

<b>Have you got advisory service from the bank?</b>		
<b>Answer</b>	<b>Respondents</b>	
	<b>Number</b>	<b>Percentage</b>
Yes	17	85%
No	3	15%
<b>Total</b>	<b>20</b>	<b>100%</b>

(Source: Primary Data, 2014)

Consultancy is one of the key factor, among other that is, the ‘Cs’ of credit, in analyzing credit and for the final success of loan processing that is collection of disbursed loans as indicated in credit manual.

From the table we can understand that all the 17 (85%) respondents agreed that they are provided an advisory service from the bank. But 3 (15%) of the respondents reply that the bank does not provide an advisory service to us.

### 3.14. Respondents Evaluation of the Cooperativeness of Front Line Employees

The supplier customer relationship must be consistently good. Customers are very susceptible that can never be satisfied if they cannot agree with the front desk workers whom they face directly no matter how careful the top managers are. In this regard, customers were also asked whether or not they observe problems on the cooperativeness of front line employees of the loan section. Their responses are summarized in the following table.

**Table.15. Evaluation of Cooperativeness of Credit Employees.**

<b>Have you ever faced challenges relating to the cooperativeness of frontline employees?</b>		
<b>Answer</b>	<b>Respondents</b>	
	<b>Number</b>	<b>Percentage</b>
Yes	3	15%
No	17	85%
<b>Total</b>	<b>20</b>	<b>100%</b>

(Source: Primary Data, 2014)

From the above table, 17 (85%) of the respondents were there is no problem we observe on cooperativeness of front line employees. However, 3 (15%) of the respondents were an argument on front line employees therefore the bank should work on this matter by providing training facility for the better improvement by showing a good tone of voice since the worker customer relationship is very important for the success of the Bank.

**3.15. In addition to the above questions, respondents were given the opportunity to add any additional information and opinion they have in mind that contribute for improvement of loan processing and management system of Commercial Bank Of Ethiopia and it is organized as follows**

- "The bank should give continuous and consistence training and consultancy service"
- "The bank should avoid unnecessary delay on approving loan and after approved the loan, they must minimize bureaucracy on disbursement b/c delay of to disburse approved loan is like rejection of request.

# CHAPTER FOUR

## Summary, Conclusions and Recommendations

### 4.1. Summary

- From the sample selected employees of the organization most of them (71.15%) are male as well as (76%) of them are first BA degree holders and also majority (71.16%) are between the range of 5 and 10 years work experience.
- The majority (59.62%) of employees believe that the loan request evaluation process needs some improvement.
- The largest part (42.31%) of employees expects to modify the current system through time but not immediately.
- Significant percentage (67.31%) of respondents believes that the bank engineers evaluate the collateral fairly.
- Majority of respondents (69.23%) believe that the loan officers and credit analysts carry out their duties properly in detail and informative ways.
- Among different reasons mentioned for internal factor of uncollectable, the dominant one (48.08%) is diversion of funds for unintended purposes. Accordingly nearly all (80%) of the respondent agreed to the economic problem of global market is cause of uncollectable for external factor.
- The uncollectable loan rate of the organization going to decline throughout time.
- Majority of respondents (67.31%) believe that although the bank make necessary follow up of loan after disbursement, there is limitation up on it.

- Majority (45%) of customer respondents selected based on duration of time being served by the bank have been attachment from 3 up to 5 years. Among them (80%) are delights regarding evaluation system of loan application.
- Large part (60%) of customer respondents believe that the bank has very good practice of loan processing system compared to other banks.
- The dominant part of (55%) of customer respondents replied that the bank engineers do not evaluate the collateral reasonably.
- The majority of customer respondents replied that days taken to approve are between 21-30 days and days to disburse are almost (85%) between 3-7 days.
- Majority (85%) of customer's highlighted the existence of advisory service.
- Significant (85%) of customers replied that the front line employees are cooperative.

## 4.1. Conclusions

- The employees of the organization are composed of BA degree holders and experienced.
- The loan request evaluation system needs improvement.
- The application process should be modified.
- The collaterals are evaluated fairly and the assigned employees do their duties properly on the opinion of employees.
- The dominant internal factor of uncollectable loan is diversion of funds for unintended purpose and economic problem of a Global market for external factor.
- Loan after disbursement follow up has limitations.
- Senior customers are delight regarding to evaluation system of loan application.
- The bank has very good practice of loan processing system compared to other banks.
- The customers believe that the bank does not evaluate collateral reasonably.
- The bank takes maximum a week for disbursement and month to approve loan.
- The customers are happy with front line employees and also believe there is advisory service by the bank.



## 4.2. Recommendations

- The bank should favour some areas of loan sector that enhance for the economic development like agricultural and manufacturing sector.
- The bank should provide training like short term course of collateral assessment system.
- The bank should gather information directly (financial statements like balance sheet, income statements and cash flows) to know repayment of loan and indirect information like good will of the company to be informed future profitability of the company.
- Emphasis should be made on the importance of enhancing credit follow up activity after loan disbursed by doing motivational tools like discount rate and facilitate another credit after the previous loan fully paid.
- After the loan disbursed the bank should engaged by supervise visit of customer business site this helps the bank to know the real things of the borrowers business at the early level.
- Financial statements presented by customers must cross analyzed this helps the bank to know leverage (capacity to pay the debt) and liquidity (ability to convert cash) analysis of the company.
- The bank should have only objective evaluation of collateral criteria not subjective which leads to make fraud.

In general the bank should maintain and strengthen credit administration of the following areas:

- Consultation.
- Efficient loan processing.
- Create different loan products
- Encourage Customer participation.
- Advocate credit growth to address customer needs and to focus on the direction of economic growth.

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# APPENDIX

St. Mary University  
Faculty of Business  
Department of Accounting

## To be filled by Employees

This questionnaire is prepared in support of the Senior Essay for partial fulfilment of the requirement of Bachelor of Arts Degree in Accounting and to collect data on loan processing and Management in Commercial Bank of Ethiopia. The responses of the respondents are strictly held confidential and will only be used for academic purposes only. You will not be required to provide your name either.

### I. Personal Information

1. Male     Female
2. Educational Level  
 Degree  
<sup>d</sup> Degree
3. How long have you served in the Bank?  
 5 years       10 years      and  10 years

### II. Questions related with the study

4. Do you think the loan request evaluation process is effective in identifying a customer with good/bad credit history?

- Not that much  effective  
Yes to some extent but requires improvement   
Yes it is sufficient

5. Do you think the application processing requires more modification so as to attract customers?

- No, the current system is good and enough  time being
- Yes, there is a need but not immediately   
Absolutely and there must be a change sooner

6. How does the Bank Engineers evaluate the presented collateral?

- overstate  
 Normal  
 understate

7. Does the loan officers and credit analysts properly do analysis of the loan to be disbursed in detail and informative ways?

- Yes  
Yes  limited  
 No

If yes but limited, please list the limitations \_\_\_\_\_

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If no, why? Can you list some of the related problems

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8. What do you think are the major internal factors that contribute to un collectability of loan?

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9. What do you think are the major external factors that contribute to un collectability of loan?

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10. Does the Bank makes necessary follow up on loan after its disbursement?

- Yes
  - Yes but limited
  - No
- If yes but limited, please list the limitations

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11. Please mention any idea that you think can contribute to the improvement of loan processing system of the Bank

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**St. Mary University**  
**Faculty of Business**  
**Department of Accounting**  
**To be filled by customers**

This questionnaire is prepared in support of the Senior Essay for partial fulfilment of the requirement of Bachelor of Arts Degree in Accounting and to collect data on loan processing and Management in Commercial Bank of Ethiopia. The responses of the respondents are strictly held confidential and will only be used for academic purposes only. You will not be required to provide your name either.

**I. Personal Information**

1. Background of the respondent  
 Male                       Female
2. Educational Background  
Bel  Diploma  
 Diploma  
 Degree  
Al  Degree
3. How long has it been since you established relationship with the Bank  
Less Than  3 years     3-5 year  5-8 years   
Above 8 years

**II. Questions related to the study**

4. How do you rate the loan application evaluations of the Bank?  
 Delight  
 Satisfy  
Neutral

Dissatisfy

5. Compared to other Banks, how do you evaluate the loan processing system of the Bank?

Very good

Good

Poor

6. Do you suppose that the Bank reasonably evaluate the collaterals you offer?

Yes

No

If No, can you list the reasons

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7. How long does it take to approve loan?

10 days      1  20 days      2  30 days       31 - 6 days

8. How long does it take to disburse the approved loan?

7 days       16 days      1  24 days      2  30 days

9. Have you got advisory services from the Bank?

Yes

No

10. Have you ever faced challenges relating to the cooperativeness of frontline employees?

Yes

No

11. If Yes, please list them

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12. Please mention any idea that you think can contribute to the improvement of loan processing system of the Bank

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## DECLARATION

### **Advisee's Declaration**

We, the Undersigned, declare that this senior essay /project are our original work. Prepared under the guidance of Ato Biniyam all sources of materials used for manuscript have been duly acknowledged.

Name: - Marta Girma

Signature:- \_\_\_\_\_

Name: - Rahel Gebreselassie

Signature:- \_\_\_\_\_



Name: - Mekdelawit Kassahun

Signature:- \_\_\_\_\_

Place of Submission:-Department of Accounting

Date of Submission:-June, 2014

### **Advisor's Declaration**

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

Name:- \_\_\_\_\_

Signature:- \_\_\_\_\_

Date: - \_\_\_\_\_