ST.MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

EXPLORING THE CREDIT MANAGEMENT PRACTICE OF BUNNA INTERNATIONAL BANK S.C

BY
YALEMZEWD TADESSE AYELLE

IDNo: SGS1/0121/2004

NOVEMBER, 2013
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APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies	**Signature& Date**
Advisor	**Signature & Date**
External Examiner	**Signature & Date**
Internal Examiner	**Signature & Date**

DEDICATION

This piece is dedicated to my lovely sister, Addisalem Tadesse , and the Almighty God.

TABLE OF CONTENTS

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I praise the name of Almighty God who gave me power and patience in every endeavor of my life. Next to that, I would like to express my appreciation to all who have helped me in conducting this study. First of all; I would like to express my genuine thank to my advisor, Dr. Zenegnaw Abiy, for his comments, advice and inspiration. I am very much grateful to my friends who helped me during the study. I am also indebted to all who share their views with me during data collection and questioner session. My heartfelt thanks go to my mother Banchiwossen Lema, her moral support was an immense help throughout my work.

May God Bless you all

LIST OF ABBREVIATIONS AND ACCRONYMS

BIB- Bunna international Bank

Freq. - Frequency

CIC-Credit Information Center

MFIs – Micro Finance Institutions

MIS-Management Information System

NBE -National Bank of Ethiopia

NPL- Non-performing loan

LIST OF TABLES

ABSTRACT

The study assessed credit management practices of Bunna International Bank S.C (BIB). The research was carried out by analyzing the process of accessing credits; credits control processes and credits collection strategies. The research was done against the background that there was huge debts as a result of nonperforming loans affecting the financial status of the bank. The descriptive survey method was used for the study. Sample size of 40 members of staff was drawn from the thirty three branches and Credit Department staff. Primary and secondary sources of data were used for the study. Questionnaires were used as the main instrument to collect the primary data on access to credit, credit control processes and credit collection strategies. Among the major findings of the study are; the main factors influencing access to credit are the stringent policy guidelines as well as the credit worthiness of the customers. A major credit control process was the process of ensuring compliance of internal guidelines. A major recommendation of the study was the need to adopt flexible policy which can improve access to credit. Besides, implementing the policies and guidelines that are set in place are mandatory. The overall credit management activity of the bank is poor and needs improvement in devising a strong follow-up unit, devising an office that can control the condition and sanctions at each approval document, establishing coordination among work units.

CHAPTER ONE

INTRODUCTION

*1.1.*BACKGROUND OF THE STUDY

The word credit comes from the Latin word “Credo” meaning “I believe”. It is a lender’s trust in a person’s/ firm’s/ or company’s ability or potential ability and intention to repay. In other words, credit is the ability to command goods or services of another in return for promise to pay such goods or services at some specified time in the future. For a bank, it is the main source of profit and on the other hand, the wrong use of credit would bring disaster not only for the bank but also for the economy as a whole (Edwards ,2004).

Banks as financial intermediaries are very significant in the economy of every nation. Currently, in Ethiopia the banking system dominates the financial system. At the close of April 2013 the financial system comprises of one central bank (National Bank of Ethiopia), eighteen commercial banks (of which two are owned by government), one development bank (Development Bank of Ethiopia), 19 micro-finance institutions (MFIs), fifteen insurance companies (of which one is government owned).

The relevance of banks to the economy lies primarily in their ability to mobilize fund/deposit and grant credit to various economic actors for the production of goods and rendering of service while earning a comfortable surplus for itself. However, where credit is not properly channeled, controlled and administered, the aforementioned goals will not be achieved; rather it may lead to severe consequences to the economy.

According to Hempel (1994), credit management is the most important function of the banking industry. It is the risky, difficult but profitable function performed by banks. The key strategic value a bank adds has always depended upon its ability to manage credit. This cannot be properly done without an 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.

It is advisable to analyze the payment capability of the customers. Understanding the payment behavior of potential customers is vital in assessing credit management in every financial organization. Since poor credit assessment can lead to major problems in the overall financial performance of a bank.

Before a loan becomes bad, it needs to be granted; moreover the poor quality of a loan is sometimes due to factors not attributable to the lending process such as adverse selection and moral hazards (Satiglitz and Weiss 1981) or any other external shock that may alter the borrower's ability to repay the loan (Bonin 2001). Factors like wrong economic decisions by individuals and unexpected price change for certain products could be a source for problem loans. Problems with loans are normally identified at the end of the credit channel. Nevertheless, there are cases where the ways banks grant and monitor credits can be responsible for the bad loan portfolio. In other terms weak credit risk management systems can also be sources of problem loans (Coyle B.2001).

The objective of the credit management is to maximize the performing asset and the minimization of the non-performing asset as well as ensuring the optimal point of loan and advance and their efficient management. Credit management is a dynamic field where a certain standard of long-range planning is needed to allocate the fund in diverse field and to minimize the risk and maximizing the return on the invested fund. Continuous supervision, monitoring and follow-up are highly required for ensuring the timely repayment and minimizing the default. Actually the credit portfolio is not only constitute the bank's asset structure but also a vital factor of the bank's success. The overall success in credit management depends on the banks credit Policy, portfolio of credit, monitoring, supervision and follow-up of the loan and advance.

Therefore, while analyzing the credit management of Bunna International Bank S.C,(BIB) it is required to analyze its credit policy, credit procedure and quality of credit portfolio. Since there is an increment in the non-performing loan position of the bank despite its early age of establishment.

Therefore, it becomes a matter of compelling urgency to evaluate BIB's credit management to provide for a close analysis and monitoring of the approved credits with a view to evaluating its impact on the banks credit decisions. Since the Non-Performing Loan (NPL) position of the bank gets more than 100% increment in three reported financial periods. Also to emphasize the importance that sound credit management procedures should be put in place, to achieve simultaneously, low risk and high returns.

1.2.STATEMENT OF THE PROBLEM

A major problem facing all banks is credit management that banks ensure the individual appraisal and rating of credit application through their credit analysis department, is not in doubt. However what are being questioned is their procedures and strategies for caring out this important function. As a result of non-effective assessment and control policies and procedures that threaten performance, profitably and subsequently its survival. Poor credit administration has been a complement of an unviable risk assessment and control strategy. Besides there is no previous research conducted on the area of the topic so it is an opportunity to feel the knowledge gap.

In the light of this, the following problem has been identified.

- Non-effective risk assessment and control policies in banks, leading to poor credit administration, incidence of doubtful and bad credits that is assured with the increase in the non-performing loan position of the bank.
- Failure of operators of banks to comply with safety rules and regulations in credit administration- no controlling organ is assigned at branch level violation of rules and conditions is experienced.
- Poor loan portfolio management-since the outstanding loan of the bank inclined to specific sectors like shown in table below. The portfolio mix of the bank is not consistent throughout the reported periods and no clear demarcation on the policy of the bank that sets a limit for each sector in terms of the percentage of total portfolio :

Table 1.1. Portfolio of loan and advances

Description	June 2010		June 2011		June 2012	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Domestic Trade and Service	80,572,800	42	113,797,556	31	239,575,280	37
Export	16,140,772	8.4	41,852,238	11	52,760,813	8
Import	32,654,321	17	75,635,539	21	118,937,856	18
Manufacturing	11,433,937	6	12,166,434	3	44,791,247	7
Transport	5,720,014	3	55,828,615	15	76,944,035	12
Construction	44,768,081	23	64,430,208	18	112,823,365	17
Personal	927,441	0.48	1,095,676	0.3	2,768,900	0.4
Staff	40,088	0.02	1,455,566	0.4	3,339,343	0.5
Total	**192,257,454**	**99.9**	**366,261,832**	**99.7**	**651,940,839**	**99.9**

Source: Annual Report, 2010-2012

ℵ the increasing trend in nonperforming loans in the bank -as depicted below:

Table 1.2. Non-performing Loans at BIB

Year	Amount of Loan	Amount of Non-Performing loan	Percentage of change
2010	192,257,454	--	0%
2011	366,261,832	2,973,563.62	100%
2012	651,940,839	8,323,500.21	180%

Source: Quarterly provision Report, 2010-2012

1.3.BASIC RESEARCH QUESTIONS

The Study seeks answer the following questions:

- What are the major factors influencing the overall credit activity?
- What credit control processes are adapted in the management of credit in BIB?
- What credit collection strategies are adapted in the management of credit in BIB?
- What are the procedures designed to manage the credit management process effectively?
- What are the components of an effective credit management system?
- Does the bank revise and maintain quality portfolio as per the procedure and the policy?

1.4.OBJECTIVES OF THE STUDY

In view of the stated problems, the general objective of the study is to explore how credits are managed in Bunna International Bank S.C (BIB).
The specific objectives are to:

- Determine the factors that influence access to credit in BIB
- Determine the credit control processes in BIB.
- Analyze the credit collection strategies in BIB ;
- Determine best credit management practice that the bank should follow;

1.5.SIGNIFICANCE OF THE STUDY

This study is significant because it deals with issues banks are facing and will continue to confront them in the future. Giving that interest on loans and advances constitute a major source of income to banks, it is very important that loans are properly appraised before approval and that when granted, they are monitored to ensure that they don't go bad.

In light of the present challenges facing banks in the management of credit, to ensure minimal loan loss through maintenance of a good risk assessment and control, this study will significantly assist the bank in setting a clear credit management and implementation strategy. In reducing bad debts to the barest minimum by assessing the capacity of bank risk assessment and credit control procedures to provide for close analysis and monitoring of banks credit administration. Bring to the notice of credit managers the importance of effective risk assessment and control in credit administration and make useful contributions to effective and efficient credit management in Bunna International Bank(BIB).

1.6.SCOPE OF THE STUDY

This study is limited to examining the assessment of credit management practices of Bunna International Bank S.C(BIB), finding out the problems encountered in the process. All thirty three branches and a Credit Department are target respondents.

CHAPTER TWO

REVIEW OF LITERATURE

2.1. DEFINITIONS, AND FUNCTIONS OF CREDIT

Credit, in commerce and finance, is a term 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 (Donald L. 2008).

The principal function of credit is to transfer property from those who own it to those who wish to use it, as in the granting of loans by banks to individuals and corporate bodies who plan to initiate or expand their business ventures. The transfer is temporary and is made for a price, known as interest, which varies with the risk involved and also with the demand for, and supply of, credit, (Stiglitz and Weiss, 1981).

Credit transactions have been indispensable to the economic development of the modern world. Credit puts to use property that would otherwise lie idle, thus enabling the world to fully utilize its resources. One of the most significant differences between some nations of Africa, Asia, and South America and the advanced Western nations is the extent to which the use of credit permits the latter to keep their savings continuously at work. The presence of credit institutions rests on the readiness of people to trust one another and of course to enforce business contracts (Stiglitz and Weiss, 1981).

The use of credit also makes feasible the performance of the complex operations involved in modern business without the constant handling of money. Credit operations are carried out by means of documents known as credit instruments, which include bills of exchange, money orders, checks, drafts, promissory notes, and bonds. These instruments are usually negotiable; they may legally be transferred in the same way as money. When the party issuing the instrument desires to prevent its use by anyone other than the party to whom it is issued, he or she may do so by inscribing the words “not negotiable” on the instrument

(Donald L. 2008).

2.2. DEFINITION AND CONCEPTS OF CREDIT MANAGEMENT

Credit management is defined as the efficient control and co-ordination of loanable funds so as to keep credit and the investment in credit at optimal level (Hempel,1994).

Credit management is a term used to identify accounting functions usually conducted under the umbrella of Accounts Receivables (Wise-geek, 2012).

The process of credit management begins with accurately assessing the credit -worthiness of the customer base. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. Proper credit management calls for setting specific criteria that a customer must meet before receiving this type of credit arrangement. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer.

According toAgyeman, (1987) several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of credits. These factors include;

- Gathering data on the potential customer's current financial condition, including the current credit score.
- The current ratio between income and outstanding financial obligations will also be taken into consideration.
- Competent credit management seeks to not only protect the vendor/bank from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner.

A good credit management system helps to reduce the amount of capital tied up with debtors (people who owe money) and minimize the exposure to bad debts. Good credit management is vital to cash flow.

After establishing the credit limit for a customer, credit management focuses on providing the client with accurate and timely statements or invoices. The invoices must be delivered to the customer in a reasonable amount of time before the due date, thus providing the customer with a reasonable period to comply with the purchase terms.

When the process of credit management functions becomes, efficient, everyone involved benefits from the effort. The vendor/bank has a reasonable amount of assurance that invoices issued to a client will be paid within terms, or that regular minimum payments will be received on credit account balances. Customers have the opportunity to build a strong rapport with the vendor and thus create a solid credit (Bank Negara Malaysia, 2001).

2.3. CREDIT MANAGEMENT PROCESS

According to Edwards, Banks credit management processes can be summarized in three main stages. These stages are:

i. Credit initiation
ii. Documentation and disbursement
iii. Credit administration

2.3.1. CREDIT INITIATION

The credit initiation is a process that starts from a market analysis and ends at the credit application approval. The steps involved in credit initiation processes are listed below:

- **Surveys and industry studies**: Loan officers/ Customer relationship Officers/branch managers scan the market and economic sectors to identify key players and potential business for the Bank. In the same vein, industries with high potential of growth that can be good business for the Bank are also listed with their expected risks.
- **Prospect lists**: some prospects (companies and individual customers) identified as the main role players are short listed in accordance with the industry studies and the minimum risk criteria. This prospect list is ranked in order of preference.
- **Customer solicitation**: at that stage, although the primary source of target is the prospect list, the initiation of a credit comes either at the bank request in

the frequent contact with existing customers or at the clients request if they have a need for financing.

- **Negotiation**: the Loan officer /relationship officer / branch manager scan identifies the financing needs of the borrower and gathers background information such as the latest financial statements, project details, projections over the loan life. This information will allow the officer to check whether the risk is bearable by the Bank and its compliance with the bank's targets.
- **Presentation**: the conformity of information given with the market and industry analysis is the reliability of the information once again verified by consulting other sources.
- **Credit committee approval**: a copy of that annex and loan approval form (LAF) is submitted to each member of the credit committee. The members review and approve or decide on the request.
- **Advice to customers**: once the credit is approved, the customer is advised in writing with details concerning the terms and conditions and with the statement that the credit can be subject to review, modification or cancellation at the Bank option or in line with the decision.

2.3.2. DOCUMENTATION AND DISBURSEMENT

The documentation and disbursement refers to the compliance of documents provided with the law applicable and the requirements of the Bank's legal department. Documentation provided must satisfy the Bank's legal department and afford maximum protection to the Bank. The documentation is periodically reviewed to keep them in fine with ever-changing legal systems and practices.

The Legal department is consulted before making any compromises with the customer. Any amendments are done in consultancy with the legal department. Once the credit application satisfies all these conditions, a thorough analysis is done and if the application complies with the Bank's conditions, instruction is given to the Credit administration for disbursement.

2.3.3. CREDIT ADMINISTRATION

The credit administration refers to the credit support, control systems and other practices necessary for the effective monitoring of credit risks taken by the Bank. Some of the important points of the credit administration are:

- Control of Credit files.
- Safekeeping of credit and documentation files.
- Follow-ups for expirations of essential documents like insurance.
- Control of credits and excesses over approved lines.
- Monitoring of collateral inspections, site visits and customer calls.
- Monitoring of repayments under term credits.
- Reporting: the portfolio is periodically reviewed to make sure that the names tiered are still complying with the risk acceptance criteria.

2.4. CREDIT MANAGEMENT PRACTICES

Credit risk continues to remain the largest source of risk for banking institutions in the world (Credit Bank Negara Malaysia, 2001). Effective credit management is therefore vital to ensure that a banking institutions credit activities are conducted in a prudent manner and the risk of potential bank failures reduced. The success of banks (in the view of the researcher) hinges on their ability to manage their credit effectively. Even though there are no strictly laid down credit management practices, most financial institutions practice the following in order to maximize profit as well as to reduce credit risk.

2.4.1. LENDING

Lending is one of the core pillars of financial intermediation and for that matter a significant activity in the operations of banks. It is at the same time highlyrisky. This is asserted by McNaughton (1992), who emphasized that risk taking is central to banking and banks are successful when the risk they take are reasonably controlled and within their financial reserves and credit competence. McNaughton was also of the view that to survive the numerous lending risks and to prosper, bankers must re-examine their bureaucratic tendencies in order to become responsible to the financial needs of the economy. The bureaucratic tendencies could thus cause lots of frustrations for loan applicants to obtain credit at the right time, which may hamper the success of projects.

In the area of credit delivery, Rouse (1989) has asserted that a lender lends money and does not give it away. The lender needs to look into the future and asks; will the customer repay by the agreed date? Rouse contends that, there will always be some risk that the customer will be unable to repay, and it is in assessing this risk that the lender needs to demonstrate both skill and judgment. Lending is perceived as an art because it involves imagination and creativity (Rouse, 1989). It could be contended that credit management prescribes the guidelines to be followed and their religious adherence is very crucial for good credit management practices. The appropriate judgment depends on the skills, knowledge and foresight of the manager. This should embrace skills and knowledge in financial analysis, the performance of the sector receiving credit, the overall macroeconomic condition, the psychology in determining the perceived and indirect intentions of the borrower, the type of soil and climatic pattern in terms of agricultural loans and the perceived impact of the credit on the performance of the lending institution. In this vein, lending operations encompass various disciplines of economics, finance, law, accounting, geography, science, psychology, and culture among others. The situation makes lending activity very challenging since substantial significant slip causes undesirable financial losses and for that matter threatens the very existence of the lending institution. In this respect, persons with the right attitude, knowledge and skills devoid of all egoistic sentiments, are needed to superintend lending activities.

Olashore (1988) has identified four interested parties in bank lending and these are the depositor, the borrower, the lending bank and government. Whilst the depositor wants the highest possible interest on his deposits, the borrower cherishes lowest interest rate on lending; the bank wants the highest spread between lending and borrowing rates of interest, and the government places emphasis on the responsiveness of lending to the sectorial needs of the economy. In spite of these interest groups, the lending bank ensures that its interest supersedes that of the others.

In a liberalized and deregulated economy, banks dictate both borrowing and lending interest rates and determine the direction of credit to sectors which are considered less risky and more profitable.

2.4.2. COST OF BORROWING (INTEREST RATE)

Stiglitz (1981) asserted that interest rates on lending would be higher if the probability of default is higher. In this regard ventures with high risk of success attract higher interest rates

The level of lending interest rates is also influenced by the availability of loanable funds and the competing ends. In situations where Government needs to borrow substantially to support its business, high interest rates are offered to crowd out the private sector. This view was advocated by Cox (1988), when he indicated that, interest rates were influenced by supply and demand for funds, risk premium, inflationary factors and amount of loan. Before the liberalization of the economy in 1990, the Bank of NBE regulated interest rates. During the pre-liberalization period, interest rates were fixed by the Bank of NBE for the various sectors for which the banks were to comply. However, this system was abolished and banks were to determine their own interest rates according to the market forces and the dictates of the macroeconomic conditions. The Bank Rate of the National Bank of Ethiopia seemingly becomes the benchmark but it takes time for the banks to adjust appropriately to it especially when there is downward revision of the rate.

2.4.3. ASSESSMENT OF BORROWERS CREDIT WORTHINESS

The assessment of the credit worthiness involves the gathering, processing and analyzing of information on the loan applicant. An important aspect of information is by way of credit references and credit rating. Ethiopia is yet to have credit rating agencies, which will provide opinion on the credit standing of businesses in the system. The existence of such an agency would facilitate the credit decision process of banks. Rather banks are performing rating for their own credit customers.

According to Rose (1989) the question that must be dealt with before any other is whether or not the customer can service the loan – that is, pay out the credit when due, with a comfortable margin of interest. The factors underlying the assessment of pre-lending safeguards, in the opinion of Rose (1989) are; character, capacity, cash, collateral, conditions and control (i.e. the 6Cs). In another context, Rose (1989) referred to mnemonics used as common checklist to review loan application as: CCCPPARTS (Character, Capital, Capability, Purpose, Person, Amount, Repayment, Terms and Security); PARSER (Person, Amount, Repayment, Security, Expediency, Remuneration); CAMPARI (Character, Ability, Margin, Purpose, Amount, Repayment, Insurance/Security).

The variation in the mnemonics relates to the basic principle of assessing the potential of having loans repaid. The dimension of each of the factors outlined by Rose (1989) is as follows:

Character: customers' past payment records; experience of other lenders with the customer; purpose of loan; customer's track record in forecasting business or personal income and credit rating.

Capacity: identity of customer and guarantors, description of history, legal structure owners, nature of operations, products and principal customers, suppliers for a business borrower and management quality.

Collateral: ownership of assets; vulnerability of assets to obsolescence and liquidation value of assets.

Conditions: Customers current position in industry and expected market share; competitive climate for customer products; sensitivity of customer and industry to business cycles and changes in technology.

Control: applicable banking laws and regulations regarding the character and quality of acceptable loans; adequate documentation for examiners who may review the loan.

Security: Securities for loans and overdrafts are to ensure recovery of the funds lent to the borrower in the event that the borrower becomes unwilling or incapable of meeting his commitments.

Dunkman (1996) outlined reasons for security as: safeguarding against some doubts about borrowers repayment ability, basis for increasing amount of loans over and above existing facilities, and as a last resort to recover loan in the face of default. Agyeman (1987) expressed the view that even though security is necessary, its requirement by bankers must be adopted cautiously otherwise it is capable of being counterproductive. According to him, this can come about when bankable projects are funded solely because of availability of security. Agyemans (1987) view that security has the unintended tendency for causing skewness of loans in favor of property owners. The researcher shares the view that if security becomes dominant factor in credit decision, bankable projects, which lack securities as support, may be starved of credit while those with adequate security support but not financially viable may rather have access to credit. This then serves as draw back in using financial intermediation as focus for meaningful economic development and growth. Banks are often confronted by instituting legal action against loan defaulters to take possession of assets pledged as collateral for foreclosure.

Akakpo (1994) suggested that the view that security should always be the last consideration in any loan proposition and one should not lend purely because security is offered. Any loan proposition should stand on its own with the security only providing a cushion should things go wrong. Rouse (1989) however, held the view that no advances should be made until security procedures have been completed or at least at a stage where completion can take place without the need to involve the borrower any further. This suggests that the provision of adequate perfected security should be paramount in taking a credit decision. The rigidity in total secured collateral before disbursement of credit facilities needs to be relaxed in order not to delay the financing, which invariably impedes the success of projects.

It should be also noted that the provision of security just provides secondary source of repayment and therefore to ensure sustained relations with customers in their business endeavors, it is pertinent to consider the viability of the project being financed to generate sufficient cash flows to liquidate the credit facility. Furthermore the foreclosure of immovable property pledged as security goes through a long legal tussle, which could not easily bring prompt liquidity relief to a bank. It is therefore very essential for banks to lay much premium on the viability of a project as a paramount consideration for lending financial support.

2.5. IMPLICATIONS OF LOANS ON BANKING INSTITUTIONS

Loans generate huge interest for banks which contribute immensely to the financial performance of banks. However, when loans go bad they have some adverse effects on the financial health of banks. This is because in line with banking regulations, banks make adequate provisions and charges for bad debts which impact negatively on their performance. National Bank of Ethiopia regulations on loan provisioning indicate that loans in the non-performing categories that is loans that are at least ninety days overdue in default of repayment will attract minimum provisions of 20%, 50%and 100% for substandard, doubtful and loss, respectively (National Bank of Ethiopia 2008).

According to Bloem and Gorter, (2001), though issues relating to non-performing loans may affect all sectors, the most serious impact is on financial institutions such as commercial banks and mortgage financing institutions which tend to have large loan portfolios. Besides, the large bad loans portfolios will affect the ability of banks to provide credit. Huge non-performing loans could result in loss of confidence on the part of depositors and foreign investors who may start a run on banks, leading to liquidity problems.

2.5.1. PERFORMING LOANS

Legally, a loan or credit facility refers to a contractual promise between two parties where one party, the creditor agrees to provide a sum of money to a debtor, who promises to return the said amount to the creditor either in one lump sum or in installments over a specified period of time. The agreement may include provision of additional payments of rental charges on the funds advanced to the borrower for the time the funds are in the hands of the debtor.

The additional payments that are in the form of interest charges, processing fees, commissions, monitoring fees among others, are usually paid in addition to the principal amount lent. Indeed these additional payments when made in accordance with the loan contract constitute income to the lender or the creditor. A loan may therefore be considered as performing if payments of both principal and interest charges are up to date as agreed between the creditor and debtor.

National Bank of Ethiopia classifications of loans indicates that loans that are pass are those for which the borrower is up to date in respect of payments of both principal and interest. It further shows that an overdraft would be considered as current or performing if there were regular activity on the account with no sign of a hardcore of debt building up (Natioanl Bank of Ethiopia, 2008).

The foregoing reveals that loans that are up to date in terms of principal and interest payments are described as performing facilities. These types of loans constitute quality asset portfolio for banks in view of the interest income generated by such assets.

2.5.2 . NON-PERFORMING LOANS

The term bad loans as described by Al-Zubaidi (2002), is used interchangeably with non - performing and impaired loans as identified in Fofack (2005). Berger and De Young, (1997) also considers these types of loans as “problem loans”. Thus these descriptions are used interchangeably throughout the study.

Generally, loans that are outstanding in both principal and interest for a long time contrary to the terms and conditions contained in the loan contract are considered as non-performing loans. This is because going by the description of performing loans above, it follows that any loan facility that is not up to date in terms of payment of both principal and interest contrary to the terms of the loan agreement, is nonperforming.

Available literature gives different descriptions of bad loans. Some researchers noted that certain countries use quantitative criteria for example number of days overdue scheduled payments while other countries rely on qualitative norms like information about the customer's financial status and management judgment about future payments (Bloem and Gorter, 2001).

Alton and Hazen (2001) described non-performing loans as loans that are ninety days or more past due or no longer accruing interest. As cited in Fofack (2005), consider non-performing loans as loans which for a relatively long period of time do not generate income, that is the principal and or interest on these loans have been left unpaid for at least ninety days. A non-performing loan may also refer to one that is not earning income and full payment of principal and interest is no longer anticipated, principal or interest is ninety days or more delinquent or the maturity date has passed and payment in full has not been made (Parry C, 1999).

A critical appraisal of the foregoing definitions of bad loans points to the fact that loans for which both principal and interest have not been paid for at least ninety days are considered non-performing.

This included loans captured within substandard, doubtful and loss categories. Loans in these groups have exceeded ninety days in terms of repayment (National Bank of Ethiopia, 2008).

2.6. DEBT RECOVERY STRATEGIES

It is inevitable that any business owner, big or small, is going to encounter clients that are just not willing to pay. This is especially prominent in the banking industry, as services are ongoing processes and not a one-time product purchase. It is no surprise that many small businesses do not survive the first two years, and the inabilities to collect from nonpaying clients are likely a large contributor of this failure. Debt collection is an endless challenge that must be tackled with care (Al-Zubaidi, 2002). The following strategies are recommended.

2.6.1. MONITORING

Monitoring of credit facilities granted to customers is a significant function in ensuring the success of the project for which repayment is made. Huppi and Feder (1990) revealed that effective monitoring leads to higher recovery of loans by exposing possible dangers (like loan diversions) and reminding borrowers of their obligations to the lending bank (i.e. calling for redoubling of efforts towards loan repayments).

Monitoring of credit facilities has been concentrated typically on ensuring repayment when there are signs of defaults for either payment of interest or principal repayment by installments. Such practice, in the view of the researcher, fails to achieve desirable loan repayments since the facility might have already gone bad. The researcher believes that monitoring of loans should be total by following events right from the disbursement of the facility, ascertaining the deployment of funds on the intended project, following up and reviewing progress of the project, identifying shortcomings for possible advice through field visits and discussions, ensuring prompt repayment of proceeds from the project and advising on further expansion or re-direction of the project among others. “Armed –chair” monitoring invariably becomes a factor for non-repayment of credit facilities. Effective monitoring should be instituted by a lending institution and apprise management of the state of affairs of each project.

2.6.2. COLLATERAL

The granting of credit facilities is underpinned by the risk of being repaid when due. Williams and Heins (1985) indicated that risk identification is the process by which a business systematically and continuously identifies property, liability, and personnel exposures as soon as or before they emerge. The first step in business risk management in their view is to identify the various types of potential losses confronting the firm, and secondly, to measure these potential losses with respect to such matters as their likelihood of occurrence and their probable severity.

It is therefore pertinent to assess the inherent risk of a credit facility, the existing operational management to mitigating the risk and determining the underlying actual risk. This assessment gives the idea of intended quality of the credit facility.

The unlikelihood that there will be a loss arising from default at repayment of a credit facility granted is referred to as credit or default risk. The primary danger in granting credit is the chance that the borrower will not repay the loan. Rouse (1989) buttressed this by stating that a lender lends money and does not give it away and there will always be some risk that the customer will be unable to repay. This therefore calls for critical assessment of any credit request with reasonable assurance that repayment would not be of much problem. A bank further covers the uncertainty of the repayment by demanding collateral.

2.6.3. FREQUENT CONTACT

A lack of continued contact is a common mistake in bank debt recovery. While initial contact brings the debt to the attention of the delinquent client, without continuous, friendly reminders, you lose the benefit of the first courtesy call. Frequent contact is the key to assuring successful bank debt recovery efforts. At the same time, all contact should be hospitable. When keeping in touch with delinquent debtors, you want to remain on good terms, which require a careful, gentle approach. You will find that, if you are speaking to the client as often as every three days, having a good attitude will assist in more success at bank debt recovery. Even once the debtor makes a commitment to pay, continued contact and follow-up is necessary to assure the payment is actually recovered. Many clients will make such promises in an effort to stop collection calls while others become so overwhelmed with paying several debts that one can slip through the cracks unless the bank debt recovery agent follows up as a reminder (Business blog, 2011).

2.7. ADDRESSING RISK ASSOCIATED WITH CREDIT MANAGEMENT

Credit risk has the repercussion of liquidity risk, which in the extreme instance can lead a bank to severe financial crisis, resulting in erosion of capital, insolvency and could ruin the bank. To identify and address risk associated with credit management, the Basel Committee on Banking Supervision in its Publication No. 54 issued in September 2000 outlined the following measures:

- Establishing an appropriate credit risk environment
- Operating under a sound credit granting process
- Maintaining an appropriate credit administration, measurement and monitoring process;
- Ensuring adequate controls over credit risk
- The role of supervisors.

The highlights of the above issues raised by the Basel Committee on Banking Supervision (2000) are as follows:

2.7.1. ESTABLISHING AN APPROPRIATE CREDIT RISK ENVIRONMENT

The Board of Directors should have responsibility for approving and periodically (at least annually) review the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the banks tolerance for risk and level of profitability the bank expects for incurring various credit risks.

Senior Management should have responsibility for implementing the credit risk strategy approved by the Board of Directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the banks activities and at both the individual credit an d portfolio levels.

Banks should identify and manage credit risk inherent in all products and activities. Banks should ensure that risks of products and activities new to them are subject to adequate risk management procedures and controls before being introduced or undertaken, and approval in advance by the Board of Directors or its appropriate committee.

2.7.2 OPERATING UNDER A SOUND CREDIT GRANTING PROCESS

Banks must operate within sound, well-defined credit granting criteria. These criteria should include a clear indication of the banks largest market and a thorough undertaking of the borrower or counter-party, as well as purpose and structure of the credit, and its source of payment; Banks should establish overall credit limits at the level of individual borrowers and counter-parties, and groups of connected counter-parties that aggregate in comparable and meaningful manner different types of exposures, both in banking and trading book and on and off balance sheet; Banks should have a clearly established process in place for approving new credit as well as the amendment, renewal and re-financing of existing credits All extension of credit must be made on an arm-length basis. In particular, credit to related companies and individuals must be authorized on an exceptional basis, monitored with particular care and other appropriate steps taken to control or mitigate the risk of non-arm's length lending.

2.7.3. MAINTAINING APPROPRIATE CREDIT ADMINISTRATION THROUGH MEASUREMENT AND MONITORING PROCESS

According to Theodore N. (1962), this process entails the following:

Banks should have in place a system for the ongoing administration of their various credit risk bearing portfolios and a system for monitoring conditions of inadequate credits, including determining the adequacy of provisions and reserves.

Banks are encouraged to develop and utilize an internal risk rating system in managing credit.

The rating system should be consistent with the nature, size and complex it y of a banks activities.

Banks must have information system and analytical techniques that enable management to measure the credit risk inherent in all on-and-off balance sheet activities. The management information should provide adequate information on the composition of the credit portfolio, including identification of any concentration of risk;

Banks must have in place a system for monitoring the overall composition and quality of the credit portfolios and take into consideration potential future changes in economic conditions when assessing individual credits and their stressful conditions.

2.7.4. ENSURING ADEQUATE CONTROLS OVER CREDIT RISK

Theodore N. (1962), stated that banks must establish a system of independent, ongoing assessment of the bank's credit risk management process and the results of such reviews should be communicated directly to the Board of Directors and senior management.

Banks must ensure that the credit granting function being properly managed and the credit exposures are within levels consistent with prudential standards and internal limits; and must further have a system in place for early remedial action on deteriorating credit, managing problem and similar workout situations.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

Both primary and secondary data sources were used to undertake this research. Primary data were collected through questionnaire, and informal discussion with professionals. The secondary data sources are annual reports, manuals, credit policy and procedures of Bunna International Bank S.C. To identify the implementation, supervision, monitoring and repayment practice- questionnaire with the staff and extensive study of documents was done.

The study is made on Bunna International S.C –specifically Credit operation and all employees in the department and thirty three branches are included in the research. The research is designed as a case study type. And descriptivestatistics like percentile is used as a data analysis methods.

3.1. RESEARCH DESIGN

This study used the survey methods by employing qualitative instruments for data collection and analysis. The survey methods were used because the variables involved in the analysis were qualitative in nature. According to Trochin (1999), survey methods are used for non- experimental and descriptive research methods. He further indicated that, survey can be useful when a researcher wants to collect data on phenomena that cannot be directly observed. Besides, survey can be useful when a researcher wants to collect data on phenomena that cannot be directly observed. Qualitative research is not intended to test a predetermined theory or hypothesis; instead, it is exploratory in nature and through induction it builds theories or hypotheses. In showing the lack of an established theory and exploratory nature of the qualitative research approach, McDonald and Daly (1992) noted that this approach is particularly essential when the researchers have little knowledge about the area of investigation. The strength of qualitative research is to generate a theory; also it explores issues which are not studied in the past. But it is criticized by bias because of researcher‘s interference.

3.2. POPULATIONAND SAMPLING TECHNIQUES

The study units were limited to members of staff and management of Bunna International Bank S.C(BIB) who have exposure to credit area.

Survey sampling method was used to select credit staff of the branches and head office in the study area, dealing in various types of credit portfolio (exposure) after. And all staff who work on credit operation were incorporated in the study. This was carried out after the number of workers in each branch has been determined.

3.3. TYPES OF DATA AND INSTRUMENTS OF DATA COLLECTION

The type of data used in the study include qualitative data. Primary and secondary sources of data were used for the study. The main primary source of data was through the use of questionnaires. The questionnaires were both open- and close ended. The open-ended questions offered the respondents the opportunity to freely express themselves on the issues under consideration while the close-ended questions restricted the respondents on the options provided.

In the case of the secondary source of data, annual, and quarterly reports of the bank were analyzed. These reports contain financial performance of the bank. Besides, as reference material NBE directives, books, journals working paper as well as different thesis were used in the study.

Structured questionnaires were used for the collection of data. As indicated earlier these questions were both open and close-ended and were based on factors influencing access to credits, strategies for improving access to credits, credit control processes and credit collection strategies. Besides review of different documents were done.

3.4. PROCEDURE OF DATA COLLECTION

Since the number of respondents are few and could be managed easily of all staff who work on credit area were considered for the study. And a questionnaire is distributed to branches and head office credit department.

3.5. METHODS OF DATA ANALYSIS

The qualitative and quantitative data collected were summarized and presented by means of tables. This offered a pictorial presentation to enhance the understanding of the data. The data presented was also analyzed using descriptive statistics.

CHAPTER FOUR

RESULTS AND DISCUSSION

This chapter presents the finding and discussions of the study. It starts with the socio – demographic analysis on the respondents after which subjects the study are analyzed.

As it is stated in the previous chapter, questionnaires were developed for respondents. A total of 38 questionnaires for employees (branches and head office) were distributed. Among the 38 questionnaires distributed to respondents, only 30 filled and returned. Thus, out of the 100% questionnaires distributed 79% were collected. Therefore, the data given below is a summarized response of 30 respondents.

4.1. RESULTS

4.1.1. SOCIO – DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

The following socio – demographic characteristics of respondents were analyzed, level of education, position and years of experience.

LEVEL OF EDUCATION

Table 4.1. Level of Education

Level of Education	**Frequency**	**Percent**
Bachelor	27	90
Masters	3	10
Total	**30**	**100**

Source: Questionnaire

As indicated in the above table, the analysis on the level of education indicated that, over 90% of the respondents have bachelors' degree while the remaining 10% holds Masters Degree.

YEARS OF SERVICE /CREDIT RELATED BANK EXPERIENCE

Table 4.2. Years of Service

Types of Service	**Frequency**	**Percentage**
1 – 5	25	83
6-10	3	10
Above 10	2	7
Total	**30**	**100**

Source: Questionnaire

The above table 4.2 shows experience of the staff. And the study found that, 83 % of the respondents have experience related to credit area between 1-5years. From the total number of respondents, 10% of Staff has experience of 6-10years on credit area. Small portion of the respondents that is 7% have experience above 10 years of experience.

4.1.2. RESEARCH RELATED QUESTION

4.1.2.1. Credit Management Process

As indicated in table 4.3 item (A) respondents were asked whether the bank checks the borrowers history before granting loans or not. With this regard, 20 (67%) of the respondents strongly agree on the issue while 7 (23%) of employees agree that the bank checks the history of a borrower. On the other hand, 1 (3%) of respondents disagrees, 2 (7%) strongly disagree.

In same table item (B) respondents were asked whether the bank properly assessed the customer ability to meet obligations. The majority of respondents 14(47%) strongly agree with the idea. On the other hand, 13(43%) of respondents agree, 1 (3%) of respondents neither agree nor disagree, and 2 (7%) of respondents strongly disagree.

As can be seen from item (C) of table 4.3, 14(47%) of respondents strongly agree that the credit granting process of the bank creates accountability for each decision making activity and 12 (40%) of respondents agree on the issue. Whereas 1 (3%) of respondents are neutral with the idea, 2 (7%) of respondents disagree, and the remaining 1(3%) strongly disagree.

In item (D) of table 4.3, respondents were asked whether there are times credit granting and monitoring process is overridden by directors, senior management or other influential staff. The majority of respondents, 16 (53%), strongly agree, 2(7%), accept its happening on the credit approval process. Specifically, 3 (10%) respondents neither agree nor disagree, 7 (23%) of supervisors disagree furthermore, the rest 2(7%) of respondents strongly disagree.

Table 4.3. Credit processing/appraisal

Item No	**Description**	**Strongly agree**		**Agree**		**Neutral**		**Disagree**		**Strongly disagree**		**Total**	
		Freq.	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**
A	The Bank checks the borrower history before granting loans	20	67	7	23			1	3	2	7	**30**	**100**
B	The Bank properly assessed the customer ability to meet obligations	14	47	13	43	1	3			2	7	**30**	**100**
C	Credit-granting approval process established accountability for decision taken	14	47	12	40	1	3	2	7	1	3	**30**	**100**
D	There are times credit granting and monitoring process is overridden by directors, senior management or other influential staff	16	53	2	7	3	10	7	23	2	7	**30**	**100**
E	The bank carried out credit processing activities independent of the appraisal	1	3	13	43	2	7			14	47	**30**	**100**

Source: Questionnaire

As item (E) of table 4.3 shows, 1 (3%) of respondents strongly agree with the idea that the bank carried out credit processing independent of the appraisal, 13(43%) agree, 2(7%) neutral and the rest 14(47%) strongly disagree.

Table 4.4. Monitoring and Control of Credits

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
A	The bank strictly implement the conditions and sanctions set by different approving organs			2	7			10	33	18	60	**30**	**100**
B	Collateral coverage is regularly assessed and related to the borrower's financial health	17	57	10	33					3	10	**30**	**100**
C	The Bank regularly undertakes Stress Testing on the overall credit portfolio							5	17	25	83	**30**	**100**
D	The Bank periodically prepares 'Credit Quality Reports' for signaling loan loss in any portfolio					10	33	5	17	15	50	**30**	**100**
E	The Bank monitors the business of clients after granting credits on regular interval basis	2	7	4	13	24	80					**30**	**100**
F	Customers are often given sufficient training on loans usage	5	17	10	33	15	50						

Source: questionnaire

As can be seen from item (A) in table 4.4, 2(7%) of respondents agree with the proposition that the bank strictly implement the conditions and sanctions set by different approving organs. It is also found that, 10 (33%) of them disagree with the idea, 18 (60%) of them strongly disagree.

In item (B) of table 4.4, respondents were asked whether the collateral coverage is regularly assessed and related to the borrower's financial position. The majority of respondents 17 (57%) strongly agree, 10(33%) agree whereas the remaining 3 (10%) strongly disagree.

In item (C) of table 4.4, respondents requested whether the bank regularly undertakes stress testing on the overall credit portfolio or not. With this regard, 5 (17%) of respondents responded that they disagree, and the rest 25 (83%) of respondents strongly disagree.

The result presented in item (D) of table 4.4 indicates that 10(33%) of respondents are neutral whether the bank periodically prepares 'Credit Quality Reports 'for signaling loan loss in any portfolio or not,5(17)% disagree ,whereas the remaining or almost half of the respondents 15 (50%) strongly disagree.

It can be seen from item (E) of table 4.4 that 2 (7%) of respondents have responded that the bank monitors the business of clients after granting credits on regular interval basis ,4(13%) are neutral, whereas 24(80%) of them disagree.

In same table item (F) respondents were asked whether the customers are given sufficient training on loan usage or not, 5(17%) agree with the idea. On the other hand, 10(33%) of respondents neither agree nor disagree, while the majority 15(50%) disagree.

Table 4.5. Credit Administration

Item No	Description	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
A	The process of "credit administration" is performed independently of individuals involved in the "business origination" of credit	4	13	11	37	10	33	2	7	3	10	**30**	**100**
B	The bank has well structured documentation tracking system for credit and collateral files	15	50	15	50							**30**	**100**
C	The Bank segregates the workout activity from the area that originated the credit	1	3	5	17			6	20	18	60	**30**	**100**
D	The Bank has credit risk policy that clearly set out how problem credits are to be managed	5	17	3	10			10	33	12	40	**30**	**100**
E	The Bank has appropriate criteria for credit classification, provisioning and write off	15	50	10	33			5	17			**30**	**100**
F	Adequate measures are put in place to recover non-performing loans	3	10					17	57	10	33	**30**	**100**

Source: Questionnaire

As we can see from table 4.5, item (A), respondents were asked whether the process of credit administration is performed independently of individuals involved in the business origination of credit. With this regard 4 (13%) of respondents strongly agree, 11 (37%) agree, 10(33%) neither agree nor disagree, 2(7%) disagree, and the rest 3(10%) of them strongly disagree.

In item (B) of table 4.5 respondents were asked whether the bank has employed well-structured documentation tracking system for credit and collateral files, their response suggest that 15(50%) strongly agree and the rest 15 (50%) agree.

In item (C)of table 4.5 respondents were asked whether the bank segregates the workout activity from the area that originated credit. Among the respondents 1 (3%) strongly agree that the bank segregate the workout activities, 5(17%) agree 6(20%) disagree and the rest 18(60%) strongly disagree.

As indicated in table 4.5 item (D) respondents were asked whether the bank has a credit policy that clearly set out how problem credits are to be managed. With this regard, 5 (17%) of the respondents strongly agree that it has while 3 (10%) of respondents agree,10(33%)disagree and the remaining 12(40%) strongly disagree.

In same table item (E) respondents were asked whether the bank has appropriate criteria for credit classification, provisioning and write-off. The majority of respondents 15(50%) strongly agree with the idea. On the other hand, 10(33%) of respondents agree, and 5 (17%) of respondents disagree.

In the last item of table 4.5 i.e item (F), respondents were requested whether the bank has deployed adequate measures to recover non-performing loans. And as per the collected response 3(10%) strongly agree, 17(57%) disagree and the remaining 10(33%) strongly disagree.

4.1.2.2. How to process and make decision on a single request

Respondents were asked how long it takes on average to process and make a decision on a single credit request. 15(50%) responds less than 15 days, 14(47%) responded a maximum of one month a minimum of 15 days while 1(3%) of respondents responded more than a month.

Table 4.6.Time required to finalize a single request

Days	Frequency	Percentage
<15	15	50
15-30	14	47
>30	1	3
Total	**30**	**100**

Source: Questionnaire

4.1.2.3 Internal Factors affect the timely decision making of credit

Table 4.7. Internal factors affecting the timely decision making process

Item No	**Description**	**Strongly agree**		**Agree**		**Neutral**		**Disagree**		**Strongly disagree**		**Total**	
		Freq.	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**
A	Centralized decision making process	5	17	8	26	7	23	5	17	5	17	**30**	**100**
B	lack of adequate man power	9	30	9	30	6	20	6	20			**30**	**100**
C	delay in obtaining reliable credit information	14	47	6	20	7	23	1	3	2	7	**30**	**100**
D	Submission of incomplete data by the prospective borrower	27	90	3	10							**30**	**100**

Source: Questionnaire

In table 4.7, respondents were asked internal factors that prevail fast and timely decision. And in item (A) respondents asked centralized decision making process as a factor and 5(17%)strongly agree,8(26%) agree,7(23%)neither agree nor disagree,5(17%) disagree and the rest 5(17%) strongly disagree.

As shown in item (B) of table 4.7, 6 (20%) of respondents responded that lack of adequate manpower affect the decision making process, 9(30%) strongly agree, 9(30%) agree, 6(20%) disagree and the rest 6(20%) neutral.

In Item (C) delay in obtaining reliable credit information is strongly agreed by 14(47%) of respondents, agreed by 6(20%) of respondents, neither agreed nor disagreed by 7(23%)of respondents, disagreed by1(3%) of respondents and strongly disagreed by 2(7%) of respondent groups.

In item (D) of the same table submission of incomplete data by the applicant is strongly agreed as a cause for fast decision making and it is shared by 27(90%) of respondents while the rest 3(10%) accepted it as a factor.

4.1.2.4. Factors that inhibit access to credits

Table 4.8: Factors inhibit access to credits

Item No	**Description**	**Strongly agree**		**Agree**		**Neutral**		**Disagree**		**Strongly disagree**		**Total**	
		Freq.	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**
A	Age of client	25	83	5	17							**30**	**100**
B	Purpose of Loan	9	30	3	10			9	30	9	30	**30**	**100**
C	Customer's credit			13	4	5	1	6	20	6	2	**30**	**100**
D	Cash Flow /financial			14	4	4	1	6	20	6	2	**30**	**100**
E	Stringent Policy rule of the bank	9	30	3	10			9	30	9	30	**30**	**100**
F	Amount of request	27	90	2	7			1	3			**30**	**100**

Source: Questionnaire

In table 4.8 item (A) 25%(83%)of respondents strongly agree that age of applicants for a factor to access credit while the rest 5(17%) has agreed .

In item (B) of table 4.8 purpose of the loan is cited as factor that inhibit access to credit. From respondents 9(30%) strongly agree, 3(10%) agree, 9(30%) disagree and 9(30%) strongly disagree.

Customer credit history is also cited as a factor that determine access to credit in item (C) of the same table and 13(43%) agree, 5(17%) neutral, 6(20%) disagree and 6(20%) strongly disagree.

The cash flow/financial position of the applicant is mentioned as a factor for credit access in item (D) of the table and 14(47%) agree,-4(13-% neutral, 6(20%) disagree and 6(20%) strongly disagree.

In item (E) of table 4.8 9(30%) of respondents strongly agrees that stringent bank policy as a factor to access credit while 3(10%) agreed, 9(30%) disagree and the rest 9(30%) has strongly disagreed.

In item (F) the amount of request was raised as a cause for accessing credit or not and 27(90%) of respondents has strongly agreed, 2(7%) agreed and the rest 1% disagree.

4.1.2.5.Methods to improve credit control process

Table 4.9: Methods related to the credit control process

Item No	**Description**	**Strongly agree**		**Agree**		**Neutral**		**Disagree**		**Strongly disagree**		**Total**	
		Freq.	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**
A	Training to staff	26	86	2	7			2	7			**30**	**100**
B	Improve Internal Control System	13	43	14	47			3	10			**30**	**100**
C	Initiate Legal Processes	9	30	9	3	9	3	3	10			**30**	**100**
D	Effective Monitoring	24	80	6	2							**30**	**100**
E	Provide reminder letters early	14	46	2	7	12	40			2	7	**30**	**100**

Source: Questionnaire

The researcher raised questions that the methods that the bank shall deploy in improving credit control process.

In item (A) of the above table, 26(86%) of the respondents has strongly agreed that the training provided to staff have an impact on improving the credit control process. While 2(7%) agree, and the remaining 2(7%) disagree.

As can be seen in item (B) of table 4.9 13(43%) strongly agree, 14 (47%) agree, and 3(10%) disagree on the idea that the internal control system of the bank could improve the credit control process.

Initiating legal processes early is raised as a factor to improve credit control process and 9(30%) strongly agree, 9(30%) agree, 9(30%) neutral and the rest 3(10%) disagree.

In item (D) of same table designing an effective monitoring system will improve the credit control process or not .And 24(80%) of respondents strongly agree, and the rest 6(20%) agree.

In item (E) of the same table, the researcher requested whether serving reminder letters early will facilitate the credit control process or not. Of the respondents 14% strongly agree, 2% agree,12% neither agree nor disagree and the remaining 2% strongly disagree.

Besides, some credit controlling processes recommended by respondents includes putting a strong and practical credit risk rating policy , developing the staff capacity at branch level – since no enough officers assigned at each branch to manage the credit activity in general, visiting the business after disbursement on regular basis, and applying due care before granting the loan.

4.1.2.6.Collection strategies in retrieving credit

Table 4.10. Collection strategies

Item No	**Description**	**Strongly agree**		**Agree**		**Neutral**		**Disagree**		**Strongly disagree**		**Total**	
		Freq.	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**
A	Establish payment guideline	15	50	10	33			2	7	3	10	**30**	**100**
B	Consider prompt payment	10	33	15	50	2	7	3	10			**30**	**100**
C	Writing reminder letter	5	17	14	47	10	33			1	3	**30**	**100**
D	Provide incentive for	5	17			3	10	22	73			**30**	**100**
E	Seek legal advice	3	10	9	30	11	37	7	23			**30**	**100**

Source: Questionnaire

In table 4.10 item (A) respondents were requested whether establishing payment guideline could be considered as a collection strategy and 15(50%) of them strongly agreed with the idea, 10(33%) agreed,2(7%) disagree, 3(10%).

In item (B) of same table 10(33%) strongly agreed on the idea that considering prompt payment will be a strategy in retrieving credit , half of the respondents agreed on the idea, 2(7%) neutral and the rest 3(10%) disagree.

In the same table item (C) 5(17%) of respondents strongly agreed that writing a reminder letter as a strategy in retrieving credit,14(47%) agree,10(33%) neutral and the rest 1(3%) strongly disagree.

In item (D) providing incentive for prompt payment is requested as a strategy in retrieving credit and 5(17%) strongly agreed, 3(10%) neutral and the remaining 22(73%) disagree.

Item (E) of the same table has raised seeking legal advice as a strategy in retrieving credit and 3(10%) of respondents strongly agree 9(30%) of respondents agree and 11(37) neutral and the rest 7(23%) disagree.

4.1.2.7. The following strategies are proposed by the respondents, that helps the Bank to improve the quality of loans as high as possible.

The respondents further replied that the bank should depend on customer cash flow rather than collateral which is the least way out mechanism. Since the collateral value varies with a change in evaluator and it is highly vulnerable to subjectivity. With all the problems of being dependable on collateral the bank should rather focus on the viability of the business and develop a mutual understanding with the customer in maintaining a professional recording. The bank should also give training to employees on regular interval to manage the changes in the business environment it is also advisable if the bank hires professionals who have experience on credit area at branch level.

Revising the credit policy and procedure is also a means to maintain a quality portfolio especially in addressing ambiguous terms in all aspects of credit. Providing a sound credit management throughout the bank is another point that the bank should give attention at each credit request. Taking five C's in decision making is vital and the bank should protect the approval process from anyone who wants to interfere the decision making. In addition the information system of the bank related to credit information system shall be decentralized at branch level so as branches will have first hand information in its own and clarify any ambiguous issue before sent to approval.

4.1.2.8. Credit Management practices which is not applicable at BIB as per the response of respondents incorporates:

Some of the credit management practices that the respondents responds incorporates, structured visit at a specified time interval or when the need arise, the bank's customer business visit is not to the level-and the overall business visit interval shall be revised. Organize a full-fledged research and development department which could help as an information source for the overall credit process. Therefore the banks have to organize a research and development department that helps to cope up with the changing business environment. In addition creating a sense of collaboration among credit department and branches in general and organizing the management information system of the bank is expected.

4.1.2.9.Follow up time interval of the bank after loan disbursement

Table: 4.11 Time Interval of follow-up

Time Interval	Frequency	Percentage
Monthly		
Bi-monthly		
Quarterly		
Semi annually	1	3
Annually		
None	29	97
Total	**30**	**100**

Source: Questionnaire

In table 4.11, respondents were asked the time interval that the bank deploys in conducting a visit after release of fund to the borrowers business site. And 1(3%) responded semiannually and 29(97%) responded that no visit is conducted after disbursement of the loan.

The responses assure that the follow-up system of the bank is not as such structured and as it is well known business visit is conducted to assure the end use of the loan that the bank has granted. In this case if the bank fails to conduct such activity huge portion of the loan might be converted to non-perfuming at the time lapses.

4.1.2.10. Is the time interval enough or reasonable?

Table: 4.12 Time Interval

Description	Frequency	Percentage
Yes	1	3
No	29	97
Total	**30**	**100**

Source: Questionnaire

In relation to the responses of respondents in the above table, 1(3%) replied that the time allotted is enough and the majority i.e. 29(97%) responded it is not enough.

4.1.2.11. Those who responded the time allotted for interval period is not enough proposes solutions like:

- Establishing a post credit grant and follow up together with site visit and customer advise;
- Improve the time allotted for such tasks of surprise visit, consultancy and advisory service on credit utilization;

4.1.2.12. Do you think non-performing loan of the bank related to poor credit management

Table: 4.13 Non performing loan vs credit management

Description	**Frequency**	**Percentage**
Yes	28	93
No	2	7
Total	**30**	**100**

Source: Questionnaire

Almost all respondents 28(97%) have responded that the banks non-performing loan is related to poor credit management of the loan. While the rest 2(7%) disagree on the issue. Problems encountered in credit processing, granting and administering activities have an impact on the non-performing loan of the bank.

4.1.2.13. How do you evaluate the bank credit management policy in dealing with non-performing loan

Table: 4.14. Credit management policy VS non-performing loan

Description	**Frequency**	**Percentage**
Very good	2	7
good	1	3
Fair	26	87
Poor	1	3
Very poor		
Total	**30**	**100**

Source: Questionnaire

How far is the credit management policy of the bank helps to deal with non-performing loans or not and 2(7%) responded very well, 1(3%) good, 26(87%) fair, the remaining 1(3%) of respondents rate it as poor.

4.1.2.14. How do you evaluate the bank's support to customers default due to unforeseen circumstances?

Respondents were asked how far is the bank's support in dealing with default customers 2(7%) responded very supportive, 12(70%) supportive, 6(20%) fair and the rest 1(3%) not supportive.

Table: 4.15 Bank's support in dealing with Defaulters

Description	**Frequency**	**Percentage**
Very supportive	2	7
supportive	21	70
Fair	6	20
Not supportive	1	3
Very obstructive		
Total	**30**	**100**

Source: Questionnaire

4.1.2.15. What inhibit the bank not to implement the basic credit risk management tools?

Table: 4:16 Factors VS credit risk management tools

Item No	**Description**	**Strongly agree**		**Agree**		**Neutral**		**Disagree**		**Strongly disagree**		**Total**	
		Freq.	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**
A	Lack of awareness	5	17					23	77	2	6	**30**	**100**
B	Carelessness of employees	1	3			15	50	14	47			**30**	**100**
C	Insufficient man power on the area of specialization	12	40	1	3	3	10	12	40	2	7	**30**	**100**
D	Lack of policy and procedure	4	13	15	50	9	30			2	7	**30**	**100**

Source: Questionnaire

Respondents were asked factors that inhibit the basic credit risk management tools in the bank. And with regard to lack of awareness –in item (A), 5(17%) strongly agreed, 23(77%) disagree and 2(6%) strongly disagree.

In item (B) of same table i.e table 4.16, 12(40%) of respondents responded existence of insufficient man power on the area of specialization as a factor, 1(3%) agree, 3(10%) neutral, 12(40%) disagree and 2(7%) strongly disagree.

From the total number of respondents, 1(3%) of employees responded that Carelessness of employees is a cause for improper utilization of credit risk management tools. While 15(50%) neutral and 14(47%) disagree on the idea.

The inexistence of policy and procedure related to credit risk management tools is strongly accepted by 4(13%) of respondents, agreed by 15(50%) , neither agreed nor disagreed by 9(30%) and the rest 2(7%)strongly disagree as a cause for improper utilization of credit management tools in the bank.

Besides respondents added lack of industry average and lack of willingness to accept the experience of other banks as a problem.

4.1.2.16. Credit Risk Management Technique used in the Bank

Table: 4.17 Credit Risk Management Technique

Item No	**Description**	**Intractably applied**		**Highly applied**		**Applied**		**Less applied**		**Not used at all**		**Total**	
		Freq.	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**
A	Credit Approval Authority	15	50	12	40	3	7					**30**	**100**
B	Prudential Limits	14	47	14	47			1	3	1	3	**30**	**100**
C	Risk Ratings			1	3	12	40	15	50	2	7	**30**	**100**
D	Portfolio Management	5	17	12	40	12	40			1	3	**30**	**100**
E	Loan Review Policy	1	3			12	40	15	50	2	7	**30**	**100**
F	Collateral	25	83	3	10	2	7					**30**	**100**
G	Diversification			15	50	11	37			1	3	**30**	**100**
H	Other tools like credit audit and problem loan management	15	50	11	37			3	10	1	3	**30**	**100**

Source: Questionnaire

15(50%) of respondents responded that there is credit approval authority used in the bank as one credit management technique. While 12(40%) responded as it is highly applied, 3(10%) responded as applied in the bank.

In item (B) of table 4.17 14(47%) responded intractably application of prudential limits, 14(47%) responded as highly applied, 1(3%) less applied and not used at all each.

1(3%) of respondents responded that risk rating is highly applied as a credit management tool, 12 (40%) responded as it is applied, 15(50%) as less applied, 2(7%) not used at all.

As per the responses of the respondents, portfolio management is responded by 14(47%) of respondents as intractably applied, 14(47%) as highly applied, 1(3%) less applied and 1(3%) not used at all as a tool.

Loan review policy is intractably applied as responded by 1(3%)of respondents, applied as per the responses of 12(40%)of respondents, less applied as per the response of 15(50%)respondents, not used at all as per the response of 2(7%) respondents as a tool for credit risk management.

Diversification as a tool for credit risk management is responded as intractably applied by 3(10%), of respondents, highly applied as per the response of 15(50%) of respondents, applied as per the response of 11(37%) of respondents, and responded as not used at all as per the response of 1(3%) of the respondents.

In item (G) of table 4.17, the tools like credit audit and problem loan management is used asa credit risk management techniques as rated by respondents,15(50%)intractably applied,11(37%)highly applied,3(10%)less applied and 1(3%) not used at all.

4.1.2.17. Does the bank install a Management Information System that helps for credit management?

27(90%) of respondents replied that there is no a management information system that helps for credit management in the bank and the rest agrees the existence of the system.

Table 4.18 Management Information System (MIS)

Description	Frequency	Percentage
Yes	3	10
No	27	90
Total	**30**	**100**

Source: Questionnaire

4.1.2.18. If yes, does the Management Information System Support the Credit management of the Bank?

Equal number of respondents i.e. 1(33.3%) has strongly agreed, agreed and no idea about the ability of the existing management information system in supporting the credit management task of the bank.

Table 4.19 is the MIS support the credit management

Description	Frequency	Percentage
Strongly agree	1	33.3
Agree	1	33.3
No idea	1	33.3
Disagree		
Strongly disagree		
Total	**3**	**100**

Source: Questionnaire

4.1.2.19. Challenges faced in credit management activities?

Some of the challenges faced in credit management activities include:

- Difficulties with respect to KYC(Know Your Customer) aside of credit appraisal
- High dependency on collateral
- Customers and some staff at branch level are not aware of credit policy and procedure of the bank

4.1.2.20. Does the bank have policies in place regarding the information and documentation needed to approve

Table 4.20 Does the bank have policies-have information requirements

Item No	**Item**	**Frequency**	**%**	**Item number**	**Item**	**Frequency**	**%**
A	New credits			B	Amendments (workouts)		
	a) yes	30	100		a) yes	21	70
	b) No				b) No	4	13
					c)Neutral	5	17
	Total	**30**	**100**		**Total**	**30**	**100**
C	Renewals			D	Refinancing of Existing credits		
	a) yes	30	100		a) yes	3	10
	b) No				b) No	27	90
	Total	30	100		**Total**	30	100
E	Change the terms and conditions previously approved credits						
	a) yes	3	10				
	b) No	27	90				
	Total	**30**	**100**				

Source: Questionnaire

100% of respondents responded that the bank have policies regarding the information and documentation requirement on new loan.

In item (B) of table 4.20, 21(70%) of respondents responded that the bank have policies regarding the information and documentation requirement on amendments (workout),4(13%) believe no such policy and the rest5(17%) have no idea.

Like responses on new loan 100% of respondents also responded that the bank has policies regarding the information and documentation requirement on renewals.

In item (D) 3(10%) respondents have agreed that the bank put in place a policy of information and documentation requirement on refinancing of existing credit , the rest and the majority 27(97%) disagree.

The existence of a policy on changing the terms and conditions on the previously approved credits is only accepted by 3(10%) of respondents and the rest 27(99%) of the respondents opposing the idea.

4.1.2.21. Does the bank have internal risk ratings that could be assigned to individual borrowers at the time and credit is granted?

Table 4.21 Does the bank have internal risk ratings that support the credit management

Description	Frequency	Percentage
Yes	5	17
Yes but not always	15	50
No	10	33
Total	**30**	**100**

Source: Questionnaire

The respondents were asked whether the bank have internal risk ratings that could be assigned to individual borrowers at the time and credit is granted .Among the respondents 5(17%) responded yes there is an internal risk rating at the time of credit request,15(50%)yes but not always and 10(33%) no.

4.1.2.22. If the answer to questionnaire No. 22 is yes, does the bank review the risk ratings on a periodic basis and assign a new rating when conditions either improve or deteriorate

Table 4.22 Does the bank review the risk ratings

Description	Frequency	Percentage
Yes	2	40
Yes but not always	1	20
No	2	40
Total	**5**	**100**

Source; Questionnaire

From respondents who responded there is an internal credit risk rating while the loan was granted,2(40%)responded yes the bank reviews the ratings whether it is deteriorating or not,1(20%) yes but not always and the remaining 2(40%) no .

4.1.2.23. Are different levels of management designated to grant different amounts of credits

Table 4:23 Level of Credit Approving Organ

Description	Frequency	Percentage
Yes	30	100
No		
Total	**30**	**100**

Source: Questionnaire

Respondents were asked whether they know that the bank has designated a different levels of management to grant different amounts of credit or not, all respondents have common understanding and say yes that the bank set different discretionary limits. It has an implication in managing credits properly.

4.1.2.24. General comments forwarded by the respondents regarding the credit management practice of Bunna International Bank Includes:

- No strong credit management in the bank in administering each loan;
- Clear credit policy shall be put in place to administer non- performing loans;
- Existing customers shall be managed through consultancy ,visit etc;
- Risk management should be revised and updated given change in the business;
- Strong rule and regulation to manage NPLs shall be devised;
- Accurate and timely follow up shall be done;
- Proper implementation of the existing policy and procedure shall be taken in to consideration;
- Proper communication between branches and head office is required therefore developing good coordination among work units;

4.2. DISCUSSION

The bank checks the borrower history. The bank assesses customer ability to meet obligations. The credit granting process creates accountability. Credit granting and monitoring process is overridden by directors, senior management staff. Credit processing is not independent of appraisal. The bank not implements the conditions and sanctions set by different approving organs. The bank regularly assessed the collateral coverage with the borrowers' financial position though most credit approval is collateral based. The bank did not take a stress testing on the overall credit portfolio- in which it is a valuable task to be taken. No credit quality report for signaling loan loss in any portfolio or not except the quarterly provision report disclosed to National Bank of Ethiopia. The bank is not in a position to monitor or visit the clients business on regular basis after disbursement that creates a huge amount of non-performing loan. No sufficient training is provided by the bank with regard to loan usage- this leads to high diversion of funds.

The process of credit administration is performed independently of individuals involved in the business origination of credit –helps to reduce conflict of interest. The bank has well-structured document tracking system for credit and collateral files. The workout activity is not segregated from the area that the credit is originated –helps to reduce conflict of interest.

The credit policy of the bank is not clear in managing problem loan that creates loop-holes to the overall credit management. The bank has a criterion for credit classification that is issued by National Bank of Ethiopia.

The bank has not yet deployed adequate measure to recover non- performing loans. The bank should improve the time allotted for centralized decision making of credit. The credit approval period shall be reasonable as soon as possible. The lack of manpower is not a case in the bank for determining the decision making process however; the bank should hire staff with the required skill and train them. Submission of incomplete data by the applicant is a reason for delay the loan officer or branch manager should use a checklist as first contact as the time of application and resolve the incompleteness.

The bank should clearly communicate the factors to access credit and the factors raised includes age of applicant, purpose of a loan, customer credit history, cash flow, bank policy and amount of request.

The credit controlling process of the bank needs training of the staff, improving control system , initiating legal process early in case of NPLs, designing effective monitoring system and serving reminder letter early as possible.

Putting risk rating policy , 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, as best strategy in retrieving credit; but legal advice in retrieving credit is put at last by respondents.

The bank utilizes a credit risk management technique of credit approval authority, application of prudential limits, risk rating, diversification, credit audit and problem loan management.

The current management information system of the bank is not helpful to the credit management-so the bank should improve the MIS though the bank is on the way to deploy core banking.

Proper utilization of manpower on the area of risk management is required since no task is done.

Hiring experienced staff on critical areas. Challenge faced by the bank includes knowing the customer, dependency on collateral, lack of awareness of individuals work on credit about the credit policy and procedure of the bank.

The bank has stated clear policy and guidelines on the required information on new credit, amendments, refinancing of existing credit.

Week credit risk management is seen in the bank. There is an internal credit risk rating guideline related to new credit approval as well as renewals but there is a problem on implementing it so effort shall be done to improve it.

There is a problem in collection of payments. Since the bank is not in a better position to understand the payment behavior of the borrowers—rather set a repayment on its own need considering the liquidity position and the regulatory requirement.

The policy of the bank needs a revision on some aspects. Like re approving the terms and conditions and other key aspects.

Poor portfolio management related to the mix of the loan. The loan and advance position of the bank is concentrated on some sectors. If concentration is high and that sector gets a problem it is one cause of non-performing loans.

No detail industry analysis since there is no full information regarding the sector. Therefore, organizing a Research and Development department is necessary.

The credit processing and appraisal activity of the bank was previously performed independently, but it has been decided to be performed at one desk-but it creates conflict of interest and burden to the staff;

Upgrade the managers' ability in financial analysis, through training them on continuous basis from hiring till carrier development. Since the responses of the respondents indicate that the majority of respondents have no enough experience on credit area.

High dependability on collateral that leads to skewness of loan as per Agyemans(1987), therefore the banks should reduce high dependability on collateral.

Frequent contact or business visit shall be conducted to minimize loan loss (Fofak, 2005); since it helps the bank to advise the customers besides reduces diversion of the loan.

CHAPTER FIVE

CONCLUSIONS, AND RECOMMENDATIONS

The purpose of this chapter is to review the whole thesis and highlight future researcher directions. Accordingly section one presets the major findings and conclusion and the next section presents the limitations and recommendations.

5.1. CONCLUSIONS

The overall credit management activity of the bank needs the attention of the management .The major problems in BIB is not lack of clear policy and procedure rather a problem in the implementation of the existing guidelines in proper manner. The finding of the study also assures existence of poor credit management, including improper follow-up etc. In addition the communication and information system of the bank hinders the credit management activity of the bank.

Generally, the result assures though there are procedures and rules but; there is variation in implementing the policies and procedures. Besides;

- The credit approval process of the bank is overridden by approving staff on the process-this leads to distortion in decision and result inconsistency in decision making therefore the bank should reduce subjectivity considerations in approving a credit request and develop a sense of accountability and transparency at each level.
- The bank is not in a position to strictly implement the conditions and sanctions set by different approving organs.
- No stress testing on credit portfolio this leads the risk management practice of the bank is poor ;
- The bank not undertake credit quality report so devising a strong risk management environment is mandatory;
- The Bank did not monitors the business of clients after granting credits on regular interval basis besides customers are not advised regarding loans usage but it should be undertaken to control the end use of the loan;
- Workout is done the same time the loan originally originates that creates problem so segregation of duty shall be done;

- No clear policy is set how to deal with problem loans so procedural issue shall be put in place to resolve ambiguity;
- The process of decision making is a factor for fast decision making so the bank shall equip itself with adequate and appropriate manpower, since it is a key in facilitating a credit decision making process;
- Even though the current credit information system of the country shows improvement from past years there is still a problem in obtaining reliable credit information, therefore the bank play its part in improving the overall credit information system (CIC) through updating its data in timely and accurate manner as well as work in collaboration with other banks in the industry;

5.2. LIMITATION OF THE STUDY

A major limitation of the study was the unwillingness of management to disclose the credit management processes as well as the best practices in credit management. Management was reluctant because it considered such processes and practices as trade secrets which should not be in the public domain for its competitors to take advantage of. In addition the other challenge in conducting this research was lack of reference materials and previous researches on the area of the topic.

5.3. RECOMMENDATIONS

In view of the findings and the subsequent conclusions, the following recommendations are put forwarded in the hope that they would help in order to curb the major problems identified in the study and facilitate the overall credit related activities.

- Bunna International Bank needs to hire the one who has high experience and qualification on credit risk management and the one who aware about its significant impact to banks performance;
- Banks' board of directors are responsible for each and every activities of the bank, so they have to devise a mechanism for upgrading the carrier of the employees thorough continuous training;
- The bank should establish strong credit risk environment ;
- The bank should design administration, measuring and monitoring process of credit;
- The bank should establish adequate control strategies;
- The bank should work on problem loan management areas that helps to minimize the non-performing loans;
- The bank should improve the Management Information System(MIS) of the bank;
- BIB shall employ coordinated credit management- between branches and head office;
- Assigning staff at branch level to manage the overall credit activities since it creates burdens to the branch managers and other staff who work on generalist base have no detail credit knowledge and have no sense of accountability for their activity;
- Revise the follow-up structure of the bank ;
- Establish a Research and Development (R& D) center for filling the information requirement of the bank;
- Designing clear decision making, at all level that helps to reduce the number of days for each request approval;
- Devise a credit risk policy and procedure as well as credit risk management tools;
- The bank should work to devise a financing scheme through reducing dependability on collaterals ;

- The repayment structure that the bank should set shall be in line with the business nature of each applicant rather than depending on the liquidity position of the bank.

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APPENDIX

QUESTIONNAIRE

ST. MARRY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES, MBA PROGRAMME

QUESTIONNAIRE

Dear respondents:

This is a questionnaire designed to solicit data on exploring the credit management practices of Bunna International Bank S.C which will be used as an input for a thesis in a partial fulfillment of Master of Business Administration (MBA). Your genuine response is solely used for academic purpose and the data will be treated utmost confidentiality. Therefore, your kindly cooperation is appreciated in advance.

Please put a tick mark (√) on the space provided ☐

For questions that need further explanations please use the space provided under each question.

Part I. Background of the respondents

1. Sex: Male ☐ Female ☐
2. Age group 20-29 ☐ 30-39 ☐ 40-49 ☐ above 50 ☐
3. Educational background

   Diploma ☐ Degree ☐ Masters and above ☐
4. Current position

   Managerial ☐ non- managerial ☐
5. Credit related Bank experience

   1-5 years ☐ 6-10 years ☐ above 10 years ☐

Part II. Research related questions

1. Credit Management Process

Please provide your level of agreement using the following rates (where **1= strongly disagree, 2= disagree, 3=Neutral 4=Agree and 5 – strongly agree)**

1.1.Credit processing/appraisal	**1**	**2**	**3**	**4**	**5**
The Bank checks the borrower history before granting loans					
The Bank properly assessed the customer ability to meet obligations					
Credit-granting approval process established accountability for decision taken					
There are times credit granting and monitoring process is overridden by directors, senior management or other influential staff					
The bank carried out credit processing activities independent of the appraisal					
1.2.Monitoring and Control of Credits	**1**	**2**	**3**	**4**	**5**
The bank strictly implement the conditions and sanctions set by different approving organs					
Collateral coverage is regularly assessed and related to the borrower's financial position					

The Bank regularly undertakes Stress Testing on the overall credit portfolio					
The Bank periodically prepares 'Credit Quality Reports' for signaling loan loss in any portfolio					
The Bank monitors the business of clients after granting credits on regular interval basis					
Customers are often given sufficient training on loans usage					
1.3.Credit Administration	**1**	**2**	**3**	**4**	**5**
The process of "credit administration" is performed independently of individuals involved in the "business origination" of credit					
The bank has well structured documentation tracking system for credit and collateral files					
The Bank segregates the workout activity from the area that originated the credit					
The Bank has credit risk policy that clearly set out how problem credits are to be managed					
The Bank has appropriate criteria for credit classification, provisioning and write					
Adequate measures are put in place to recover non-performing loans					

2. How long it takes to process and make a decision on single credit request?

   < 15 days ☐ 15-30 days ☐ More than a month ☐

3. What internal factors prevail affecting fast and timely decision of credit? **(**where **1=not prevail 2=moderately prevail , 3= prevail ,4= highly prevail, and 5= very highly prevail)**

Factors	**1**	**2**	**3**	**4**	**5**
Centralized decision making process					
lack of adequate man power					
delay in obtaining credit information					
submission of incomplete data by the prospective borrower					
Other please					

4. Rank the factors that inhibited access to credits? **(where 1=not inhibit 2=moderately inhibit , 3= inhibit ,4= highly inhibit, and 5= very highly inhibit)**

Factors	**1**	**2**	**3**	**4**	**5**
Age of client					
Purpose of Loan					
Customer's credit History					
Cash Flow /financial position of the applicant					
Stringent Policy rule of the bank					
Amount of request					
Other please					

5. How can the credits control processes be improved? (where **1= strongly disagree,2= disagree, 3=Neutral and 4=agree 5 – strongly agree)**

Factors	**1**	**2**	**3**	**4**	**5**
Training to staff					
Improve Internal Control System					
Initiate Legal Processes Early					
Effective Monitoring					
Provide remainder letters early					
Other please					

6. What credits collection strategies does the bank adopt in retrieving credit? (where **1= strongly disagree, 2= disagree, 3=Neutral and 4=agree 5 – strongly agree)**

Factors	**1**	**2**	**3**	**4**	**5**
Establish payment guideline					
Consider prompt payment					
Writing reminder letter					
Provide incentive for prompt payment					
Seek legal advice					
Other please					

7. What strategies do you propose to the Bank so as to improve the quality of loans as high as possible and enhance the overall Credit Management of the Bank?

____

____

8. Please give any experience, comment or opinion about Credit Management practices which is not applicable at your organization.

____

____

9. How frequently you conduct a follow-up or a visit to your customer's site?

Monthly ☐ Bi monthly ☐ Quarterly ☐

Semi annually ☐ Annually ☐ None ☐

Please incorporate any issue you want to raise _______________________

____

10. Is the time interval enough or reasonable?

Yes ☐ No ☐

11. If your answer for the above question is no, what do you plan for future?__________

____

12. Do you think non performing loan of the bank related to poor credit management?

Yes ☐ No ☐

13. How do you evaluate the bank credit management policy in dealing with non performing loan?

Very good ☐ Good ☐ Fair ☐

Poor ☐ very poor ☐

14. How do you evaluate the bank's support to customers default due to unforeseen circumstances?

Very supportive ☐ Supportive ☐ Fair ☐

Not supportive ☐ very obstructive ☐

15. What inhibit the bank not to implement the basic credit risk management tools?

(where **1= strongly disagree, 2= disagree, 3=Neutral and 4=agree 5 – strongly agree)**

Factors	**1**	**2**	**3**	**4**	**5**
Lack of awareness					
insufficient man power on the area of specialization					
Carelessness of employees					
Lack of policy and procedure					
Other please					
Other please specify______________________________					

16. Which technique/instrument, do you use for Credit Risk Management in your bank? (Please rank them where –1= not used at all,2= less applied 3= applied,4= highly applied and 5= intractably applied)

Techniques	**1**	**2**	**3**	**4**	**5**
Credit Approval Authority					
Prudential Limits					
Risk Ratings					
Portfolio Management					
Loan Review Policy					
Collateral					
Diversification					
Other tools like credit audit and problem loan					

17. Does the bank deploy a Management Information System that helps for credit management?

Yes ☐ No ☐

18. If yes, does the Management Information System Support the Credit management of the Bank?

Strongly agree ☐ Disagree ☐ No idea ☐

Agree ☐ Strongly disagree ☐

19. What are the significant challenges that you have faced credit management activities?_

____

20. Does the bank have internal risk ratings which is supportive to credit management activity , that could be assigned to individual borrowers at the time and credit is granted?

Yes ☐ No☐

21. If the answer to questionnaire No. 35is yes, does the bank review the risk ratings on a periodic basis and assign a new rating when conditions either improve or deteriorate?

Yes ☐ No ☐

22. Are different levels of management designated to grant different amounts of credits?

Yes ☐ No ☐

23. Please put your own general comment related to the Credit Management of the Bank________

____

Thank you

DECLARATION

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

____________________________ __________________________

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

Zenegnaw Abiy (PhD)