St. Mary's University ቅድስት ማርያም ዩኒቨርስቲ

committed to excellence

SCHOOL OF GRADUATE STUDIES

MBA IN ACCOUNTING AND FINANCE

ASSESSMENT OF CREDIT MANAGEMENT PRACTICE IN DEVELOPMENT BANK OF ETHIOPIA

A Research Submitted School of Graduate Studies of St. Mary's University in Partial fulfillment of the Requirements for MBA in Accounting and Finance

By: Etsehiwot Alem

ID Number: SGS/0516/2012A

Adviser: Zenegnaw Abiy(PhD)

July, 2021

Addis Ababa, Ethiopia

ST.MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF CREDIT MANAGEMENT PRACTICES IN DEVELOPMENT BANK OF ETHIOPIA

BY

ETSEHIWOT ALEM

SGS/0516/2012A

APPROVED BY BOARD OF EXAMINERS

__________________________ ___________________

Dean, Graduate Studies **Signature and Date**

Zenegnaw Abiy(PhD) ___________________

Advisor **Signature and Date**

Arega Seyoum (PhD) ____________________

External Examiner **Signature and Date**

Abebaw Kassie (PhD) ____________________

Internal Examiner **Signature and Date**

DECLARATION

I hereby declare, that the thesis report entitled," ***The Assessment of Credit Management in Development Bank of Ethiopia***" was written and submitted by me to the School of Graduate Study (St. Mary's University), in partial fulfillment of the requirements for **MBA in Accounting and Finance**. This is my original work prepared under the guidance of Zenegnaw Abiy(PhD) and the conclusions drawn are based on the material collected by me. I further declare that this work has not been submitted to this or any other university for the awards for any other degree, diploma or equivalent course.

Name: Etsehiwot Alem

Signature_________________

Endorsement

This is to certify that a thesis entitled "ASSESSMENT OF CREDIT MANAGEMENT PRACTICES IN DEVELOPMENT BANK OF ETHIOPIA." submitted to St. Mary"s University, School of Graduate Studies department of business administration in accounting and finance for the award of masters of business administration in accounting and finance is a research work carried out by Eteshiwot Alem under my guidance and supervision.

ADVISOR'S NAME: DR. ZENEGNAW ABIY

SIGNATURE: ___________________________________

ST. MARY'S UNIVERSITY

JULY, 2021

ADDIS ABABA

Ethiopia

// ACKNOWLEDGEMENTS

First of all, I thank God and His Mother Saint Marry for their holy support. I would like to express my deepest and heartfelt gratitude to my advisor Zenegnaw Abiy (PhD) for his unreserved compassion (during my father's sickness and death), and also their honest guidance, critical comments, encouragement, and timely suggestion.

In the finalization of my paper I lost my beloved father, he was one of a kind who tirelessly backed up my childhood dream to come true. Dad you were my inspiration and my GOD rest your soul in heaven. And will keep your eternal Love in my heart. I would like to thank my mother for her invaluable support and for believing in me throughout these years. Thank you, Mom.

Finally, I would like to thanks all Development Bank of Ethiopia employees who support me for this paper and different projects employees willingly cooperate in responding the questionnaires and lastly but not the least thanks to My Friends Anteneh Ayelew and immediate boss Anteneh Mulugeta for supporting ideas on this research.

Table of Contents

Page

Acknowledgements i

Table of Contents ii

Acronyms/abbreviation v

List of Table vi

Abstract vii

CHAPTER ONE 1

1. NTRODUCTION 1

1.1. Background of the Study 1

1.2. Background of the Organization 2

1.3. Statement of the Problem 4

1.4. Research Questions 5

1.5. Objectives of the Study 5

1.5.1. General Objective 5

1.5.2. Specific Objectives 6

1.6. Significance of the Study 6

1.7. Scope of the Study 7

1.8. Limitation of the Study 7

1.9. Organization of the Paper 7

CHAPTER TWO 8

2. LITERATURE REVIEW 8

2.1. Theoretical Literatures Review 8

2.1.1 Definitions, and Functions of Credit 8

2.1.2. Definition, and Concepts Credit Management 9

2.1.3 Credit Management Process 10

2.1.3.1 Credit Initiation 12
2.1.3.2 Documentation and Disbursement 12
2.1.3.3 Credit Administration.. 13
2.1.4. Credit Analysis.. 13
2.1.5. Credit Management Practices 14
2.1.6. Credit Control and Management of Credit Risk 15
2.2. Empirical review 19
2.2.1. Empirical studies conducted the rest of the world 19
2.2.2. Empirical Studies Conducted in Ethiopia 20
2.2.3. Summary of Literature and Research Gap 23
CHAPTER THREE 24
3. Methodology of the Study 24
3.1. The Research Design 24
3.2. Research Approach 24
3.3. Data Source.. 24
3.4. Population 25
3.5. Sample Size and Techniques 25
3.6. Instrument of Data Collection.. 27
3.7. Method of Data Analysis 27
3.8. Validity and Reliability.. 27
3.8.1. Validity of the instrument 27
3.8.2. Reliability of the Instrument 28
CHAPTER FOUR.. 29
4. Data Analysis and Presentation 29
4.1. Demographic Characteristics of Participants.. 29
4.1.1. Education Background of Participants... 29
4.1.1 Experience of Participants 30

4.1.2. Current Position of Participants 31
4.2. Due Diligence Practices 31
4.3 Project Appraisal practice 35
4.4 Project Approval practice 38
4.5 Credit Risk Management practice 40
4.6 Credit follow up, Reviewing and Loan Collection practice 44
4.7 Summary of Descriptive Statistics of Variables 47
CHAPTER FIVE 49
5. Summary of Findings, Conclusion and Recommendation 49
5.1. Summary of Findings 49
5.2. Conclusion 54
5.3. Recommendation 55
Reference 57
Annex I 63
Annex II 64

ACRONYMS/ABBREVIATIONS

DBE-Development Bank of Ethiopia

NBE- National Bank of Ethiopia

NPLS- Non Performing Loans

List of Tables

Page

Table 3.1 Sampling Distribution ... 26

Table 3.2: Reliability Test Statistics of the Instrument ... 28

Table 4.1: Education Level of Participants ... 30

Table 4.2: Experience of Participants ... 30

Table 4.3: current position of Participants ... 31

Table 4.4: Participants Responses on Due Diligence Assessments ... 32

Table 4.5: Participants' Responses Appraisal practice ... 35

Table 4.6: Participants' Responses Approval practice ... 38

Table 4.7: Participants' Responses Credit Risk Management practice ... 40

Table 4.8: Participant's Responses Credit follow up and Reviewing, and Loan collection practices ... 44

Table 4.9: Summary statistics of variables ... 48

Abstract

The performance and profitability of the bank highly depend on the credit performance; due to this the bank should have strong commitment and devote large efforts to improve their credit performance. The major aim of the study was to assess the credit management practice of Development Bank of Ethiopia. The study was employed descriptive research design method and quantitative research approach .The methods used to analyze the data collected were using descriptive statistics, frequency and percentages, using SPSS 20. In the sampling techniques stratified and simple random sampling method were used. The structured questionnaires were administered based on sample determined 173 respondents from the Bank's head office and selected district and branches under Addis Ababa City. Among the questionnaires, 160 were correctly filled and returned. And the study result was analyzed by assessing four basic indicators which include due diligence, project appraisal, approval, credit risk management and credit follow-up, review and collection. The basic findings of the study revealed that due diligence assessment before contract signing was adequately practicing which is the mean 3.49 except ineffective prevention money laundering system (51.26%), proper project appraisal was not undertaken before loan approval the mean was 2.78 such as lack of project management software technology (72.6%), not clear standards, and guidelines (55.7%) found to be inadequate. Regarding the loan approval process was found the mean was 2.98 which mean inadequately practicing like absence of accountability on decision-makers (61.5). Under the credit risk management practice, the mean is 3.19 it seems ineffective there were no clear procedural and guidelines(49.4), lack of credit auditing practice to confirm credit rating(55.1%), insufficient to deal with new products and activities (50.7%)and lack of periodical review of loan portfolio policy. The existing credit follow-up, review and collection practices the mean 2.65 were found to be ineffectively practiced. The researcher recommends that the bank needs to apply organized system to prevent money laundry, apply latest project management software, apply its standards, guidelines, and procedure, and other techniques, emplace accountability on decision-makers, and work on capacitating its employees.

Keywords: Credit risk management, Due Diligence, Development Bank of Ethiopia

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Credit management is concerned with activities such as accepting application, loan appraisal, loan approval, monitoring, and recovery of non-performing loans (Shekhar, 1985).And also credit management is a comprehensive process made up of the monitoring of loan facilities, extension of credit, distinguishing the market segments as well as delineating the returns generated. Credit Management is extremely important as granting credit is considered to be the equivalent of investing in a customer, therefore efficiency and effectiveness in performing each steps of loan processing using various parameters has significant effect on performance of credit management. (Hettihewa,1997).

The economic role of banks in any country is crucial for all business activities. Banks play an intermediary function, they collect money from those who have excess funds and lend it to others for investment purposes. In this activity interest must be paid to depositors and dividends to the investors (Agu et al., 2013). In the banking business credit has been recognized as one of the most important financial services that contribute to the success of a business venture and this success in turn contributes to the major economic development of a country (Oyatoya, 1983). However, the existence of credit facility alone does not necessarily result in supporting economic development unless and otherwise, it is accompanied by the existence of efficient utilization of credit funds and management as well (Haile, 2020).

Good performance of financial institutions is the symbol of prosperity and economic growth in any country or region and poor performance of these financial institutions can hinder the economic growth and structure of the particular region but also affects the whole world (Khan and Senhadji, 2001cited in Kibert, 2019). We can remember the phenomenon of western nation financial crisis in 2008 and its disruption in the world economy (Makatjane, Molefe & Wyk, 2018).

Theoretically, risk is defined as the element of uncertainty or possibility of loss that prevail in any business transaction in any place, in any mode and at any time. In the banking business, risk can be broadly categorized such as credit risk, operational risk, market risk and other

risk. Among the risks managing credit risk is the most critical task for financial institutions; efficient management of credit risk which involves identification, measurement, matching mitigations, monitoring and control of the credit risk exposures (Lalon,2015). And it can help the financial institute to mitigate a potential risk factor in maximizing its profit.

Then when there is effective credit management process within a financial institute it often reinforces and compliments its corporate objectives and goals (Kaitibi et al., 2018). The ultimate goal of credit risk management is all about minimizing the loner bank's risk, and to maximize the rate of credit return by maintaining credit risks exposure within acceptable parameters (Ahiable, 2012). In this regard, banks take into account many considerations as a factor of credit management, which helps them minimize the risk of default that results in financial distress and bankruptcy (Eskedare, 2019). The case in Development Bank of Ethiopia is not exceptional.

The key requirement for effective credit management is the ability to intelligently and efficiently manage customer credit lines to minimize exposure to bad debt, over-reserving and bankruptcies; companies must have greater insight into customer financial strength, credit score history and changing payment patterns. The ability to penetrate new markets and customers hinges on the ability to quickly and easily make well-informed credit decisions and set appropriate lines of credit (Haron et al., 2012).

1.2. Background of the Organization

Development Bank of Ethiopia (DBE) is one of the oldest state-owned banks in Ethiopia. The Bank was established in 1909, since then it has been playing a significant role in promoting overall economic development of the country. For more than a century the bank was engaged in providing short-, medium- and long-term development credits. DBE's distinguishes feature is its "project" based lending tradition. Projects financed by the Bank are carefully selected and prepared through appraised, closely supervised, and systematically evaluated (DBE, 2020).

In long years of existence and experience, DBE has established recognition at national and international levels. Nationally, it is the sole Bank with reputable experience in long term investment financing. Internationally, and it is recognized as an important on leading channel for development program financed by bilateral and/or multilateral sources.

The Vision of Development Bank of Ethiopia is “To be a world-class development bank that help to achieve Ethiopia’s Economic transformation vision by 2030” this vision gives a big focus to efficiency, quality of assets and contributions of the Bank towards the realization of the country’s development and realization of the Structural transformation ambition. However, the performance of the Bank NPL ratio is above the allowable ratio which are from 2016 to 2020 the non-performing loan ratio ranges from 17.71 to 39.43%, and the maximum ratio is recorded in 2018(source: Annex I) as well as low performance of loan recovery according to annual performance report for the past five consecutive five years (2016 to 2020) was 53%, 50%, 40%, 50.09% and 44.20% respectively and on average 46.4% for last five consecutive years. This indicated that poor credit management practice so that the researcher motivated to assess the credit management practice of the bank under consideration.

Under its stated mission of Development Bank Of Ethiopia “The Development Bank of Ethiopia is a specialized financial institution established to promote the national development agenda through development finance and close technical support to viable projects from the priority areas of the government by mobilizing fund from domestic and foreign sources while ensuring its sustainability. The Bank earnestly believes that these highly valued objectives can best be served through continuous capacity building, customer focus, and concern to the wider environment” (DBE, 2020, 4).

Like other banks’ lending is one of the main activities of Development Bank of Ethiopia and interest income constitutes the major portion of the operational profit. Development Bank of Ethiopia often provides lending to manufacturing, agro-processing, and commercial agricultural projects constitutes the major operation and income (DBE, 2014). And in its operations during the year of 2018/19 Development Bank of Ethiopia experienced a net loss of 768.8 million Birr (Annual performance report 2018/19) which indicate that the credit management practice as such not strong. Thus, the researcher is motivated to assess the credit management practice of the bank under consideration.

1.3. Statement of the Problem

Poor credit management practices harm banks, which are resulted from the reduced profitability and liquidity problems due to compressed profit margins from the rising NPLs hence bringing about the most challenging environment for banks (Saunders & Allen, 2010). Likewise, Development Bank of Ethiopia has been engaged in providing loan for projects under priority area of the Bank. Project financing by its very nature involves credit management in deep starting from know your customer (due diligence assessment) up to approving loan then after until the project become fully operational.

According to the annual performance reports of DBE (annex I) for past consecutive five years, from 2016 to 2020 NPL ratio of the Bank was 17.71%, 24.98%, 39.43%, 33.92% and 34.43% respectively. From the trend noted that the Bank's NPL ratio had been changing at increasing rate and it was also above the threshold level of NBE set (15%). Moreover, loan recovery of the bank was under low performance for the last five years (Annual Performance Report of DBE 2016-2020). Hence, from this it is clear that the credit management practice of DBE is not as such strong to managing its performance. This is therefore; the issue motivated the researcher to assess the credit management practice of the bank under considerations.

This study is different from the others conducted previously, for instance, Hable (2018);, Yalemzewd(2013);, Gemechu (2018);, Genet (2017);, Samrawit (2018), Marid (2020) and Eskedar (2020) which focus on credit management practice of commercial Banks. Since Development Bank of Ethiopia is different from Commercial Banks; a study on credit management practices on Development Bank of Ethiopia conducted by Andualem (2019) found out that corporate level of lending units has been impeding loan quality.However, since the reported performance is the aggregate performance of all lending units of the bank the credit management practice of the bank has to be seen by considering other lending units which are Districts and Branches in addition to the corporate level.

As a policy DBE's primary responsibility is providing domestic credit for a variety of projects. DBE's has objectives of financing medium and long-term development projects in priority areas of the country. Unlike other commercial Banks, DBE is a sole state owned Development financial institution that focuses on project financing established to provide funds for projects designed to bring growth and development to the country. For Example, all

commercial banks require collateral assets other than the project while for DBE the project itself is used as collateral.

Therefore, from the above studies discussed, it is evident that most studies were conducted in the case of other commercial banks which have different loan objectives and strategy than DBE. Even the studies conducted in the case of DBE by Andualem (2019), was done by considering only the corporate level of the lending units without inclusively addressing districts and branches of the DBE. Thus, to fill the previous research gaps on the assessment of credit management practices in Development Bank of Ethiopia on the internal process of granting loans on due diligence assessment, loan appraisal, loan approval, credit risk management, and credit follow up, review and loan collection, in addition to the corporate level of lending units this study includes Addis Ababa District and Branches located in Addis Ababa city.

Therefore, this study is intended to conduct an assessment of credit management practice in the Development Bank of Ethiopia**.** And also to point out the contextual gap realized in credit management practices in the case of Development Bank of Ethiopia.

1.4. Research Questions

- What are criteria's taken for due diligence assessment before contract signing in DBE?
- How does the project appraisal practice look like before granting loan in DBE?
- What criteria's are taken for the loan approval process in the bank?
- What are the credit management processes practiced with regard to credit risk management?
- What are the existing credit follow up, reviewing and collection practices of the bank?

1.5. Objectives of the Study

1.5.1. General Objective

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

1.5.2. Specific Objectives

The Specific Objectives are:

- To examine the due diligence assessment practices of the bank
- To assess the project appraisal practices of the bank
- To examine the loan approval practice of the bank
- To examine the credit management process with regards to credit risk management
- To assess the existing credit follow up, reviewing and collection practices of the bank

1.6. Significance of the Study

This research is expected to have special significance in providing information on what practices of credit management lead the banks to credit loss in recent years. So this study is intended to forward alternative solutions to the various problems related to credit management practice in the Development Bank of Ethiopia. This scientifically examined information on credit management practice of Development Bank of Ethiopia the advantages; the National Bank Ethiopia and Public Enterprise Holding Agency may use the findings and recommendation of this study to design strategies for the major challenges that hamper the proper credit management practices under DBE.

Specifically, it could inform the Development Bank of Ethiopia board members and management to clearly understand the practices of credit management problems that are related to due diligence, appraisal, approval, credit risk management and existing credit follow up, review and collection so it intended to give possible solutions for the impediments of credit management practices.

Moreover, stakeholders of the banks such as public enterprise holding agency may use the findings in realizing the current credit management practice of the bank. Indeed, the study will contribute something for finance studies; it can serve as reference material for those who want to conduct further studies in a similar area.

1.7. Scope of the Study

This study was limited to assessing credit management practices of Development Bank of Ethiopia, The target institute are at head office, district and branches which are located in Addis Ababa city .Because loan sanction limit above 45 million Birr in head office and within 12 district offices which are Addis Ababa, Adama, Bahir Dar, Mekele and Hawassa a maximum of Birr 45 million loan sanction limit as stated (internal directives dated on February 2,2018) .Thus , Addis Ababa district is one of loan sanction limit and from total loan portfolio of the bank 65.74 percent from Head office and 6 percent of Addis Ababa District office so total portion of head office and Addis Ababa district 71.74 percent (internal progress report 2019/20). Therefore ,Head office and Addis Ababa District loan portfolio greater than the rest of districts and branches so the target institutes are selected due to loan sanction limit as well as loan portfolio greater than 71 percent so that to increase sample size and in order to explain credit management practice specifically. The research participants were employees of the bank under credit departments, such as customer relationship management directorate, project appraisal directorate, Project Rehabilitation and Loan Recovery (PRLR) directorate, and Risk and compliance management directorate.

1.8. Limitation of the Study

This study focus on credit management practices in terms of due diligence assessment, loan appraisal, loan approval, credit risk management, and credit follow up, review and loan collection practices which were focuses internal process of loan practices while other processes of loan such as loan disbursement and loan provision were not considered as part of a study. Moreover, customer feedbacks were not included in this study so the findings of this study not include customer feedback responses.

1.9. Organization of the Study

The study is organized into five chapters. The first chapter of the study concerned with the background of study, statement of the problem, objectives, and significance, scope, limitation of the study and organization of the study. The second chapter presents the literature review concerning the topic. The third chapter reflects research design and methodology. The fourth chapter is data analysis and presentation. The fifth chapter presents summary of findings, conclusion and recommendations.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Theoretical Literatures Review

2.1.1 Definitions, and Functions of Credit

Banks, as financial institutions, play a vital role for bringing financial stability and economic growth through their expected contribution by mobilizing financial resources across the economy (Masood & Ashraf, 2012). The role is more important for the developing economies with under developed capital market (Felix Ayadi et al., 2008). Financial institutions are established for lending, borrowing, issuing, exchanging, taking deposits, safeguarding or handling money under the laws and guidelines of a respective country. Among their activities, credit facility is the main product which banks provide to potential business entrepreneurs as a main source of generating income (Kaitibi et al., 2018).

Therefore, credit can be refers to in commerce and finance, it implies that 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. 2008).

According to Kassey (2015), banks have several advantages in granting loans to customers. Among others, to enhances profit levels of the institutions if debtors meet their obligations. Also, to increases financial resources to the creditors for increased capital base for promotion of investment, for economic growth among others. Therefore, if loans are not effectively

managed in the banking sector it has negative effect on banking institutions and the macro economy in general.

Credit is one the most important pillars of the modern economy. Productive use of the credit growth would lead to such as increased spending, investment, job creation. As long as important sector of the economy remain capable of repaying their debt (Rehman.et.al, 2018).

2.1.2. Definition, and Concepts Credit Management

There are many definitions given for credit management (CM) by different scholars, among them, some scholars are provided as follows: According to Nath (2013) Credit management in a bank is a dynamic sector 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. 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. Moreover, Wise (2014) describe credit management as the process of building a series of investments based upon credit relationships and managing the risks involved with these investments. Therefore, credit management encompasses assessing the risk involved with each loan and then analyzing the total amount of risks for all loans. The major objective of credit management is to reduce the amount of loans default. Banks reduce the loan portfolio default risk by considering the credits repayment history of both individuals and groups applying for loans.

Myers and Brealey (2003) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. While Nelson (2002) defines credit management as the practices used by an organization to manage the sales they make on credit. It is an essential practice for all the organizations that have credit transactions since some have managed their credit activities so well that they have zero credit risk.

Credit management is mainly with using the banking enhance resources both productively and profitably to achieve a preferable economic growth. Likewise, it seeks a fair distribution among the various segments of the economy so that the economic fabric grows without any hindrance as stipulated in the national objectives, in general and the banking objectives, in particular (Desai, 2009). So the placement of 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 of the financial institutions (Hagos, 2010).

Credit management is the strategy applied by the management of the banks to plan, control and monitor loans and advances given to their customers to prevent such loans from crystallizing into none performing loans or bad debts. The main aim of credit management is to ensure that the bank realizes its investment in the granting of loans and stimulate constant flow of income from the advances (Alphonsus, 2019). Credit risk management includes all management function such as identification, measurement, monitoring and control of the credit risk exposure. For long term achievement of banking sector effective credit risk management practice is a vital issue in the current business environment and poor credit risk management policy will create serious source of crisis in the banking industry (Tseganesh, 2012).Credit risk management in a financial institutions starts with the establishment of sound lending principles and an efficient framework for managing risk. Policies, industry specific standards and guidelines, together with risk concentration limits are designed under the supervision of risk management committees and departments (Addo, 2015).

To have a sound credit risk management system, it is necessary to establish a proper credit risk environment, sound credit granting processes, appropriate credit administration, measurement, monitoring and control over credit risk, policy and strategies that clearly summarize the scope and allocation of bank credit facilities as well as the approach in which a credit portfolio is managed .Thus, how loans are originated, appraised, supervised and collected, a basic element for effective credit risk management (Muigai & Maina,2018). On contrary, poor credit risk management is the major cause of many business failures. Many small businesses have neither the resources nor the expertise to operate a sound credit management system (Richardson, 2002).

2.1.3 Credit Management Process

The process of credit management begins with accurately assessing the creditworthiness of the customer base and his/her business viability. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. Hence, proper credit management is setting specific criteria that a customer must meet before receiving the proposed 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 (Hagos, 2010; Ahiable, 2012).

The process of management of credit risk in banking business tracks on the risk identification, measurement, assessment, monitoring and control. It involves identification of possible risk factors, evaluate their consequences, and monitor activities exposed to the identified risk factors and institute control measures to prevent or reduce the unwanted effects (Stiglitz & Weiss, 1981).

Poor quality loan was sometimes appears due to factors not attributable to the lending bank such as adverse selection and moral hazard or any other external shock that may alter the borrower's ability to repay the loan. Nevertheless, there were cases where the way banks grant and monitor credits can be responsible for the bad loan portfolio. In other terms, weak credit risk management systems could also be sources of problem loans (Stiglitz & Weiss, 1981; Minsky, 1985; Nishimura et al, 2001).

According to (Njenga, 2014), the process of managing credit is significant in improving the current credit scoring practices by the lenders. Credit management ensures inclusion of primary predictive factors that cover the full spectrum of relevant qualification criteria and both determines and reveals how they combine to produce outcomes. Credit scoring, which relies on historical data, does not have this capability, nor does it possess a feedback mechanism to adjust factor weightings over time as experience accumulates. The process of managing credit determines which risk factors that pertain to the lending decision within the context of each borrower's situation and the loan product parameters, and then appropriately adjusts the factor weightings to produce the right outcome (Matovu & Okumu, 1996).

Agyeman (1987) stated that several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. These factors include; gathering data on the potential customer's current financial condition, including the current credit score, then, the current ratio between income and outstanding financial obligations will also be taken into consideration, and competent credit management seeks to not only protect the vendor from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner. According to Edward (2004) banks has credit management processes can be summarized in three main

stages. These stages were: Credit initiation, documentation and disbursement and credit administration

2.1.3.1 Credit Initiation

According to Edwared (2004) 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 the following .The first steps involved Surveys and industry studies. In this stage loan officers/ customer relationship officers/branch managers scan the market and economic sectors to identify key players and potential business for the bank. Moreover, industries with high potential of growth that can be good business for the Bank are also listed with their expected risks. The second step is prospect list which involves identification of main player’s role and shortlisted those in accordance with the industry studies and the minimum risk criteria ranked in the order of preference. The third stage is customer solicitation. At this stage it involves 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. The fourth step is negotiation and in this stage loan officers and branch managers 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 is the fourth step, which is 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 which is 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 is the fifth step. Advice to customers is the last step and 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.

2.1.3.2 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 (Ahiable, 2012)

2.1.3.3 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 which is periodically reviewed to make sure that the names tiered are still complying with the risk acceptance criteria (Ahiable, 2012).

2.1.4 Credit Analysis

According to David (2015), credit analysis is important for deciding the credit worthiness of borrowers, assessing the likelihood of default and diminishing the risk of non-reimbursement to an acceptable level. To reduce the credit risk on a loan request process conducting a Credit analysis is the most desirable method. This helps to determining the financial strength of the borrowers, estimating the probability of default and reducing the risk of non-repayment to an acceptable level. In general, the credit evaluations processes are done based on the loan officer's subjective assessment (Hagos, 2010).

According to Lawrence (1997), identified five C’s of credit. These are Character, Capacity, Capital, Collateral, and Conditions. Character includes the record of the applicant’s record of meeting past obligations, financial, contractual, and moral, and past payment history as well as any pending or resolved legal judgments against the applicant would be used to evaluate its character. Capacity is the applicant’s ability to repay the requested credit which are financial statement analysis, with particular emphasis on liquidity and debt ratios, is typically used to assess the applicant’s capacity. Capital is the financial strength of the applicant as reflected by its ownership position and analysis of the applicant’s debt relative to equity and

its profitability ratios are frequently used to assess its capital. Collateral is the amount of assets the applicant has available for use in securing the credit .Condition is the current economic and business climate as well as any unique circumstances affecting either party to the credit transaction.

Contrary to Lawrence's (1997) five C's Golden and Walker (1993) identified five C"s of bad debt; which represent things to guard against in order to help prevent problems. These are complacency, carelessness, communication breakdown, contingency, and competition**.** Complacency refers to the tendency to assume that because things were good in the past they will be good in the future. Common examples are an over reliance on guarantors, reported net worth, or past loan repayment success because it's always worked out in the past. Carelessness involves poor underwriting, typically evidenced by inadequate loan documentation, a lack of current financial information or other pertinent information in the credit files, and a lack of protective covenants in the loan agreement. Each of these makes it difficult to monitor a borrower's progress and identify problems before they are unmanageable. Communication breakdown is when loan problems often arise when Bank's credit objectives and policies are not clearly communicated so as to improve this breakdown management should articulate and enforce loan policies, and soon as they appear. Contingency refers to lenders" tendency to play down or ignore circumstances in which a loan might in default. Competition involves following competitors" behavior rather than maintaining the bank's own credit standards.

2.1.5 Credit Management Practices

According to Njenga (2014), the process of managing credit is significant in improving the current credit scoring practices by the lenders. Credit management ensures inclusion of primary predictive factors that cover the full spectrum of relevant qualification criteria and both determines and reveals how they combine to produce outcomes. Credit scoring, which relies on historical data, does not have this capability, nor does it possess a feedback mechanism to adjust factor weightings over time as experience accumulates. The process of managing credit determines which risk factors that pertain to the lending decision within the context of each borrower's situation and the loan product parameters, and then appropriately adjusts the factor weightings to produce the right outcome (Matovu & Okumu, 1996).

Credit management practices integrate judgmental components and proper context into the modeling process in a complete and transparent manner. Some credit management systems lack context because they rely purely on the available data to determine what factors are considered. Credit scoring systems lack transparency because two individuals with identical credit scores can be vastly different in their overall qualifications, the credit score itself is not readily interpretable, and industry credit scoring models are maintained as proprietary, as are their development processes (Gardner, 1996 cited in Tilahun 2018).

Credit management practices are the strategies used by an organization to ensure that the level of credit in the firm is acceptable and it is managed effectively (Myers and Berkley, 2013). Credit management means the total process of lending starting from inquiring potential borrowers up to recovering the amount granted. In the sense of banking sector, credit management is concerned with activities such as accepting application, loan appraisal, loan approval, monitoring, and recovery of non-performing loans (Shekhar, 1985).

Credit management practices are considered as an integral component for the success of the banks (Lalon, 2015). This is attributed to the fact that commitment to the credit management practices ensures long term survival of the banking institutions through shielding from default loans (Kithinji, 2010). The policy on credit management contains its own system or mechanisms that guide employees wherever they try to start their activity and on the collection of the loan repayments (Asante, 2015).

2.1.6 Credit Control and Management of Credit Risk

Fatima(2010) stated that credit control is concerned with the post approval and monitoring of the credit facility, to ensure that each credit remains qualitatively satisfactory during the tenure of the credit. It is very important to monitor (control) the facility after it has been approved to ensure that the borrower complies with the stipulated conditions, the facilities are utilized with the purpose for which they were approved, any deterioration or negative trends in the customers‟ business or prospects are determined and corrective actions taken.

Independent credit administration, loan review, and audit functions are necessary to ensure that the bank's risk management process, management information systems, and internal and accounting controls are reliable and effective. The bank's control functions can also provide senior management and the board with a periodical assessment of how the bank's employees

understand its credit culture and whether their behaviors conform to the bank's standards and values (Eskedar, 2019).

The Basel Committee on Banking Supervision having surveyed the difficulties connected with banks management of credit globally, issued a few rules that have come to be viewed as benchmark credit risk management rehearses keeping in mind the end goal to loan sound practices for overseeing credit risk (Nsiah-Agyeman, 2010). The report of the Basel Committee on Banking Supervision on layaway risk concentrated around four fundamental zones as basic in each credit management process. These areas are: Establishing a suitable credit environment, operating a sound credit granting process, ensuring satisfactory controls over credit risk, evaluation and implementation of protective covenants.

A. Establishing a suitable credit environment

As of (Wheehem & Hunger, 2008) the controlling and working spine of each organization is the top managerial staff. As a result, the top managerial staff ought to occasionally survey the monetary consequences of the bank and, in light of these outcomes, figure out whether changes should be made to the system. The board should likewise focus the bank's level capital ampleness (Boateng, 2004). Wilson (1998) is additionally of the perspective that, the credit risk method of any bank ought to give progression in methodology. Henceforth, the system should contemplate the intermittent parts of the economy and the resultant changes in the structure and estimation of the aggregate credit portfolio. In spite of the fact that the procedure ought to be occasionally assessed and adjusted, it ought to be doable over the long haul and through different monetary cycles (Machiraju, 2004). The board ought to guarantee that senior management is completely fit for dealing with the credit activities directed by the bank and that those activities are done inside of the risk procedure, approaches and resistances endorsed by the board (Basel Council, 2001). In both inside of credit risk system or announcements of credit strategy the board of the bank should favor the bank's general credit-allowing criteria. In addition to this it ought to affirm the way in which the bank will sort out its credit-providing capacities, including autonomous audit of the credit granting and management capacity and the general portfolio (Nsiah-Agyeman, 2010).

B. Operating a sound credit granting process

The Basel Board of trustees (2000; 2001) underlined that with a specific end goal to keep up a sound credit portfolio, it is fundamental a bank have set up a built up formal exchange assessment and support process for the conceding of credits. Regards ought to be made as per the bank's composed rules and conceded by the suitable level of management. There ought to be an unmistakable review trail reporting that the regard procedure was consented to and distinguishing the individual(s) and/or committee(s) giving data and also settling on the credit choice (Boateng, 2004). As per Wilson (1998), banks frequently profit by the foundation of expert credit gatherings to examine and sanction credits identified with noteworthy product offerings, sorts of credit offices and modern and geographic parts. Banks ought to put resources into sufficient credit choice making assets so they find themselves able to settle on sound acknowledge choices reliable for their credit procedure and meet aggressive time, estimating and organizing weights.

As stated by Machiraju (2004) uncovered that, one of the management rules that banks have utilized in their client data get-together process is screening. Screening as indicated by the researcher includes the procedure of recognizing just solid and trustworthy clients from a pool of various candidates for money related help. Banks screen "good" credit risk from "bad" ones in order to make productive loans. Screening is typically done before a credit is conceded. Successful screening obliges banks to gather precise and dependable data from potential borrowers. The point is to assess the default risk of their clients. The potential borrower is regularly needed to supply the loan officer with data about their experience, salary and total assets. Distinctive credit risk models extending from subjective to quantitative ones may be utilized to encourage the screening procedure to land at an educated choice.

C.Ensuring adequate controls over credit risk

As per Ganesan (2000), there must be credit points of confinement set for every officer. The expected set of responsibilities has a relationship with credit granting to guarantee sufficient controls over credit. Material exchanges with related gatherings ought to be liable to the board's endorsement of executives, and in specific circumstances answered to the saving money supervisory powers.

Banks should likewise consider the time span for conceding credit since time is of specific significance to borrowers. Borrowers for the most part oblige credit inside of a given time.

And for such credits to be significant they must be conceded inside of the period the office is needed (Nsiah-Agyeman, 2010).

As indicated by Hubbard (2000), if a borrower obliges a credit inside of, say, one month, the giving bank must meet such time period without undue deferrals. This implies that lending institutions must make known in unequivocal terms to the borrowers the terms and conditions to allowing the credit. Having allowed credit there is the requirement for keeping up a proper credit organization, estimation and checking procedure. Once more, banks must build up an arrangement of autonomous, nonstop evaluation of customers' operational results, paying special mind to ahead of schedule cautioning indications of operational troubles.

D.Protective covenants of banks

One critical defensive agreement that banks have used is collateralization of the borrowers' advantage for the giving bank. Guarantee is any benefit utilized as security for a credit. In the expressions of Mishkin (2001) *"security is property guaranteed to the loan specialist if the borrower defaults*". Notwithstanding, security cannot be a substitute for a thorough appraisal of the borrower or counterparty, nor would it be able to make up for lacking data. It ought to be perceived that any credit authorization activities could wipe out the overall revenue on the exchange.

Furthermore, banks should be careful that the estimation of security may well be impeded by the same components that have prompted the reduced recoverability of the credit. Banks ought to have arrangements covering the agreeableness of different types of guarantee, methodology for the progressing valuation of such security, and a procedure to guarantee that insurance is, and keeps on being, enforceable and feasible (Mishkin, 2001).

With respect to ensures, banks ought to assess the level of scope being given in connection to the credit quality and legitimate limit of the underwriter. Banks ought to 32 be cautious when making suppositions about suggested backing from outsiders, for example, the management. Resources utilized as insurance securities must be legitimately esteemed by experts who are well educated in such valuations. Loaning banks should again guarantee that all the legitimate systems that must be followed in guaranteeing the move of enthusiasm for insurance securities moves from the borrower to the moneylender are completely depleted (Brigham & Ehrhardt, 2002).

This, as indicated by Teich (1997), will help prevent any future legitimate hindrances when the security solidifies. Banks must place accentuation on the power deal values as opposed to the business sector estimations of collateralized resources (Ferguson, 2001). Bielecki (2000) affirms that banks are profoundly secured where the power deal estimation of a benefit is equivalent or more than the credit sum conceded. An accomplished, devoted and an extremely productive legitimate division is a pre-essential for upholding defensive agreements.

2.2 Empirical review

2.2.1 Empirical studies conducted the Rest of the World

Some of important studies that are relevant for this research are reviewed as follows: Berger and De Young (1997) conducted a study on problem loans and cost efficiency in commercial banks and found that poor management in the banking institutions results in bad quality loans, and therefore, escalates the level of non-performing loans. They argue that bad management of the banking firms will result in banks inefficiency and affects the process of granting loans. The banks management might not thoroughly evaluate their customer's credit application due to their poor evaluation skills. Therefore, banks' inefficiencies might lead to higher non-performing loans.

Oretha (2012) examined that the relationship between credits risk management practices and financial performance of commercial banks in Liberia the result showed that positive relationship between the credit risk management practices and financial performance. On the other hand, Bonaya (2013), studied to determine the effects of credit risk management practices on non-performing loans in commercial banks in Kenya, he found that risk analysis and appraisal affected the level of nonperforming loans their bank to a great extent and that measurement, risk estimation and determining risk reduction measures affect the performance of the bank to a great extent.

Maina and Muigai(2018) studied credit risk management practice on performance of commercial banks of Kenya the study examined the effect of loan appraisal, lending requirements, credit management tools and loan recovery process on financial performance of commercial banks in Kenya. The study used descriptive research design .They found out that loan appraisal, lending requirement, credit management tools and loan recovery process had a

positive and significant relationship with the financial performance of commercial banks in Kenya.

According to Nyasaka (2017), examined the relationship between credit risk Management practices and Non-Performing Loans in Kenyan Commercial Banks: A Case Study of KCB Group Limited. Effective Loan appraisal and subsequent approvals based on borrower's capacity, character, condition, credit history and collateral reduce Non-performing loans and it has a great contribution that the institution to ensure the health of loans. In addition to this; the researcher also reaches an agreement, establishing strong controlling and monitoring mechanisms are the key points of ensuring sound credit services.

Evelyn (2014), conducted a study on Effects of Credit Management Techniques on the performance of Commercial Banks in Kenya by his research concluded that Client appraisal, credit risk control and collection policy are some of the common factors to be considered in the credit management process. According to the view of the researcher to enhance the performance of the bank should improve appraisal techniques and credit risk control.

2.2.2 Empirical Studies Conducted in Ethiopia

Hable (2018) conducted a study on Credit Management practice on United Bank S.c. The main objectives of the study is possible factors that influence the credit management activity of the bank .The study reveals that poor credit management practices explained by lack of credit follow up by branches, lack of information system to support the credit risk grading system of the bank, and centralized decision making influence by the bank influence the attainment of credit management of the bank.

Yalemzewd (2013) research on credit management practice of Bunna International Bank S.C found that main factors influencing access to credit are the stringent policy guidelines as well as the credit worthiness of the customers.

Tilahun (2018), research examined on the credit management practices of microfinance institutions in Ethiopia the case of Addis credit and saving institution , the study were used primary and secondary data , he found out the major weaknesses of credit management practices include Lack of proper collection of credit information; the standard and eligibility criteria are mainly affiliated by the government policy; making credit decision without

maintaining the standard and criteria based on the credit policy; in ability to properly identify their borrowers like their work address, activities, profitability ; being difficult to provide technical support on the job; absence of well-established credit administration system like computerized credit administration systems and document record, HR and facilities; absence of early notification systems regarding deadlines, interest due, penalties; and no proper, regular and effective the follow up and supervision systems.

Genet (2017) did a study on credit management practice in private commercial banks – A case Study of United Bank Share Company. The study were used both primary and secondary data. She found that by improvement of credit policy and procedure of the bank and updated of credit policy and rising loan clients complaint on the bank regarding the valuing of properties offered for collateral, lengthy of loan processing, amount of loan processed and approved, loan period, and discretionary limits affecting the credit management practice.

Samrawit , Yordanos , Meseret (2014) in their study on Dashen Bank S.C.as an assessment of credit management practice revealed that "the causes of Non-performing loan (NPL) in bank was the result of both internal and external factors, such as granting loan without taking collateral and over estimation of collateral or fall in its value upon sale would result in expose the bank to NPLs; additionally the bank lending policy should not be revised depending on the situation and economic condition of the country, thus inappropriate precaution should be exercised from the banks side.

Eskedar (2020), researched credit management practice of Wegagen Bank S.c. Study focused on four basic dimensions the practice of the bank in managing its loaning activity and alignment with the National Bank of Ethiopia requirements, non-performing loan management, current credit control and its credit risk management practice. The researcher used descriptive research design and the methodology used for the study is population census for bank staff .The researcher found that poor analysis of cash flow statement of borrowers before approval of the loan repayment period and also proper assessment of credit risk is required in the analysis process .Doctor

Marid (2020) also assessed on credit management practice of Lion International S.C. Data was analyzed through descriptive statistics. He found that majority of the bank staff were explained their concern on weak collateral coverage of the bank loans, high concentration

risk on export loan out of the total loan volume of the bank, weak credit analysis during approval and at same time poor follow-up and recovery activities.

Tekeste (2019) conduct a research on assessment of credit management performance in Berhan International Bank S.C. Method of data collection was questionnaire were used to the client and bank participated on the questionnaire. Study found out that factors that affect the performance of credit management are loan processing, amount of loan processed and approved, loan period, and discretionary limits and 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. Some advice given by the researcher were visit before and after disbursement of the loan, shortening of loan processing and advice customers and give technical support that help to minimize loan loss and diversion of loans.

Hagos (2010) also examined credit management Practice of the Wegagen bank in Tigray Region the main objectives of the study National Bank's requirements compared to its credit policy and procedures using both primary and secondary data and qualitative and quantitative data analysis tools were used, he found that the bank was managing its credit well in many aspects in this specific region. However, the researcher has also indicated that very long loan processes, in adequate credit policy in terms of customers aspect discouraging credit customers, The researcher has also collateral, lengthy of loan processing, amount of loan processed and approved, loan period, and discretionary limits affecting the performance of credit management.

Andualum (2019) did study on credit management practice in case of Development Bank of Ethiopia. Descriptive research design were used, primary and seconder data were used and target population was at head office .He found out that impeding loan quality due to absence of adequate controlling and monitoring, inadequate appraisal & approval, poor collection culture, absence of effective risk mitigation strategy are some of the factors raised as a challenge.

Samarwit (2019) also examined credit management practices in the case of Bank of Abyssinia S.C. Data were collected through primary and secondary data by using questionnaire, she investigated that the bank most of the time identified qualified borrowers by gathering information from different financial organs. Concerning the bank, ask

guaranteed materials the study indicates that the bank highly depends on the collateral capacity of the customers and loan history of the creditors.

2.2.3 Summary of Literature and Research Gap

From the above reviewed empirical literatures the researcher summarized and identified the literature gaps. For instance, most of the studies conducted and reviewed in this study focus on credit management practice particularly private commercial banks. Development Bank of Ethiopia is deferent from commercial banks, its government owned bank which has unique credit policy as compared to other commercial banks. For example, commercial banks require collateral assets other than the project, while for the Development Bank of Ethiopia the project itself is used as collateral .Moreover, development bank does not accept deposits from the public like commercial banks and other financial institutions depends on saving mobilization. The aim of development banks to accelerate the rate of growth and serve public interest rather than profit generated (Fekadu,2015).

In addition, Andualm (2019) research finding regarding the credit management practice of the Development Bank Ethiopia indicated that the corporate level of lending units has been impeding loan quality ,his study focused on Head office not included Districts and Branches .Therefore, this study includes Addis Ababa District and Branches located Addis Ababa city since the reported performance is the aggregate performance of all lending units of the bank the credit management practice of the bank has to be seen by considering other lending units such as Districts and Branches in addition to corporate level.

Thus , this study aim to fill the previous studies gap on conducted research on the assessment of credit management practices in Development Bank of Ethiopia by including the practice of due diligence, loan appraisal process, loan approval , loan follow up , review and loan collection and credit risk management at same time. Most of the studies were done on Private Commercial Banks and they fail to address the issues of Development Banks Ethiopia. Therefore, this research work expected to fill the research gap because this study is conducted on government owned bank which experiences a huge credit loss in its recent years. Therefore, this study will be intended to conduct an assessment on credit management practice in the Development Bank of Ethiopia**.** And to point out some contextual gap in credit management practices in case of Development bank of Ethiopia.

CHAPTER THREE

3. Methodology of the Study

In this section the research identifies the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections were included; research design, research approach, data source, data collection instruments, method of data analysis and data analysis and finally validity and reliability.

3.1. The Research Design

This research is a descriptive research; the research was used questionnaire as a primary data collection tool. This help to collect useful information for assessment of credit management process in Development Bank of Ethiopia at corporate level, districts found in Addis Ababa area and selected branch under Addis Ababa district.

3.2. Research Approach

To describes and analyzes the credit management practices in Development Bank of Ethiopia, properly address the research problem, the study was applied quantitative research approach. The respondent's opinions and experiences gathered using well-structured questionnaire and the rating was done using a Likert Scale.

3.3. Data Source

The data were gathered from primary sources which were collected through structured questionnaires; it was delivered to six selected departments which were directly related to credit processing at Head Office and Addis Ababa districts and branches in Addis Ababa city under Addis Ababa districts. This is done because loan sanction limit and loan portfolio greater than the rest of districts and branches as well as the people to be comprised are expected to give good ideas about the credit management practices of the DBE.

3.4. Population

The population of this study were employees in the loaning units who are directly involved in credit processing and administering. This includes Customer Relationship Management directorates, Project Appraisal directorate, Risk and Compliance directorate, Project Rehabilitation and Loan Recovery (PRLR), Portfolio and Evaluation management directorate, loan review team. Also the position of each departments are District Managers , Branch managers, Team managers, Senior Loan officers, Loan officers, and Loan approval Committee members of DBE found at corporate level, districts in and branches under Addis Ababa districts in Addis Ababa city are included in the target population. As per human resource information the target populations were Head office under the selected departments 224 and Addis Ababa district and including Addis Ababa area branches which are north, south, east and west branches 80 employees .Thus, the total target population were 304 employees.

3.5. Sample Size and Techniques

Determining an appropriate sample size is a very important issue in such a research because samples that are too large waste resources, while too small samples may lead to inaccurate conclusion. Besides, there are several approaches to determine the required sample size of the study population. For this Study, size of sample by using by Yemane (1967) sample size determination .The researcher were selected the total population 304 and use 5% level of precision (95% of confidence).

Stratified sampling technique was used to select from each departments under loan processing units at Head office which were (Customer Relationship Management directorates, Project Appraisal directorate, Risk and Compliance management directorate, Project Rehabilitation and Loan Recovery (PRLR), Portfolio and Evaluation management directorate, loan review team). Accordingly, a total of 224 employees selected and also District and Branches at Addis Ababa city total of 80 employees. Moreover, simple random sampling was used to distribute individual respondents starting from loan officers to Directors at Head Office and Addis Ababa district and Branches under Addis Ababa city. The formula given as,

$$n = \frac{N}{1 + N(e)^2}$$

Whereas:

n = is the sample size,

N = is the population size, and

e= is the level of precision.

Therefore, the simplified formula to calculate the sample size used for this particular study was:

$$n = \frac{304}{1 + 304(0.05^2)} = 172.7 \approx 173$$

Table 3.1 Sampling Distribution

No.	Sample sites	Population	Sampling	Sample from each site
1.	Head office	224	$\frac{224}{304} * 173$	127
2.	East Addis Ababa district	18	$\frac{18}{304} * 173$	10
3.	West Addis Ababa district	15	$\frac{15}{304} * 173$	8
4.	North Addis Ababa district	11	$\frac{11}{304} * 173$	7
5.	South Addis Ababa district	13	$\frac{13}{304} * 173$	8
6.	Addis Ababa district	23	$\frac{23}{304} * 173$	13
Total sample				**173**

Source: the Bank's Human Resource Department

Therefore, at Head office 127 and 46 Addis Ababa districts and under Addis Ababa city branches were distributed by using simple random sampling technique.

3.6. Instrument of Data Collection

For the purpose of this study, structured questionnaires were used to collect primary data. The questionnaire were distribute to directors, team managers, senior loan officers and loan officer working at corporate level; district managers, branch managers, senior loan officers and loan officers, working at districts and selected branches found in Addis Ababa city.

Moreover, the questionnaires were rated with five point Likert scale options.The questionnaires were contained close ended questions for employees, managers, and directors. The opportunity to the respondents to choose from answers while the open ended question allows the respondents to give their own answers based on mere personal judgement.

Beside, secondary data were not used for analysis purpose, but used as a reference material for instance collected from annual performance report of the bank from 2016 to 2020 revised credit policy and procedure of the bank,(2018). The structured questionnaire were adopted from different researchers which are Andualem (2019), Dainel (2019), Hable (2019) and Eskedare (2019), Development Bank Ethiopia loan manual (2014) and Basel committee supervision (2001).

3.7. Method of Data Analysis

The researcher basic information's were gathered on credit management practice through structured questionnaires. Moreover, quantitative data information obtained from structured questions closed ended questions in the questionnaire. The collected data was analyzed by using descriptive methods of analysis. Descriptive statistics helps the researcher to provide details of the various aspects regarding to the practice of credit management process. The study was used table & percentage distribution, frequencies, means and standard deviations were used by the help of Statistical Package for Social Science (SPSS) version 20 software.

3.8. Validity and Reliability

3.8.1. Validity of the instrument

Validity is the core of any form of assessment that is trustworthy, accurate and the appropriateness of the inferences made about the result of an assessment (Messick 1989). Validity involves collection of data and analyzing data to assess accuracy of instruments

(Mulyungi and Mpumwire, 2018) and for the purpose of this study, questionnaire related to the research questions of the study before administering the questionnaires procedurally comments were collected from the thesis advisor, peers and staffs at Development Bank of Ethiopia then were made pilot test assessment which were involved 10 participators from departments in relation to credit departments such as customer relationship management , project appraisal, risk and compliance. They comment on the contents of questionnaire and language error and then modified as per their comments.

3.8.2. Reliability of the Instrument

Reliability is about the consistency of a measure. The study will be used Cronbach's Alpha to measure internal reliability for tests with multiple possible answers. Internal reliability or consistency is a measure of how well the test is actually measuring what it wants to measure (Duffy & Kilbourne 2001). The reliability of the data is tested by Cronbach's alpha test. As per Ursachi et al. (2015), the generally accepted rule on the level of reliability of the instrument's internal consistency is needed to be more than 0.6 to 0.7. A reliability score of 0.60 and 0.70 or above is considered as the instrument has internal consistency. As can be seen in Table 4.2 the reliability of the instrument was tested by Cronbach's alpha test. The test statistics value for all individual credit management practice indicator variables and the overall test statistics value was greater than 0.6. As a result, the data used in this study were reliable and we can use it for analysis without biasedness.

Table 3.2: Reliability Test Statistics of the Instrument

Variables	N of items	Cronbach's Alpha
Due diligence practice	7	0.68
Project appraisal practice	6	0.63
Project approval practice	6	0.67
Credit risk management	10	0.71
Credit follow-up ,Review and loan collection practice	11	.69
Overall	40	0.75

CHAPTER FOUR

4. DATA ANALYSIS AND PRESENTATION

This chapter contained data presentation and analysis based on the specific research questions raised in the first chapter of this study. This part also incorporated the reliability and validity of the instrument. Primary sources of data were used where by distributing a questionnaire to employees of Development Bank of Ethiopia in different positions then the collected data were analyzed by Statistical Package for Social Science (SPSS) version 20 software using tables, percentages, frequency from the variables under investigation. ,the respondents were director, district manager, branch managers, team managers, senior loan officers, loan officers, and loan approval committee members under the DBE. Most of them work at corporate level, Addis Ababa districts and selected branches in Addis Ababa city under Addis Ababa districts. The respondents are expected to give good ideas about the credit management practices of the Development Bank of Ethiopia.

The first part of this chapter describes the demographic characteristics of participants educational background, experience, and current position while the second part presented results of respondents opinion on due diligence practice of the bank, project appraisal practice, project approval practices of the bank and existing credit follow up, review and loan collection practices.

4.1. Demographic Characteristics of Participants

4.1.1. Education Background of Participants

As depicted in Table 4.1 education level of employees in the Development Bank of Ethiopia those randomly selected and filled the questionnaire. From the total of 173 questionnaire it were returned 160 questionnaires so form this 160 respondents 90(56.3%) respondents are first degree holders followed by 70 (43.8) respondents were second degree holders and diploma holders didn't get in the loan processing department. From the educational background of respondents the researcher can point out that employees can understand the concept of credit management practices based on the bank's rules and regulations of loan. Moreover, this demonstrated that most of the bank employees were qualified professionals with technical knowledge and skills on the study problem thus provided the study with

reliable information. Moreover, respondents were capable of responding to the questions with good know-how.

Table 4.1: Education Level of Participants

Education background	Frequency	Percent	Valid Percent
First Degree	90	56.3	56.3
MA and Above	70	43.8	43.8
Total	160	100.0	100.0

Source: Researcher's survey result from the primary data source

4.1.1 Experience of Participants

In the table below table 4.2 the number of years that respondents are working for the bank was reported. As can be seen in table 4.3 from the total of 160 respondents the majority serves the bank from 6 to 10 with 51(31.9%) followed by the share of respondents who are working in the bank from 11 to 15 years comprising 50% or 31.3 respondents. Finally, 31 (19.4%) respondents work more than 15 years in the bank. Hence, with respects to qualifications the findings implied that most of the employees working in the credit departments well qualified about the practice of credit in the bank, this contributed the respondent can be given full information of the respective specific questionnaires.

Table 4.2: Experience of Participants

Year of Experience	Frequency	Percent	Valid Percent	Cumulative Percent
1-5 years	28	17.5	17.5	17.5
6-10 Years	51	31.9	31.9	49.4
11-15 Years	50	31.3	31.3	80.6
Above 15 Years	31	19.4	19.4	100.0
Total	160	100.0	100.0	

Source: Researcher's survey result from the primary data source

4.1.2. Current Position of Participants

Table 4.3: current position of Participants

Position	Frequency	Percent	Valid Percent
Officer	22	13.8	13.8
Senior Officer	112	70	70
Manger	18	10.6	10.6
Director	9	5.6	5.6
Total	160	100	100

Source: Researcher's survey result from primary data source

Employees working in the bank have different positions and job obligations. It indicated that the majority of respondents 112(70%) are senior officers, followed by officer 22(13.8%), manager 18 (10.6%), and director 9(5.6%) were randomly selected as respondents. Thus, the credit management practices the current position of the respondents are enough to understand the researcher questionnaires.

4.2. Due Diligence Practices

The table 4.4 indicated those participants' responses towards items of due diligence was found as follows:

Table 4.4: Participants Responses on Due Diligence Assessments

No	Due diligence	Strongly Agree		Agree		Neutral		Disagree		Strongly disagree	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
1	The bank has a clear procedures in conducting due diligence assessment	23	14.4	71	44	23	14.4	36	22.5	7	4.4
2	The bank has a well-organized system used to prevent money laundering activities of the applicants	8	5	30	19	40	25	65	40.6	17	10.6
3	Meeting tax obligation is a requirement that qualify the applicant for loan granting	57	35.6	64	40	11	6.9	25	15.6	3	1.9
4	The bank properly examine the legitimacy of the applicants to raise the required source of equity/capital before granting loan	29	18.1	78	49	29	18.1	24	15		
5	The bank properly examine the ability of the applicants to raise the required source of equity/capital before granting loan	17	10.6	80	50	22	13.8	38	23.8	3	1.88
6	The bank strictly look at the applicants collateral coverage before granting loans	20	12.5	77	48	27	16.9	29	18.1	7	4.4
7	The bank check managerial competence of the loan applicants of key personnel before contractual agreement	16	10	49	31	31	19.4	48	30	16	10

Source: Researcher's survey result from primary data source

As indicated in the above table 4.4, the total participants majority of the respondents 71 (44.4%) and 23 (44.4%) agree and strongly agree respectively. While 23 (14.4%) of respondents' response was neutral. However, the remaining 36 (22.5%) and 7 (4.4%) of respondents disagree and strongly disagree respectively that the bank has no clear of procedure in the due diligence assessment this may be one of the contributing factors for the default loan or the loss that Development Bank of Ethiopia. In contrast, the majority (58.8%) of respondents reported their agreement on the clarity of procedure in the due diligence, and 14.4% remained neutral or they do not want to specify their disagreement or agreement on

the clarity of procedure in the due diligence assessment of the Bank. However, the finding indicates that 26.9% of the respondents still disagree with the clarity of procedure in the due diligence assessment of the Bank. The above data can imply that the bank needs to create awareness among its employees over the clarity of procedure in the due diligence assessment even though the majority of them agreed with it.

It can be seen in Table 4.4 above, the researcher asked respondents about the practice of preventing money laundering activities. The majority of respondents 65 (40.63%) and 17 (10.63%) disagree and strongly disagreed respectively that the bank has no organized system that prevent money laundering activities. While 40 (25%) of respondents hold a neutral position. And the remaining 8 (5%) respondents are strongly agreed. This implied that 51.26 % of the bank employees have no well-organized system to prevent system of money laundering activities. The 25% of the respondents do not want to specify their opinion and the minority 5% of the respondents seems to have a strong belief in the banks has well organized money-laundering prevention system. This can be an indication of the need for change or revisiting the money laundry activities check-up system in the bank.

For the well-functioning of the economy, individual and business firms have a responsibility to pay the tax timely and accurately. In the process of granting a loan to borrowers, the bank is expected to check whether the borrower pays tax to the government or not hence the bank to check directly if it is a defaulter. Similarly in respondents of this study were asked about whether tax obligation serves as a requirement to qualify an applicant for loan granting. As indicated table 4.5, 64 (40%) and 57 (35.6 %) respondents respectively agree and strongly agree that tax obligations serve as a requirement to qualify an applicant for loan granting in the bank. On the contrary, 25 (15.6%) and 3 (1.9%) of the respondents respectively disagree and strongly disagree that tax obligation did not serve as a requirement to qualify an applicant for loan granting in the bank. The remaining 11 (6.9%) respondents hold a neutral position over the question. Therefore, it appears that the majority 75% of the respondents stated that tax obligation serves as a requirement to qualify loan granting in bank.

As it can be seen in Table 4.4 , respondents were also asked about their perception of the bank’s practice in properly examining the legitimacy of the applicants to raise the required source of capital before the loan is granted. Accordingly, the majority 78 (48.75%) respondents agree and 29 (18.13%) strongly agree that the bank properly examines the legitimacy to raise the required source of capital before the loan is granted but 24 (15%)

respondents disagreed on the legitimacy evaluation of the applicants. while 29 (18.13%) respondents prefer to hold a neutral position on the question. The above paragraph confirms that 56.88 % of respondents hold a positive stance over their bank's process of examining the legitimacy of the applicants to raise the required source of equity capital before granting loan.

As it is shown in Table 4.4, respondents were asked whether their bank properly examine the ability of loan applicants in raising the required source of equity or capital before granting a loan. 80 (50%) of the respondents agreed and 17(10.63%) strongly agreed that bank properly scrutinizes the ability of loan applicants in raising the required source of equity or capital before loan granting. And 22 (13.75%) of the respondents choose to have a neutral response over the question but 38 (23.75%) and 3 (1.88%) of them disagree and strongly disagree with it or they believe that the bank did not properly examine the ability of loan applicants in raising the required source of equity or capital before granting a loan. It implied that most 60.63% of the respondents believed their bank properly examine the ability of loan applicants in raising the required source of equity or capital before granting a loan.

As indicated in Table 4.4, participants were asked how their bank strictly looks at the applicant's collateral coverage before granting loans. The majority of 77 (48.1%) and 20 (12.5%) respondents agree and strongly agree respectively that the bank strictly looks at the loan applicant's collateral coverage before granting loans. On contrary, 29 (18.13%) and 7 (4.38%) disagree and strongly disagree respectively as the bank has a loose approach in dealing with loan applicant's collateral coverage before granting loans, and 27 (16.8%) of the respondents remained neutral. One can also infer from this data that 60.6% of the respondents have an optimistic belief that their bank's bank strictly examination of loan applicant's collateral coverage before granting loans.

It can be seen in table 4.4, the participants were asked to rate whether the bank checks the managerial competence of the loan applicants of key personnel before the contractual agreement. Among the respondents 49 (30.63%) responded agree, 16 (10%) respondents strongly agree that bank checks managerial competence of the loan applicants but proportionally 16 (10%), and 48 (30%), disagree and strongly disagree that the bank did not check managerial competence of the loan applicants. The remaining 31 (19.38%) hold a neutral position. This shows that there is no clear separation to implied whether the bank checks the managerial competence of the loan applicants ahead of its contractual agreement because the data show a slight difference (0.63%) between those who agree and disagree with

the placement of a managerial competence check-up procedure on loan applicants in the bank.

4.3 Project Appraisal practice

Project appraisal is another indicator used to examine the credit management of the bank. To examine the project appraisal practice of the Development Bank of Ethiopia around seven questions and were prepared and distributed to respondents and their responses are discussed as follows.

Table 4.5: Participants' Responses Appraisal practice

No	Project Appraisal	Strongly Agree		Agree		Neutral		Disagree		Strongly disagree	
		FQ	%	FQ	%	FQ	%	FQ	%	FQ	%
1	The bank uses recent asset valuation report while appraising projects objectively and rationally	32	20	68	42.5	21	13.1	32	20	7	4.38
2	In the process of changing existing asset valuation method verification is made rationally	8	5	60	37.5	46	28.8	38	23.8	8	5
3	The bank organize appraisal process supported by recent project management software to determine the overall project activity			12	7.5	32	20	78	48.8	38	23.8
4	In the process of appraising the project implementation schedule set by considering the reality on the ground.	1	0.6	12	7.5	35	21.9	78	48.8	34	21.3
5	Loan appraisal standards and guidelines are adequate for appraisal process	10	6.3	44	27.5	17	10.6	75	46.9	14	8.8
6	The bank makes adequate appraisal techniques while appraising projects	9	5.6	58	36.3	19	11.9	65	40.6	9	5.6

Source: Researcher's survey result from primary data source where FQ=frequency

As can be seen in table 4.5 whether or not bank uses recent asset valuation report while appraising projects objectively and rationally majority 68 (42.5%) of respondents are agree followed by 32 (20%) answered as they are strongly agree about the valuation of an asset using recent reporting mechanisms. On the other hand 21 (13.13%) of respondents are neutral indicating they are abstained from giving any information on the asset valuation practice of the bank. However, 32 (20%) and 7 (4.38%) respondents disagree and strongly disagree respectively. From this, it can be observed that majority of participants were perceived that

the bank uses recent asset valuation report while appraising projects objectively and rationally. This helps to reduce loss that can be resulted from obsoleted assets collaterals.

According to table 4.5 respondent's response on the process of changing existing asset valuation method verification made rationally. As it is stated in Table 4.7, 60 (37.5 %) and 8 (5%) of respondents rated agree and strongly agree in changing the existing process of asset valuation method but 38 (23.8%) and 8 (5%) of respondents rated disagree and strongly disagree with changing the existing process of asset valuation method of the bank. The rest are 46 (28.8%) of respondents preferred to hold a neutral position over the issue. It shows that 42.5% of the respondents preferred to change the existing process of asset valuation method of the bank.

As it is reported in the above table 4.5, when respondent replayed the question of whether the bank's appraisal process is supported by recent project management software or not. 78 (48.8 %) and 38 (23.8%) of the respondents disagree and strongly disagree that the bank did not organize an appraisal process which is supported by recent project management software to determine the overall project activity but only 12 (7.5%) of the respondents agree that a bank has employed recent project management software for the appraisal process. The other 32 (20%) of respondents are answered as neutral. This indicated that a large majority (72.6%) of the respondents believe that the bank needs more recent project management software for its appraisal process .This shows how much the bank lags back to applying effective project feasibility identifier. According to Genet (2017) using recent software's has many advantages over traditional methods of reducing cost of project identification. The reason seems that there is a demand for advanced or recent software technology within the employees.

As can be seen table 4.5 in the appraisal process the project implementation schedule set by considering the reality on the ground. The majority of the respondents, 78(48.8%) and 35 (21.9%) are answered as they are disagree and strongly disagree respectively, from the total respondents 1 (0.6%) and 12 (7.5%) respondents are answered as they strongly agree and agree respectively. On the other hand while 35 (21.9%) respondents are neutral, they are not voluntary or they know nothing about the issue. It indicates that the majority (70.05%) of the respondents show their discontent over the bank's process of appraisal in considering the reality of the ground for a project implementation schedule.

As indicated in table 4.5, on the adequacy of the standards and guidelines for the project appraisal process. In this case the majority, 75(46.9%), of respondents answered as they are disagree, and 14(8.8%) strongly disagree about the adequacy of standards and guidelines that decision makers on the project appraisals in the bank uses. On the other hand, 10 (6.3%) respondents are neutral. Finally 10 (6.3%) and 44 (27.5%) of respondents are agree and strongly agree respectively. The overall response of participant's 89 respondents answered as they were disagreed and strongly disagree indicated that there are no adequate written standards and guidelines of project appraisal.

As can be seen in table 4.5, regarding loan appraisal practice of the bank is related to the adequacy of appraisal techniques when appraising a project. For this question the majority of, 65 (40.63%), respondents are answered as they are disagree and 9 (5.6%) disagrees. While 19 (11.9%) respondents are neutral and 9 (5.6%) strongly agrees and only 9 respondents are strongly disagreed. Adding the two extreme responses (strongly agree and agree) and (disagree and strongly disagree) were found that 67 (41.9) and 74 (46.3%) respectively (the rest were neutral). Thus, though considerable numbers of participants were perceived that the bank makes adequate appraisal techniques while appraising projects, majority of them were perceived that the appraisal techniques were inadequate. This shows how much the bank lags back to applying effective project feasibility identifier.

From the response of the respondents' among 6 project appraisal items for 4 items the majority of respondents are disagree. As a result, the researcher understand that through the bank uses recent asset valuation report when appraising projects, it does not use software for the overall project activity (performance like feasibility identifier software), there is no adequate guidelines for project appraisal, which confirms the existence of problems on project appraisal practice in the bank and In the process of appraising the project implementation schedule set by considering not considered the reality on the ground .Moreover ,there is no adequate appraisal techniques while appraising projects . This result is in line with Andualem (2019) and Genet (2017) study result.

4.4 Project Approval practice

From the loan approval practices, the six basic questions were prepared and distributed to respondents.

Table 4.6: Participants' Responses Approval practice

No	Approval	Strongly Agree		Agree		Neutral		Disagree		Strongly disagree	
		FQ	%	FQ	%	FQ	%	FQ	%	FQ	%
1	The bank has well organized standard policy for credit approval	21	13.1	49	30.6	40	25	23	14.4	27	16.9
2	The bank has a trend on visiting site before approving the loan	23	14.4	38	23.8	25	15.6	54	33.8	54	33.8
3	The evaluation process of approval is adequate to make appropriate decision	25	15.6	39	24.4	9	5.6	75	46.9	12	7.5
4	The bank credit approval process establish accountability to the decision makers	12	7.5	23	14.4	29	18.1	92	57.5	4	2.5
5	The bank approval teams have adequate professional to make sound credit decision	33	20.6	50	31.3	9	5.6	60	37.5	8	5
6	The approval committees are independent of Loan processing units	22	13.8	50	31.3	9	5.6	68	42.5	11	6.9

Source: Researcher's survey result from primary data source where FQ=frequency and %=percent

As can be seen in table 4.6, intended to know the rating of respondents on whether the bank has a well-organized standard policy for credit approval or not. As it is shown in Table 4.8, 49 (30.6%) of the respondents agree and 21 (13.1%) strongly agree that the bank has a well-organized standard policy for credit approval, and on the contrary, 27 (16.9%) and 23 (14.4%) of the respondents strongly disagree and disagree respectively with bank's organized standard policy for credit approval while 40(25%) of the respondents preferred neutral position. This implied that the majority of the respondents believed that the bank has a well-organized standard policy for credit approval processes.

According to table 4.6 respondents was the visiting trend of the projects before approving the loan. The majority, 54 (33.8%) respondents replied that disagree and disagree 20(12.5%), by the response of neutral comprising 25 (12.6%) of the total respondents. On the other hand, 23

(14.4%) and 38 (23.8%) agreed and strongly disagree respectively. This implied that the bank has no trend visiting the site before approving the loan. The findings showed that regular visits and documenting the status of the project at which the loan is provided was not performed regularly. However, in principle to avoid the lending institution should visit and evaluate the performance of the project (Brigham & Ehrhardt, 2002)

As indicated in table 4.6 shown that the adequacy of the evaluation process of approval is adequate to make appropriate decision. 75 (46.9%) and 12 (7.5%) of the respondents respectively disagree and strongly disagree with the adequateness of the bank's evaluation process to make the appropriate decision but 39 (24.4%) and 25 (15.6%) of the respondents respectively agree and strongly agree that as has bank has adequate of the evaluation process to make the appropriate decision. While 9 (5.6 %) of the respondents hold a neutral position. This implies that the respondents believed that the bank uses an inadequate evaluation process to make an appropriate decision.

As can be seen in table 4.6, concerning the bank credit approval process and the establishment of accountability to the decision-makers, 92 (57.5%) and 4 (2.5%) of the respondents respectively disagree and strongly disagree that there is no established accountability on decision-makers. But 23 (14.4%) and 12 (7.5%) of the respondents respectively agree and strongly agree that there is established accountability on decision-makers. In meanwhile 29 (18.1 %) of the respondents hold a neutral position. This shows that the majority of the respondents asserted as there is no established accountability on decision-makers.

Concerning the bank's loan approval team's professional quality, as can be seen in Table 4.6, 50 (31.3%) and 33 (20.6%) of the respondents respectively agree and strongly agree with the professional quality of the loan approval team in making a sound decision. On the other hand, 60 (37.5%), and 8 (5%) of the respondents respectively disagree and strongly disagree with the professional quality of the loan approval team in making a sound decision and 9 (5.6%) of the respondents remained neutral. This implies that even if a majority (51.9%) of the respondents has agreed on the professional quality of the loan approval team the 42% of the respondents has their doubts about the team's professional quality in making a sound decision.

According to the principles, the project approval committee and the loan processing unit should be independent. Hence, respondents were asked whether the loan approval committee is independent from the loan processing unit or not. As can be seen in table 4.6 shows, 68 (42.5%) and 11 (6.9%) of the respondents respectively disagree and strongly disagree that the loan approval committee is not independent of the loan processing unit. But while others 50 (31.3%) and 22 (13.8 %) of the respondents respectively agree and strongly agree that the loan approval committee is independent of the loan processing unit and 9 (5.6%) of the respondents rated neutral. This finding implies that most of the respondents believed that the loan approval committee is not independent or there is counter interference by or with the loan processing unit.

4.5 Credit Risk Management practice

To examine credit risk management of the Bank 10 questions were distributed to the respondents and their respective answers are discussed and presented as follows:

Table 4.7: Participants' Responses Credit Risk Management practice

No	Credit Risk Management	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
		FQ	%	FQ	%	FQ	%	FQ	%	FQ	%
1	Credit Policy of the bank supports credit risk management	17	10.6	83	51.9	36	22.5	20	12.5	4	2.5
2	The bank has a clear procedures and guideline in conducting credit risk management assessment	6	3.8	60	37.5	15	9.4	68	42.5	11	6.9
3	The bank always report risk status of the loan to the board of directors, top management for informed and timely decision making	18	11.3	73	45.6	23	14.4	33	20.6	13	8.1
4	In presenting new products and activities, the risk management process of the bank has experts with sufficient ability and experience in identifying risk.	20	12.5	28	17.5	31	19.4	70	43.8	11	6.9
5	The bank has developed credible credit auditing process that verifies/ confirms accuracy of credit rating.	22	13.8	35	21.9	15	9.4	78	48.8	10	6.3
6	The bank has integrated management of asset with credit risk exposure items	41	25.6	69	43.1	33	20.6	7	4.4	10	6.3
7	The bank conducts acceptable pre-credit assessment	10	6.3	82	51.3	48	30	16	10	4	2.5
8	The bank quickly responds to market changes in regarding loan sector wise	24	15	33	20.6	15	9.4	81	50.6	7	4.4

9	The bank periodically review loan portfolio policy	2	1.3	58	36.3	28	17.5	62	38.8	10	6.3
10	The bank periodically prepares credit quality reports for signaling loan default in any portfolio	13	8.1	80	50	33	20.6	29	18.1	5	3.1

Source: Researcher's survey result from primary data source where FQ=frequency and %=percent

As indicated in table 4.7 concentrates on of credit policy to support the credit management in the bank. On this table 3 (51.9%) respondents are strongly agree and 17 (10.6%) are strongly agree about the effectiveness of the credit policy. A total of 20 (12.5%) of respondents are disagree and 4(2.5%) are strongly disagree. Finally 36 (22.5%) are neutral. As per the response of the respondent's majority of the respondents seem to have confidence or positive regard over the policy of the bank on its role to reduce risk and support the credit management.

As can be shown in table 4.7 whether the bank has clear procedures and guidelines in conducting credit risk management assessment. In this regard the majority of the respondents, 68 (42.5%), are disagree and 11 (6.9%) of respondents are strongly disagree. This indicates that the procedures that credit analyst follow are not standardized and there may be misbehave or corruption. That means the respondents of the project will receive a corruption or act based on their relatives and will report wrong financial, economic and technical performance of the project in which the bank granted loan. On the other hand, 15 (9.4%) are answered as they are neutral and 60(37.5%) of respondents are agree and 6 (3.8%) are strongly agree. This can be interpreted as, according to respondents of the survey did not believe in the clarity and efficiency of the existing procedures and guidelines in conducting credit risk management assessment in the bank.

As it can be seen in table 4.7 focuses on whether the bank regularly report the risk status of the loan to the board of directors, top management for informed and decision makers. The majority of respondents, 73 (45.6%), are agree and 18 (11.3%) respondents who answered as they are strongly agree, remaining are neutral 23(14.4%). This confirms 91 respondents are believe the risk status of the loan reports are informed to board of directors, top management for informed and decision makers. It implied that majority of the respondents have a belief in the bank that because it always reports its loan risk status to its higher management bodies and this could enable the bank to come up with a timely risk control mechanism when it encounters credit risks.

As indicated table 4.7 whether bank has experts with sufficient ability and experience in identifying risk when it presenting new products and activities. Accordingly, majority of respondents are disagree 70(43.8%) and 11 (6.9%) strongly disagree. On the other hand, 31 (19.4%) of respondents are neutral and 28(17.5%) of respondents are agree. Abdelrahim (2013) studied the effectiveness of credit risk management of Saudi banks in the light of global financial crises. The study uncovered that weak corporate governance, low quality of assets, little credit diversification, not conducting serious financial analysis, not charging risk premium on risky loans, corruption of credit officers, Priority of profitability at expense of safety and priority of loan guarantees at the expense of capacity of repayment had impacted the effectiveness of credit risk management of the Saudi banks. This indicates that most workers or respondents did not have full confidence over the ability and experience bank experts in dealing with new products or activities in identifying credit risk.

According to table 4.7 concentrates on whether the bank has credible credit auditing process which confirms the accuracy of credit rating. The highest number of respondents, 78 (48.8%) are disagree and 10 (6.3%) of respondents are disagreed and the remaining 15 (9.4%) respondents answer as they are neutral and respondents who answer as strongly agree and 22 (13.8%) and 35(21.9%) respondents are strongly agree and agree respectively on the credibility of the credit auditing process. Overall, 88 respondents were answered disagree, so there is a problem on the credibility of auditing process. This implied that the majority of the participants believed that the bank has a loose credit auditing process that confirmed the accuracy of credit rating.

According to table 4.7 focused on the bank has integrated management of assets with credit risk exposure teams. For this question the majority of respondents were answered 41(25.6%) and 69 (43.1%) of respondents are strongly agree and agree respectively. However 40 (30%) respondents disagreed. On the other hand, 33(20.6%) respondents were answered neutral a. Overall, 110 respondents are strongly agree and agree This means that majority of the respondents alleged there is integrated management of assets with credit risk exposure items which are agriculture ,industry and agro-processing .

As it is shown in Table 4.7 below, presented about bank's activity on acceptable pre-credit assessment, majority of the respondents were answered agree and strongly agree 82 (51.25%) and 10 (6.3%) respectively and 48 (30%) of respondents rated neutral. On the other hand, 16

(10%) respondents were answered as they disagree and 4 (2.5%) respondents answered as they are strongly disagreed that the bank did not conduct an acceptable pre-credit assessment. Therefore, it seems that the bank has a trend of conducting an acceptable pre-credit assessment.

According to table 4.7 about the bank's quick response to the market related to loan sector wise. The majority of 81 (50.6%) respondent, disagree and 7(4.4%) strongly disagree. On the other hand, 15(9.4%), 24(15%), 33(20.3) are neutral, strongly agree and agree respectively. Based on the answer of the respondents, the researcher understands that the response of the bank when market change requires immediate response to business sector not react quickly.

As it can be shown in table 4.7 respondents asked is the periodical review of loan portfolio policy. Showed that majority 62 (38.8%) of respondents answered disagree and 10 (6.3%) of respondents are strongly disagree. On the other hand, 58 (36.3%), 28 (17.5%), and 2 (1.3%) of respondents were answered agree, neutral and strongly agree respectively. This implied that the bank didn't periodicals review of loan portfolios policy.

As can be seen in table 4.7, follow-up default loans whether the bank prepares credit quality reports for signaling loan default in any portfolio. The highest number of the respondents were responded that agreed where 80(50%) and 13(8.1%) strongly agree on the reports on credit quality and default loan identification. On the other hand, 33(20.6%) of the respondents are neutral. 29(18.1%) and 5 (3.1%) disagree and strongly disagree. The responses rates showed that majority of participants' were believed that the bank periodically prepares credit quality reports for signaling loan default. This might help to consider timely for issues that need correction and adjustments for effective credit management practice.

Regarding the credit risk management practices were 10 items among these for 6 items the majority of responses were agreed and for the remaining 4 items the majority of the respondents were disagree. Thus, in the bank though there is no quick response to market change the bank periodically review sector wise loan, not periodically review loan portfolio policy, there is no clear procedures and guidelines for credit risk management and the bank has not developed credible credit auditing process that verifies or confirms accuracy of credit rating .This result is contrary to the result of the study conducted by Hable (2018).

4.6 Credit follow up, Reviewing and Loan Collection practice

To assess the credit follow-up, review, and loan collection practice of the Development Bank of Ethiopia the researcher asked the respondent's eleven questions.

Table 4.8: Participant's Responses Credit follow up and Reviewing, and Loan collection practices

No	Statement	Strongly Agree		Agree		Neutral		Disagree		Strongly disagree	
		FQ.	%	FQ.	%	FQ	%	FQ	%	FQ	%
1	The bank conduct project follow up and monitoring at each stage (commissioning, implementation, & operation) to realize the status of the project actively	19	11.9	87	54.4	15	9.4	26	16.3	13	8.1
2	The bank Executive management conducts supervision in order to pass relevant decision at each stage of project cycle depending on the follow up report.	4	2.5	34	21.3	26	16.3	69	43.1	27	16.9
3	The follow up reports are prepared using relevant data and it indicates the true image of the project.	3	1.9	43	26.9	27	16.9	70	43.8	17	10.6
4	The bank has employed trained experts to supervise distress projects frequently	12	7.5	36	22.5	18	113	85	53.13	9	5.6
5	On site supervisions are conducted regularly and the exertion is productive	2	1.3	36	22.5	21	13.1	79	52.5	21	13.1
6	Offsite supervisions are conducted regularly and the exertion is productive	7	4.4	24	15	24	15	84	52.5	21	13.1
7	The bank conducts acceptable post-credit assessment	12	7.5	45	28.1	15	9.4	64	40	24	15
8	The loan review practice address all or majority of loans	10	6.3	46	28.8	17	10.6	64	40	23	14.4
9	The bank have the experience to make regular reviews related with collection policies to improve state of credit management	8	5.0	21	13.1	26	16.3	86	53.75	19	11.9
10	The bank has a trained credit analyst's to enforce borrowers to pay their debt	21	13.1	28	17.5	23	14.4	67	41.9	21	13.1
11	The bank has used effective credit collection technique	2	1.3	14	8.8	30	18.8	94	58.8	20	12.5

Source: Researcher's survey result from primary data source where FQ=frequency and %=percent

As can be seen in the above table 4.8, respondents were asked whether the bank conducts project follow-up and monitoring commissioning, implementation, and operation stages to realize the status of the project actively. With this regard 87 (54.4%) of respondents agree and 19 (11.9%) strongly agree that the bank conducts project follow-up and monitoring at every stage. But 26 (16.3%) disagree and 13 (8.1%) of them strongly disagree with the proper

follow-up and monitoring of the stage at every stage. The remaining 15 (9.4%) of the respondents neither agree nor disagree. This shows that the bank has a trend to conduct a project follow-up and monitoring at each stage project actively.

According to table 4.8 with regard to the bank executive management conducts supervision to pass relevant decision at every stage of the project cycle as per the follow-up report and 69 (43.1%) and 27 (16.9%) of respondents disagree and strongly disagree respectively that the executive management did not conduct supervision to pass relevant decision. From respondents 34 (21.3 %) agree, 3(10%) strongly agree, 4 (2.5%) and 26 (16.3%) rated neutral. This implied that the bank's executive management did not engage in supervision to pass relevant decisions based on at every stage of the project cycle as per the follow-up report.

According to table 4.8, is focused on whether the reports are prepared using relevant data and it indicates the true image of the project performance. On this question the respondents' perception is discussed as follows. For instance, 70 (43.75%), respondents are answered disagree options and 43 (26.88%) are agree about the reports are prepared on relevant data. On the other hand, 27 (16.88%), are neutral on the issue. Finally, 3 (1.88%) and 17 (10.63%) are chose strongly agree and strongly disagree respectively. This indicates that follow-up reports of the bank are not prepared using relevant data and they did not show the true image of the project in place.

As can be seen in Table 4.8., 85 (53.1%) disagree and 9 (5.6%) strongly disagree that the bank has not employed trained experts to supervise the distress projects. In meanwhile, 36 (22.5%) and 12 (7.5%) of the respondents agree and strongly agree respectively trust the capability of the bank experts to supervise the distress projects. While 18 (11.25%) of the respondents hold a neutral position. This implied that the bank has a problem of trained experts to supervise distress projects.

As can be seen in table 4.8 the respondents, the bank's onsite supervisions conducted regularly and exertion is productive or not. The highest number of respondents, 79 (52.5%) respondents disagree and 21(13.1) others strongly disagree that the bank has no regular supervision and it is not productive as such. While 36 (22.5%) of the respondents agree and only 2 (1.25%) respondents are strongly agreed that the bank has regular supervision. But 21 (13.1%) of the respondents rated neutral .This can confirm that the onsite supervision is not conducted on a regular basis and it is not influential or productive. The absence of regular or

minimal site supervision could influence the decision-making process. The same is true off site super vision is not conducted regularly and exertion was not productive.

According to table 4.8 asked the respondents whether the bank conducts acceptable post-credit assessment or not.Accordingly, 64 (40%) of the respondents disagree and 24 (15%) of the respondents strongly disagree agreed that did not conduct an acceptable post-credit assessment. On the other hand, 45 (28.13%) of the respondents agree and 12 (7.5%) of the respondents strongly agree that the bank conducts a post-credit assessment and it is also acceptable. And the remaining 15 (9.4%) rated neutral. This can inform us that the bank is not conducting an acceptable post-credit assessment and it may make a serious problem in the credit management of the bank.

As presented in table 4.8., the ratings of the respondents to what extent the loan review addresses majority loans and 64 (40%) and 23 (14.4%) of the respondents strongly disagree and disagree respectively and they believed that the bank's loan review practice did not address all or majority of loans. But in contrary, 40 (64%) and 10 (6.3%) of the respondents agree and strongly agree respectively that bank a loan review practice address all or majority of loans, and the remaining 17(10.6%) of the respondents rated neutral to the above statement. This can inform us that the bank's loan review practice did not address the majority of loans and it may cause a problem in making the best mechanism for credit risk management.

According to table 4.8, respondents were asked whether the bank has the experience to make regular reviews related to the collection of policies to improve the state of credit management. With this regard, 86 (53.75%) of respondents disagree, 19 (11.88%), and strongly disagree that the bank has no regular review over the collection of policies. Nonetheless, 21 (13.13%) agree, and the rest 8 (5.0%) of them strongly disagree with the bank's regular reviews related to the collection of policies to improve the state of credit management and 10(33%) of the respondents rated neither agree nor disagree. This can inform us that the bank has no regular trend to review the collection of policies to improve the state of credit management.

As can be seen Table 4.8 shows the perception of the respondents whether the bank has a trained credit analyst who enforces borrowers to pay their debt or not. Accordingly, 67 (41.9%) of the respondents disagree and 21 (13.1%) of the respondents strongly disagreed

that the bank has no trained or experienced credit analysts who can enforce borrowers to pay their debt. But 28 (17.5%) and 21 (13.1%) of the respondents agree and strongly agree respectively that bank has experienced or a trained credit analyst who enforce borrowers to pay their debt or not and the remaining 23 (14.4%) of the respondents rated neutral to the above statement. This can confirm that the bank has no trained or experienced credit analysts to enforcing borrowers to pay their debt and this may cause credit risk on the bank.

As indicated table 4.8., 94 (58.8%) of respondents disagrees and 20 (12.5%) disagree and believe that the bank is using ineffective credit collection technique. But 14 (8.8%) of respondents agree and 2 (1.3%) strongly disagree that bank has effective credit collection technique and 30 (18.8%) of the respondents rated neutral. This implied that the bank's credit collection technique is found to be ineffective and this may lead to credit risk.

4.7 Summary of Descriptive Statistics of Variables

The average, minimum and maximum values are summarized from each questions response of respondents for each credit management practices. From 7 items due diligence has a mean value of 3.49 and standard deviation of .619. This indicates that on average the respondents answer on due diligence practice of the banks were agreed and as compared to other credit management practice indicators there is higher variation in the response. The other variable used in this study is project appraisal practice which has a mean value 2.77 this implied that poor project appraisal practices with the standard deviation of 0.606 with minimum and maximum of 4.5. Moreover, the mean values of project approval, and credit follow up ,review and loan collection practice are 2.98 and 2.65 respectively these implied that poor performance of approval and Credit loan follow up, review and collection practices .Moreover, credit risk management has a mean value of 3.19 with minimum and maximum of 1.4 and 4.7 respectively.

Table 4.9: Summary statistics of variables

	N	Minimum	Maximum	Mean	Std. Deviation
AAPROV(project Approval)	160	1.33	5.00	2.9844	.76223
CFULCP(follow up ,review and cash collection)	160	1.73	5.00	2.6557	.54368
CRM(credit risk management)	160	1.40	4.70	3.1956	.57269
DDP(due diligence assessment)	160	1.71	5.00	3.4973	.61908
PAPRA(project Appraisal)	160	1.33	4.50	2.7792	.60644

Source: Researcher's survey result from primary data source

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary of Findings

The main intention of the research was to assess the credit management practice of the Development Bank of Ethiopia. To achieve this descriptive method of analysis was used by dealing with primary data collected through a questionnaire. The collected data includes basic demographic information of respondents, due diligence, project appraisal, project approval, credit risk management, and credit follow-up, reviewing, and loan collection practice of the bank.

To examine due diligence practice in the DBE seven questions were administered. Hereafter we will see the abridged summary.

- It was found that the majority (58.8%) of respondents reported that DBE has a clear procedure for its due diligence.
- The study also revealed that 51.26 % of the respondents do not have well organized system to prevent money of the bank.
- The study also disclosed that the majority (75.6%) of the respondents asserted DBE checks tax obligation as a requirement to qualify an applicant for loan granting.
- The study also found that the majority (56.88%) of respondents have positive regard for DBE's process of legitimacy of the applicant to raise source of equity checkup on its loan applicants prior to loan granting.
- The study indicated that the majority (60.63%) of the respondents believed that DBE properly examines the ability of loan applicants in raising the required source of equity or capital before granting a loan.
- Concerning the restrictive nature of loan applicant's collateral coverage examination, the study indicated that the majority (60.6%) of the respondents believed DBE has strict examination check up on collateral coverage before granting loans.
- With regard to what extent the bank (DBE) checks the managerial competence of the loan applicants before the contractual agreement, the study indicated that a

considerable 40.63% of the respondents believed that the bank checks the managerial competence of the loan applicants but the other 40% of the respondents of did not agree with it. So that the study indicated that there is a still slight split over (0.63%) the bank's managerial competence checks on its loan applicants.

From the above points, we can comprehend that DBE has a clear procedure on its due diligence, borrower's tax payment check as a requirement to qualify loan, legitimacy checkup on loan applicants, and the ability examination of loan applicants in raising the required source of equity or capital before granting a loan. However, DBE seems to have not well organized money-laundering prevention system for its loan applicants. In meanwhile, no assertion was found on the bank's procedure to check the managerial competence of the loan applicants.

The second phase was opted to examine the project appraisal process of the DBE. Six questions were administered and a summary will be presented as follows.

- The study revealed that majority (62%) of the respondents' have positive regard for DBE's use of recent asset valuation report to appraising projects.
- It was found out that a considerable portion (42.5%) of the respondent's preferred to change the existing process of asset valuation method of the bank.
- The study also discovered that the majority (72.6%) of the respondents believe that the bank appraisal process is not supported by recent project management software and it seems that the employees of DBE need more advanced or recent project management software.
- With regarded to how the during the process of appraisal considers the reality on the ground concerning project implementation, the majority (70.05%) of the respondents believed that the DBE's process of appraisal did not consider the reality of the ground for a project implementation schedule.
- The study also disclosed that the majority (55.5%) of the respondents believed loan appraisal standards and guidelines of the DBE's inadequate.
- It was found out that a considerable portion (46.2%) of the respondents believed that DBE has inadequate appraisal techniques to appraise projects.

Project appraisal is another indicator to examine the credit management practices of the bank. This particular study found that in the project appraisal process of DBE, the employees

disclosed there is gab on project management software, loan appraisal standards and guidelines, and in the adequateness of the bank's appraisal techniques about the appraisal process. They also asserted that of appraisal often fail to consider the reality of the ground for a project implementation schedule but they seem to have positive regard on bank's use of recent asset valuation report to appraise projects.

The third phase was intended to examine the project approval practice of the DBE. Six questions were administered and the finding of the summary will be presented below.

- The study identifies that a considerable majority (43.7%) of the respondents believed that the DBE has a well-organized standard policy for credit approval.
- It was found out that 67.6% of the respondents asserted that there is no trend of visiting the site before loan approval.
- As the study revealed majority (54.4%) of the respondents assumed that the evaluation process is inadequate to make an appropriate decision on the approval.
- The study also showed that the majority (60 %) of the respondents supposed DBE's credit approval process did not establish accountability on decision-makers.
- The study disclosed that 51.9% of the respondents have trusted DBE's loan approval team's adequate professional competency to make a sound credit decision.
- With regard to the approval committee's independence from the loan processing units, the study found out that a large (49.4%) portion of the respondents believed that the loan approval committee is not independent of the loan processing unit.

In the processes of project approval practice of the DBE, there is a problem of having a regular trend of visiting project site before loan approval, the inadequateness of evaluation processes to make an appropriate decision on the loan approval, the absence of accountability on decision-makers, and the presence of counter interference between loan approval committee and the loan processing unit. Nevertheless, the DBE has a well-organized standard policy for credit approval processes.

The fourth phase is intended to examine credit risk management under DBE. Ten questions were administered and the finding of the summary will be presented below.

- The study revealed that 62.5% of the respondents stated as the credit policy of the DBE supports credit risk management.

- As per the result considerable majority (49.4%) of the respondents asserted that DBE has no clear procedures and guidelines to conduct credit risk management assessment.
- Concerning the trend of reporting loan risk status to the top governing or management bodies for a timely decision, 56.9% of the respondents asserted DBE regularly report the risk status of the loan to the board of directors, top management for informed decision makers.
- The study also found out that 50.7% of the respondents did not fully trust the risk management ability and experience DBE employees in dealing with new products and activities.
- It was also found out that 55.1% of the respondents believed that DBEs have a loose-credit auditing process and it also lacks to confirm the accuracy of credit rating.
- The study showed that 68.7 % of the respondents believed that DBE has integrated management of assets with credit risk exposure items.
- The study disclosed that 57.55% of the respondents confirmed that bank has a trend of conducting an acceptable pre-credit assessment.
- Concerning to quick response of the bank to the market-related to the loan sector-wise, 55% of respondents implied that DBE is slow or non-responsive for its loan applicants and customers during the time of market change.
- With regard to periodically reviewing the bank's loan portfolio policy, 45.1% of the respondents indicated that DBE didn't have a periodical review of its loan portfolio policy.
- The study also showed that 58.1% of the respondents believed that DBE periodically prepares its credit quality reports for signalling loan default in any portfolio.

In this section, the credit risk management practices of the DBE. Even if the bank has a credit policy that supports credit risk management but its procedures and guidelines did not provide clear instruction for the employees to conduct credit risk management assessments properly. When it comes to the employees there is a problem with their sufficient ability and experience of experts in identifying risk when it needs new product activities. The bank also has a loose credit auditing process in it confirming the accuracy of credit rating, the working system of the bank is slow or non-responsive for loan applicants and customers during the time of market change, the bank did not periodically revise its loan portfolio policy. But then, the bank tends to report its loan risk status to board of directors, top management for informed decision makers, it also has integrated management of assets with credit risk

exposure items and it periodically prepares its credit quality reports for signaling loan default in any portfolio.

The final is intended to examine credit follow up, reviewing, and loan collection practice of DBE. Eleven questions were administered and the finding of the summary will be presented below.

- The study revealed that that 66.3 % of the respondents believed that DBE has a trend of conducting a project follow-up and monitoring at each stage project actively.
- Concerning bank executive management engagement in supervision to make relevant decision, majority (60%) of the respondents that bank's executive management did not engage in supervision to pass relevant decisions based on the follow-up report.
- It was also found out that 53.7 % of the respondents stated that the follow up reports were prepared without using relevant data and the reports may not show true image the projects.

- The study revealed that 58.7% of the respondents asserted the DBE a problem of trained experts to supervise distress of projects
- As the study revealed majority (65.8%) of the respondents confirmed that there is an absence of regular or minimal site supervision to influence the decision-making process.
- As per the study 55% of the respondents affirm that DBE did not conduct an acceptable post-credit assessment and it may induce a serious problem in the credit management of the bank.
- In line with the finding 55.4% of the respondents believed that inform us that the bank's loan review practice did not address the majority of loans.
- The study indicated that the majority (65.63%) of the respondents believed that DBE that the bank has no regular trend to review the collection of policies to improve the state of credit management.
- As per the finding 55% of the respondents believed that DBE confirms that the bank has no trained or experienced credit analysts to enforce borrowers to pay their debt and this may cause credit risk on the bank.

- Concerning the bank's use of effective credit collection technique, 71.3% of the respondents asserted DBE credit collection technique is found to be ineffective and this may lead to credit risk.

Concerning credit follow up, reviewing, and loan collection practice of DBE, the bank's executive management did not engage in supervision, lack of relevant quality on follow-up reports, lack of trained experts to supervisors and credit analysts, insufficient post-credit assessment, lack of wide loan review practice and collection of policies, and the use of ineffective credit collection technique found to be one of the major problems. However, DBE has a trend of conducting a project follow-up and monitoring at each stage project actively.

5.2. Conclusions

To assess the credit management practice of DBE. These are due diligence practice, project appraisal, project approval, credit risk management, and credit follow-up, and loan collection process. Based on the data analysis and major findings of the study, the following specific conclusions have been drawn:

- About the due diligence practice of the DBE, the bank has a clear procedure for its due diligence. Besides the bank uses tax obligation as a basic requirement to grant loan its loan applicants. The bank also properly examines the legitimacy check up and the ability of loan applicants in raising the required source of equity or capital before granting a loan. However, the bank has not have well-organized system used to prevent money laundering activities of the applicants. Based on the summery of descriptive statics 3.49 which means the overall due diligence practice was good.
- Concerning the project appraisal aspects of DBE, this particular study concluded that the bank's project appraisal system is not supported by a latest project management software technology to determine the overall project activity and loan appraisal standards and guidelines seem to be inadequate for loan appraisal. Similarly, the bank's appraisal techniques were found to be inadequate to appraise projects and the appraisal process fails to consider the reality on the ground for project implementation. However, DBE uses recent asset valuation reports to appraise projects objectively and rationally. Based on the summery of descriptive statistics the mean was 2.77 which means the overall appraisal practice is inadequate.

- The study revealed that processes of project approval practice under DBE do not have a trend to conduct a visit on project sites before of loan approval, the evaluation process of approval was found to be adequate to make an appropriate decision on the loan approval. There is also the absence of accountability on decision-makers, and there is a presence of counter interference between the loan approval committee and the loan processing unit. Nevertheless, the DBE has a well-organized standard policy for credit approval processes. Moreover, based on the summery of descriptive statistics the mean was 2.98 which means the overall approval practice was not good.
- Under the credit risk management practice of the DBE, the bank has a credit policy that supports credit risk management but its procedures and guidelines did not provide clear instruction for the employees to conduct credit risk management assessment properly. Employees' risk management ability and experience in dealing with new products and activities were found to be insufficient and the bank also has an auditing process that does not seem to confirm credit rating accuracy. The working system of the bank was found to be non-responsive for loan applicants and customers during the time of market change and the bank did not periodically revise its loan portfolio policy. Nevertheless, the bank trends to report its loan risk status to the top governing or management bodies. In addition, the bank has integrated management of assets with credit risk exposure items and it periodically prepares its credit quality reports.
- Relating to credit follow up, reviewing, and loan collection practice of DBE, the executive management fail engages in supervision in order to pass relevant decisions, lack quality on follow-up reports, lack of trained expert supervisors and credit analysts, insufficient post-credit assessment, lack of wide loan review practice and collection of policies, and the use of ineffective credit collection technique found to be one of the major problems. However, DBE has a trend of conducting a project follow-up and monitoring at each stage project actively. Based on the summery of descriptive statics the mean is 2.6 which means the overall credit follow up, review, and collection practices inadequate.

5.3. Recommendations

Based on the findings and the conclusions drawn on the previous sections, the following recommendations are forwarded:

- Nowadays the banking system is applying technology-lead systems to manage the pertinent issues including project management tasks. Therefore, DBE should work on improving its technological infrastructure by applying latest project management software technology to effectively utilize its project appraisal system and to become more competent.
- The findings showed that the standards and guidelines used in the process of loan appraisal and the techniques employed were not adequate enough. As a result, the bank should prepare the specific guidelines and procedure follow it for the appraisal and credit risk management. Moreover, there is a problem in visiting the project site by approval team before the approval of the loan. Thus, the bank should form visiting committee and follow them whether they are performing their responsibilities based on the rules and regulations of the bank. There is also doubt on the independent of loan processing unit. Therefore, the bank should make loan processing approval units free from other loan process unit. DBE is also highly recommended to upgrade its credit evaluation process to facilitate decision on the loan approval. Besides, there was no clearly stated accountability of the activities performed in the approval team as a result the bank should formulate polices and regulation that makes approval unit responsible .Periodical revision of loan portfolio policy is pivotal issue in banking sector so that DBE should revisit loan portfolio policy periodically.
- As the finding indicates one of the credit management problems is lack of credible credit auditing process which confirms the accuracy of the credit rating. Thus, the bank should employ professional auditors. Emplace acceptable post-credit assessment and conduct inclusive loan review practice to address the majority of loans. So the bank should focus on the financial health of the borrower; the severity of the consequences of a default (for borrower); the size of the credit extension; historical trends in default rates; and a variety of macroeconomic considerations.
- DBE needs to improve its well organized prevention of money laundry system, and DBE could reduce its credit risks by undertaking, capacitating its employees through education and experience sharing, conducting a pre and post visit to project sites, by enabling the loan approval committee to be more independent entity, by placing a tighter supervision on the follow-up and review, and collection practices.

References

Abdelrahim E.K (2013) studied the effectiveness of credit risk management of Saudi banks in the light of global financial crises, Asian Transactions on Basic and Applied Sciences (ATBAS ISSN: 2221-4291) Volume 03 Issue 02.

Abiola, I. and Olausi, A. S. (2014). The impact of credit risk management on the commercial banks performance in Nigeria. International Journal of Management and Sustainability. Vol. 3, No.5, pp. 295-306.

Addo Boye M.K.,(2015). Credit Risk Management in Financial Institutions: A Case Study of Ghana Commercial Bank Limited. Research Journal of Finance and Accounting ISSN 2222-1697 (Paper) ISSN 2222-2847 pp.67-85

Agu Osmud Chigozie, B. C. (2013). Credit Management and Bad Debts in Nigeria Commercial Banks- Implication for Development, ISOR Journal of Humanities and Social Science,(ISOR-JHSS) , Vol 12 Iss 3. PP 47-56

Agyeman, K. (1987), *Short term lending Policies, Journal of Chartered* institute of Bankers (Ghana), 2(1), 31-33

Ahiable, E. Y.(2012), an Assessment of Credit Management Practices at Agricultural Development Bank (ADB) Branches in the Eastern Region of Ghana. Common wealth Executive Master Business Adimenstration, (unpublished MBA thesis)Kwame Nkrumah University of Science and Technolgy,Ghana.

Alphonsus,C.A(2019). Critical Analysis of Credit Management in Nigeria Banks. *International Journal of Research and Innovation in Social Science (IJRISS) |Volume III, Issue II, SSN 2454-6186 pp.171-178*

Andualem, M.(2019) Assessment of Credit Management Practices; the case of Development Bank of Ethiopia. (unpublshed MA thesis) . St. Mary's University,Addis Ababa Ethiopia

Asante A.Y(2015), MA thesis, Assessing Credit Management Practices in Savings & Loans Companies: A Case Study of First Allied Savings & Loans Ltd,; Ghana

Basel committee supervision(2001).Customer due diligence for banks .

Berger and De Young. (1997). Problem Loans and Cost Efficiency in Commercial Banks. Journal of Banking and Finance, Vol. 21

Bielecki, T. (2000). Probabilistic aspect of default risk modeling. Research paper, Northeastern Illinois University. Technical University of Warsaw.

Boateng, G. (2004).Credit risk management in banks: The case of Scandinaviska Enskilda banking. (Unpublished Master"s thesis), University of Skovde, Stockholm

Bonaya,F.G (2013).Credit Management Practices and Financial Performance of Microfinance institutions in Nairobi .(unpublished thesis MBA thesis) ,University of Nairobi, keneya.

Brigham, E. F. and Ehrhardt, M. C. (2002). Financial management theory and practice (10th edition), Harcourt College Publishers

Daniel,T.(2019). Assessment of Credit Risk Management practice NIB international Bank. (Masters of Accounting And Finance thesis) St. Mary's University,Addis Ababa ,Ethiopia

Desai,V.(2009). "Bank Management", Journal, preferable economic growth: Himalaya Publishing House

Development Bank of Ethiopia (2014). Credit procedural manual of DBE, Addis Ababa, Ethiopia

Development Bank of Ethiopia (2018/19). Annual Performance report DBE, Addis Ababa, Ethiopia

Development Bank of Ethiopia(2019/20) .Internal non-Performing loans progress report. Addis Ababa, Ethiopia

Devid,B. (2015), Credit Risk Management Practices Among Rural and Community Banks (RCBS) in Ghana (case study; Sekyer Rural Bank) .(MBA thesis),Accounting and Finance, Kwame Nkrumah University of Science and Technology ,Ghana.

Edwards Burt (2004) *Credit Management Handbook.* 5thed. Great Britain by MPG Books Ltd.Bodmin,Cornwall

Esekedar, B.(2019). Assessment of Credit Management Practices a case of Wegagen Bank s.c. (MBA theisis). St. Mary's University, Addis Ababa, Ethiopia

Evelyn Mureithi (2014), the Effect of credit Management Techniques on the Financial Performance of Commercial Banks in Kenya(Master of science in finance, school of business, University of Nairobi, Kenya)

Fatima, A. O. (2013, August). An Analysis of Credit Management in the Banking Industry.Acase Study of First Bank of Nigeria Plc. ENUGU, pp.17-20.

Fekadu,2015. An assessment of credit appraisal and credit risk management practices of development finance institutions.MA thesis, Addis Ababa University

Felix Ayadi, O., Richard, E., Chijoriga, M., Kaijage, E., Peterson, C., & Bohman, H. (2008). Credit risk management system of a commercial bank in Tanzania, International Journal of Emerging Markets, 3(3), 323-332.

Ferguson, R. (2001). Credit risk management models and judgment. Speech, Federal Reserve Board.

Fredric O.Nyasaka.(2017), The relationship between Credit risk Management Practices and Non-Performing loans in Kenyan Commercial Banks: a case study of KCB Group Limited

Ganesan, V. (2000). Good credit culture to enhance confidence. Journal of Financial and Quantitative Analysis, Vol. 25, No.4 pp. 469-490.

Genet,B (2017). Credit Management Practice in Private Commercial Bank – A case Study of United Bank Share Company.(MBA thesis), St. Mary's University ,Addis Ababa ,Ethiopia

Golden and Walker (1993 P.385-398), Corporate governance in the financial Institutions; *Journal of Business Finance and Accounting, 16, 3*

Hable,A. (2018). Assessment of credit management practice United Bank S.c. (MBA thesis), Addis Ababa University, Addis Ababa ,Ethiopia.

Hagos, H. (2010). *Credit management; A Case study of Wegagen Bank Share Company in Tigray Region [Unpublished MA theisis].* Department of Accounting and Finance, College of Business and Economics, Mekelle University, Mekelle, Ethiopia.

Haron O. Moti, Masinde, J., S., Mugenda, N., G., & Sindani M., N.(2012). Effectiveness of Credit Management System on Loan Performance: Empirical Evidence from Micro Finance Sector in Kenya. International Journal of Business, Humanities and Technology, Vol. 2 No. 6.PP 99-108

Kaitibi,D. B., Ganawah,E. T. J., Yokie,M. A., Jalloh,M., & Koroma B. M. (2018). impact of Efficient Credit Management on Profitability of Commercial Banks in Sierra Leone. Open Journal of Business and Management, 139-150. doi:10.4236/ojbm.2018.61009

Kaitibi,D. B., Ganawah,E. T. J., Yokie,M. A., Jalloh,M., & Koroma B. M. (2018). Impact of Efficient Credit Management on Profitability of Commercial Banks in Sierra Leone. Open Journal of Business and Management, 139-150. doi:10.4236/ojbm.2018.61009

Kessey,K.D.,(2015)Assessing Credit Risk Management Practices in the Banking Industry of Ghana: Processes and Challenges Global Journal of Management and Business Research: C Finance Volume 15 Issue 6, Online ISSN: 2249-4588

Kibert.,(2019).Assessement of Credit management in the case of Development Bank of Ethiopia . (MBA thesis) , Addis Ababa University, Addis Ababa ,Ethiopia)

Kipkirui Edwin and Job Omagwa (2018).Credit management practices and financial performance of microfinance institutions in Nairobi central business district, Kenya,

Lalon,R.M.,(2015) Credit Risk Management (CRM) Practices in Commercial Banks of Bangladesh: "A Study on Basic Bank Ltd. International Journal of Economics, Finance and Management Sciences, 3(2): 78-90

Lawrence J Gitman (2009), Principles of Managerial Finance, 11th edition, United States, San Diego State University

Machiraju, H. R. (2004). Modern commercial banking. Vikas publication House PVT.

Makatjane,K. D., Molefe, E. K., & Wyk, R. B. (2018). The analysis of the 2008 US sinancial crisis: An Intervention approach. *Journal of Economics and Behavioral Studies* , 59-68.

Marid,H.(2020). An assessment on credit risk management practice in the case of lion international bank s.c [Unpublished MBA theisis]. St. Mary's University, Addis Ababa, Ethiopia

Masood, O., & Ashraf, M. (2012). Bank-specific and macroeconomic profitability determinants of Islamic banks: The case of different countries. Qualitative Research in Financial Markets, 4(2/3), 255-268

Messick, S. (1989). Meaning and values in test validation: The science and ethics of assessment. Educational researcher, 18(2), 5-11.

Mishkin, F. S. (2001). Managing risk in the funds management sector proceedings. Prudential regulatory authority, Australia.

Muigai,G.R& Maina,W.M.(2018). Effect of Credit Risk Management Practices on Performance of Commercial Banks in Kenya, *International Journal of Finance and Banking Research*. Vol. 4, No. 3, 2018, pp. 57-66. doi: 10.11648/j.ijfbr.20180403.12

Mulyungi ,P and Mpumwire B,(2018). International Journal of Research in Management, Economics and Commerce, ISSN 2250-057X, Impact Factor: 6.384, Volume 08 Issue 05, May 2018, Page 194-211

Myers, C. & Brealey, R. (2013). Principles of Corporate Finance. New York: McGraw-Hill

Nath, S. R. (2013). Internship Report on Credit Management of Mercantile Bank Limited. *Journal of Bank Management and Financial Service*

Njenga, B. (2014). The effects of credit management practice on loan performance in deposit taking micro finance in Keneya .(unpublished Master of Business Administration thesis), university of Nairobi

Nsiah-Agyeman (2010). Assessment of the credit risk management practices of Kakum Rural Bank Limited, (Unpublished Master‟s Thesis). University of Cape Coast, Ghana

Nsiah-Agyeman (2010). Assessment of the credit risk management practices of Kakum Rural Bank Limited, (Unpublished Master‟s Thesis). University of Cape Coast, Ghana

Nyasaka,O.F.(2017), The relationship between Credit risk Management Practices and Non-Performing loans in Kenyan Commercial Banks: a case study of KCB Group Limited, (MBA thesis) , Chandaria School of Business.

Oretha S.(2012).The relationship between credit risk management practices and financial performance in Commercial Bank in Liberia .(MBA thesis Department of Accounting and Finance),University of Nairobi

Oyatoya, W.(1983). Constraints to Agricultural Loan Repayment. 1st ed. Nigiria: Chartered Institute of Banks.

Rehman Zia ur et.al(2018) internal factors, external factors and bank's profitability ,Sarhad *Journal of Management Sciences (SJMS, Vol. 4, Issue 2 ISSN 2414-2336 (Print), ISSN 2523-2525*

Richardson, D.C (2002), PEARLS monitoring system World Council Information center. Maddison, WI, WOCCU Toolkit series NO.4

Robert, G.M, Mary ,W. M.(2018). Effect of Credit Risk Management Practices on Performance of Commercial Banks in Kenya. *International Journal of Finance and Banking Research2018; 4(3): 57-66.*

Robinson, M. (1962), The Microfinance Revolution: Sustainable Finance for the Poor, Washington DC: World Bank

Rouse, C., (1989), Applie lending techniques, Financial publishing Ltd

Samrawit ,A,Yordanos ,G.;Meseret,L.(2014). Assessment of Credit management Practice in Dashen Bank s.c. [MBA thesis], , St. Mary's University ,Addis Ababa ,Ethiopia

Samrawit M (2018) . An assessment on credit management practice in the case of Abyssinia S.c[unpublished MBA thesis], , St. Mary's University ,Addis Ababa ,Ethiopia

Saunders, A., & Allen, L. (2010). Credit management in and out of the financial cisis: New approaches to value at risk and other paradigms. John Wiley & Sons.

Saunders, M., Lewis, P. and Thornhill, A. (2007). Research methods for business students (4th Ed.). Harlow: Prentice Hall

Shekhar K.C. (1985). Banking Theory and Practices, New Delhi: VIKAS Publishing house Pvt.L

Stiglitz , J.E. (1990), "Peer monitoring and credit markets.",The World Bank Economic Review, Vol. 4, No.3., pp. 351 – 366

Stiglitz ,J.E. ,& Weiss, A. (1981). Credit Rationing in Markets with Imperfect Information, The American Economic Review, 71(3).

Tekele.T(2011) Problems of loan recovery and determinants of default in repayments case of Development Bank of Ethiopia. Unpublished Master"s Thesis, Addis Ababa University.

Tilahun,G.(2018, Assessment of credit management practice of MFIs in Ethiopia:The Case of Addis Credit & saving institution. (Unpublished MBA thesis), St. Mary's University ,Addis Ababa ,Ethiopia

Tseganesh T. (2012). Determinants of Banks Liquidity and their Impact on Financial Performance: empirical study on commercial Banks in Ethiopia.MA thesis Addis Ababa Unvirsity , Addis Ababa Ethiopia .

Ursachi,G., Horodnic, I. A., & Zait, A. (2015). How reliable are measurement scales? External factors with indirect influence on reliability estimators. Procedia Economics and Finance , 679 – 686.

Wheehem, T. L. and Hunger, D. J. (2008). Strategic management and business policy, New Jersey; Pearson education Inc.

Wilson, J. S. G. (1998). Bank asset and liability management. Magazine of Bank Administration, p.20-22.

Wonedemagenehu N. (2012), Determinants of nonperforming loan the case of Ethiopian banks, Unpublished Master's Thesis, University of South Africa

Yalemzewd,T. (2014).exploring credit management practices of Buna International Bank S.c. [unpublished MBA thesis], , St. Mary's University ,Addis Ababa ,Ethiopia

Yaw Adu Asante (2015), MA thesis, Assessing Credit Management Practices in Savings & Loans Companies: A Case Study of First Allied Savings & Loans Ltd,; Ghana

Yemane, T. (1967). Statistics an introductory. 2nd Edition, New York: Harper and Row.

Annex I

Year	Amount of NPL Loans in Birr "000"	Amount of Outstanding Loans in Birr "000"	Percent (%)
2016	5,601,862	31,630,367	17.71
2017	8,449,943	33,822,000	24.98
2018	15,439,407	39,155,361	39.43
2019	16,136,351	47,577,140	33.92
2020	19,163,903	55,655,268	34.43

Source: Annual performance report of DBE (2016 up to 2020)

Annex II

Saint Mary University

School of Graduate studies

Masters of Business Administration in Accounting and Finance

Survey questionnaire

My name is Etsehiwot. I am conducting a study on "Assessment of Credit Management Practices in Development Bank of Ethiopia". For this purpose, I need to collect data from respondents. Your responses are so important for the purpose of this study. Therefore, you are kindly requested to give your honest response. All information will be kept confidential and used only for the academic purpose.

If you have any queries concerning with the questionnaires, please do not hesitate to contact me in the following address: Email address:etsehiwotm@gmail.com

Part I: Demographic Information of Respondents

Educational background 1) Diploma ☐ 2) First Degree ☐ 3) MSc/MBA & Above ☐

Credit related Bank Experience 1) 1-5 years ☐ 2) 6-10 Years ☐ 3) 11-15 years ☐ 4) Above15 years ☐

Position: 1) Officer ☐ 2) Senior officer ☐ 3) Manager ☐ 4) Director 5. ☐

Part II: Specific Questionnaire

Please put thick Mark (√) in the appropriate space provided, 5 strongly agree; 4 Agree; 3 Neutral, 2 =Disagree and 1= strongly disagree in the table below to indicate your level of agreement.

No	Due diligence	Strongly agree	Agree	Neutral	Disagree	strongly disagree
1.1	The bank has a clear procedures in conducting due diligence assessment					
1.2.	The bank has a well-organized system used to prevent money laundering activities of the applicants					
1.3.	Meeting tax obligation is a requirement that qualify the applicant for loan granting					
1.4.	The bank properly examine the legitimacy of the applicants to raise the required source of equity/capital before granting loan					
1.5.	The bank properly examine the ability of the applicants to raise the required source of equity/capital before granting loan					
1.6.	The bank strictly look at the applicants collateral coverage before granting loans					
1.7.	The bank checks the managerial competence of the loan applicants of key personnel before contractual agreement					
1.8.	Other (please specify)					

No	**Project Appraisal**	Strongly agree	Agree	Neutral	Disagree	strongly disagree
2.1.	The bank uses recent asset valuation report while appraising projects objectively and rationally					
2.2.	In the process of changing existing asset valuation method verification is made rationally					
2.3.	The bank organizes an appraisal process supported by recent project management software to determine the overall project activity					

2.4.	In the process of appraising the project implementation schedule set by considering the reality on the ground.					
2.5.	Loan appraisal standards and guidelines are adequate for the appraisal process					
2.6.	The bank makes adequate appraisal techniques while appraising projects					
2.7.	Other (please specify)					

	Approval	Strongly agree	Agree	Neutral	Disagree	strongly disagree
3.1	The bank has well organized standard policy for credit approval					
3.2	The bank has a trend on visiting site before approving the loan					
3.3	The evaluation process of approval is adequate to make appropriate decision					
3.4	The bank credit approval process establish accountability to the decision makers					
3.5	The bank approval teams have adequate professional to make sound credit decision					
3.6	The approval committees are independent of Loan processing units					
	Other (please specify)					

No	**Credit Risk Management**	Strongly agree	Agree	Neutral	Disagree	strongly disagree
5.1	Credit Policy of the bank supports credit risk management					
5.2	The bank has a clear procedures and guideline in conducting credit risk management assessment					

5.3	The bank always report risk status of the loan to the board of directors, top management for informed and timely decision making					
5.4	In presenting new products and activities, the risk management process of the bank has experts with sufficient ability and experience in identifying risk.					
5.5	The bank has developed credible credit auditing process that verifies/ confirms accuracy of credit rating.					
5.6	The bank has integrated management of asset with credit risk exposure items					
5.7	The bank conducts acceptable pre-credit assessment					
5.8	The bank quickly responds to market changes in regarding loan sector wise					
5.9	The bank periodically review loan portfolio policy					
5.10	The bank periodically prepares credit quality reports for signaling loan default in any portfolio					
	Other (please specify)					

No	**Credit follow up ,Reviewing practice of the bank and Loan Collection practice**	Strongly agree	Agree	Neutral	Disagree	strongly disagree
6.1	The bank conduct project follow up and monitoring at each stages (commissioning, implementation, & operation) to realize the status of the project actively					
6.2	The bank Executive management conducts supervision in order to pass relevant decisions at each stage of the project cycle depending on the follow up report.					
6.3	The follow up reports are prepared using relevant data and it indicates the true image of the project.					

6.4	The bank has employed trained experts to supervise distress projects frequently					
6.5	On-site supervisions are conducted regularly and the exertion is productive					
6.6	Offsite supervisions are conducted regularly and the exertion is productive					
6.7	The bank conducts an acceptable post-credit assessment					
6.8	The loan review practice address all or majority of loans					
6.9	The bank has the experience to make regular reviews related with collection policies to improve the state of credit management					
6.10	The bank has a trained credit analyst's to enforce borrowers to pay their debt					
6.11	The bank has used an effective credit collection technique					
	Other (please specify)					