

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

**ASSESSMENT OF CREDIT MANAGEMENT SYSTEM A
CASE STUDY ON WEGAGEN BANK S.C.**

**BY
BINYAM AREGA
NATNAEL YEHUNEWAMELAK**

**JUNE, 2014
SMU
ADDIS ABEBA**

**ASSESSMENT OF CREDIT MANAGEMENT SYSTEM A
CASE STUDY ON WEGAGEN BANK S.C.**

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

**IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF BACHELOR OF
ARTS IN ACCOUNTING**

**BY
BINYAM AREGA
NATNAEL YEHUNEWAMELAK**

**JUNE, 2014
SMU
ADDIS ABABA**

ST.MARY'S UNIVERSTY

**ASSESEMENT OF CREDIT MANAGMENTSYSTEM A
CASE STUDY ON WEGAGEN BANK S.C.**

BY

BINYAM AREGA

NATNAEL YEHUNEWAMELAK

BUSINESS FACULTY

DEPARTMENT OF ACCOUNTING

APPROVED BY THE COMMITTEE OF EXAMINRS

Department Head

Signature

Advisor

Signature

Internal Examiner

Signature

External Examiner

Signature

Acknowledgment

First and Most we would like to praise almighty lord for his forgiveness and charity he has given to my life.

Next we would like to thank our advisor Ato Alula for the invaluable advice and unreserved comment from the inception to the completion of this paper. Without his dedication and experience, this paper would not be possible.

Moreover we extend our special thanks to our friends (i.e. Sent and Mele) for their moral support for the successful completion of this paper.

Lastly, our appreciation goes to our colleagues and all staff of Wegagen Bank for their cooperation and unquantifiable support. Thank you all.

Table of Content

Acknowledgment	i
Table of Content.....	ii
List of Tables	v
Acronyms.....	vi
Abstract.....	vii
CHAPTER ONE	
INTRODUCTION.....	1
1.1. Background of the Organization	2
1.2. Background of the Study.....	1
1.3. Statement of the Problem.....	2
1.4. Research Questions.....	3
1.5. Objective of the Study	3
1.5.1. General Objective.....	3
1.5.2. Specific Objectives.....	3
1.6. Significance of the Study	4
1.7. Scope of the Study	4
1.8. Research Methodology and Method of Data Collection	4
1.8.1. Research Methodologies	4
1.8.2. Research Design.....	4
1.8.3. Population, Sample Size and Sampling Technique.....	5
1.8.4. Types of Data Source	5
1.8.5. Method of Data Collection	6
1.8.6. Method of Data Analysis	6
1.9. Organization of the Paper	6
CHAPTER TWO	
LITERATURE REVIEW	7
2.1. LoneAdvancing Procedures	7
2.1.1. Definitions and Concepts of Loan	7
2.1.2. The Business of Banking.....	7

2.1.3.	Profitability and Liquidity	8
2.2.	Lending Procedure.....	9
2.2.1.	The Principle of Lending.....	9
2.2.2.	Credit Term.....	11
2.2.3.	Control of Credit	11
2.3.	Interest Rate.....	11
2.3.1.	Definition of Interest Rate	11
2.3.2.	The Theory and Structure of Interest Rate	12
2.3.3.	Security for the Advantage	14
2.3.4.	Source of Repayment	14
2.4.	Loan Advancing Laws and Regulation in Ethiopia.....	14
CHAPTER THREE		
DATA PRESENTATION, ANALYSIS AND DISCUSSION.....		
3.1.	Introduction	16
3.1.1.	Background of the Respondents.....	16
3.1.2.	Type of Loan Granted by the Bank	17
3.1.3.	Clients Opinion on Time Elapsed to Obtain Loan	18
3.1.4.	Customers Satisfaction	19
3.1.5.	Banks Facilities	19
3.1.6.	Rationality of Banks Prerequisites	20
3.1.7.	Loan Granted by Other Bank.....	21
3.1.8.	Other Comments.....	21
3.2.	Data Presentation and Analysis that Obtained from the Bank's Employees	21
3.2.1.	Background of the Respondent and Working Experience	22
3.2.2.	Bank's Policy	23
3.2.3.	Bank's Operational Manual	24
3.2.4.	Employees Opinion On Time Elapsed to Process a Loan.....	24
3.2.5.	Banks Competitors Loan Processing Evaluation.....	24
3.2.6.	Internal Factors which will Affect the Credit Decision Process.....	25
3.2.7.	Bank's Doubtful Loans.....	26

CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMANDATION.....28

4.1. Summary28

4.2. Conclusion.....29

4.3. Recommendations30

Bibliography

Appendices

List of Tables

Table 3.1:	Customer Respondents Background	16
Table 3.2:	Type of Loan Granted	17
Table 3.3:	Time Evaluation of Customers	18
Table 3.4:	Degree of Customer's Satisfaction.....	19
Table 3.5:	Adequacy of the Bank's Facilities	20
Table 3.6:	Rationality of Prerequisites for Loan	20
Table 3.7:	Loan Granted by Other Bank.....	21
Table 3.8:	Background of the Respondent.....	22
Table 3.9:	Transparency of Policy	23
Table 3.10:	Implementation of the Bank's Operational Manual.....	24
Table 3.11:	Time Taken to Process Loans	24
Table 3.12:	Evaluation of the Loan Processing Time with Competitors.....	25
Table 3.13:	Factors Affecting Credit Decision Process.....	26
Table 3.14:	Handling of Doubtful Loans	27

Acronyms

LAF Loan Approval Format

NBE National Bank of Ethiopia

Abstract

This paper attempt to examine the credit management in Wegagen Bank S.C. The paper attempts to address research question raised in statement of the problem and objective of the study. Thus general objective of the paper is to present the element of the credit management in private commercial banks like loan processing, loan granting, loan disbursement and loan recoveries are studied.

In conducting the study the researcher used primary source and secondary source from the bank were collected, analyzed and interpreted using descriptive method to present.

Based on the finding conclusion were drawn and finally recommendation were made that supposed to be important to solve the existing problems of credit management in Wegagen Bank.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The Ethiopian financial institutions have a far reaching history. The use of money and coins in Ethiopia has a long history and the introduction of modern banking with nearly century old (the Tihitena, 2009) as the time an agreement with reached in between emperor Minilik II and a representative of the Biritish owned national bank of Abyssinia inaugurated February 06, 1906 by the emperor.

Banks insure companies and micro-finance institutions are the major financial institutions in Ethiopia. Despit the long history and which precedes the advent modern banking throughout most of Africa, the Ethiopian financial system has not progressed in much the development of the financial sector was constrained by the government takeover of the existing privet banks in 1975. In the period of a shift from a mixed to be state managed and command economy the development of the financial sector was stunted. Although the financial sector of Ethiopia has grown the 1990's, compared to its state during the preceding decides it is still in its infancy. At present, there are three government owned banks, nine privet banks and nine insurance firms.

When we decide to conduct research over credit advancing procedure and practice in the case of Wegagen Bank S.C we had sufficient reasons. The major reason is that credit advancing to those who request and fulfill the bank's criteria and the commercial law of the country. There are different types of credit provided by Wegagen Bank to its customers. And the second reason is that way the researcher was engaged in the research is the attitude of the customers towards the loan provided by the bank. Here, credit is essential to both leaders and borrowers. The lender benefit from issuing the credit to generate profit in the form of interest income. Borrowers on the other hand, benefits from getting loans in order to expand their investments on business.

The research is very important for any bank businesses that create and provide credits to their customers. As we known one of the major activity of the bank is provide credits to those who are a temporary deficit of money for investment.

The different types of credits provide by Wegagen Bank Domestic trade service /DTS/ term loan, manufacturing production and over draft, agricultural production and over draft, transport services, construction credits moorage credits, consumer credit and other type of loan is provided by the bank.

1.2. Background of the Organization

Wegagen Bank has established and become a good competitor in the 1997 as private commercial bank by seven corporate shareholders with subscribed capital of 30,000,000. The bank's board of directors has decided to raise its paid up capital to birr 180,000,000 and subscribed capital to birr 140,000,000. Wegagen Bank is a very competitive bank and delivers its quality services through its 33 branches, ones out of which 13 are located in Addis Ababa. 3 are sub branches.

The remaining 17 are operating at the regional administrative town of the country. Wegagen Bank in its function as a financial institution has drawn numerous objectives and the bank comates itself to operate on a clearly defined statements mission, policy and procedures. This policy is formulated on matters of describing the domestic banking activates and offer full fledged international banking serves.

The main objective of the banks were the following,

- To increase the level of capital in order to rise the lending limit of the bank and obtain a high income.
- To give deferent kinds of banking services and loans for specific propose
- To increase market share.
- To encourage people to deposit money at the bank by understanding its use
- To promote a habit of depositing money at the bank.

Wegagen Bank Share Company was the following duties and responsibilities,

- Opening of saving account and which are payable on request and time specific
- Providing different kind of loans.
- Transfer of money through telegram, mail transfer foreign money transfer.
- Opening of current account.
-

1.3. Statement of the Problem

In modern world economic savings and investments are usually carried out by different groups. The banking system channels the transfer of funds from savers to borrowers. Loans are assets of the bank that represent the majority of earning and make profit by granting loans to their customers who fulfill the bank's and countries rule and regulations. Here, the researcher conducted the research on loan practice and procedure on Wegagen Bank due to the following reasons;

- Does the bank use appoint credit policed and procedures?
- What method would be suitable to improve the problem of loan processing and credit analyzing?
- Is there a proper selection of credit offices and analysis at appropriate place?
-

1.4. Research Questions

- What are the factors that affecting credit management practices?
- What basic documents that the credit customers are required to facilitate the loan processing activity during loan applications?
- What organs of the bank involve in deciding credit facility requests of prospective borrowers?
- What policy and procedures are in place to facilitate fast and timely decisions of loans and advances?

1.5. Objective of the Study

The study of loan advancing procedure in Wegagen Bank S.C has the following objectives

1.5.1. General Objective

To assess the lending policies and procedures by giving emphasis to the following specific objective

1.5.2. Specific Objectives

- To examine the factors that affecting credit practices
- To assess how loan is provided and to identify the type of loan provided by Wegagen Bank to its customers.
- To assess the problem of customers faced at lending procedure.
- To analyze and interpreting the credit procedure of the bank.

1.6. Significance of the Study

The significance of the study is to help and show different understanding aspect regarding loan and advance, which will enhance of the bank efficiency and effectiveness, to discover the area of problem regarding credit management practice so as to find remedial solution for the problem and the research is important as it will provide reliable data on which there is strong need for investigation and it helps for further study. This study can be serves as input for the organization to make necessary adjustments on how to increase its performance and to analyze the problem, to suggest other ways of protecting the bank from failure to meet its obligations.

1.7. Scope of the Study

The scope of the study was Wegagen Bank S.C., which is currently has 25 branches. This branches are located in Addis Abeba and other cities of the country. This research is conducted in the Kazanchis branch of Wegagen Bank, because the branch is located in the business area of the city.

This research paper mainly focuses on identifying the impact of loan and advance figure and assess problems of the bank related to lender and borrowers in Wegagen Bank S.C. for the selected period of ten months (September 1,2013 –June 1,2014).

1.8. Research Methodology and Method of Data Collection

1.8.1. Research Methodologies

To make the study more fruitful the researchers used both primary and secondary data. Primary source include direct personnel interview was conducted with officers who directly involved in the credit management element and top managers of the branch in order to assess the procedure for granting loans and their collection effort.

Secondary data source such as books, journals, annual reports and internet so as to provide related concept to support achievement of the objective of the study.

1.8.2. Research Design

Descriptive and Exploratory forms of research will employ in conducting the research. Descriptive method is used to acquire data relating to the existing status of phenomenon in order to define what already exists in the status quo (Key, 1997). Descriptive method of research is beneficial for researches due to its litness. It employs the use of both qualitative and quantitative data .In addition, the researchers further concentrate on the use of surveys. Surveys are classified as a type of descriptive research tool. Surveys assist

researchers to obtain data about practices, status quos or opinions through the use of questionnaires or interviews

On the other hand, exploratory research is habitually used to acquire data in order to explain problems which are unclearly defined. The research study presently is an endeavor to collect information regarding the practice of credit risk management that enables credit management to be effective, the most utilized for debt recovery, and the problems of debt recovery. The researcher group will use exploratory research to acquire data from respondents so as to communicate coherent recommendations and conclusions for the study.

1.8.3. Population, Sample Size and Sampling Technique

Since the researchers has no enough time to fill each and every questionnaire ,it will be distributed through a purposive and judgmental sampling technique to have more accurate and representative data since customers and employees get privacy and confidence to fill each questionnaire. We take 4 employees out of 5 and 10 samples out of the total 15 prominent credit customers found in Kazanchis Branch only. The number of 4 employs will be chosen because the number of employs responsible for loan and risk management in most financial institution is limited. The data were collected within 25 banking days which have been held at the end the month that customers were expected to present to the branch for repayments

1.8.4. Types of Data Source

The necessary information used by the researcher group for the study was gathered using primary and secondary data sources. Primary data was gathered by questionnaires and direct observation. Secondary data was gathered from Wegagen Bank's credit manual, procedures, circulars and reports, organizational chart and publicized annual reports and other related books

1.8.5. Method of Data Collection

In case of data collection method, the study was conducted through.

- Questionnaires- the questionnaire was distributed through a random sampling method to fill by 10 customers of the bank out of 15. This method benefits the research to have more accurate and representative data, since customers can get privacy and confidence to fill the questionnaire and 4 employees of the bank out of 5.
- Direct observation; direct observation in loan advancing activates. Since the researcher of this study is the near contact with banking activates.

1.8.6. Method of Data Analysis

For analysis and interpretation purpose the researchers were used descriptive analysis method and manually and edited filled. Since, interview has been analyzed summarized in the descriptive from which it leads to valid conclusion.

1.9. Organization of the Paper

The research would contain four chapters .Chapter one deals with introduction part,background of the study,statement of the problem,objective of the study,significant of the study,scope of the study, methodology of the study, limitation of the study,time schedule for the study,sample size for the study and organization of the paper. The second chapter would present the review of various credit management books,publication and other related literature of credit management. The third chapter would provide the background of the bank including organizational structure of W.B.S.C and data analysis and presentation of the data collection through interview and would obtain from secondary sources. The fourth chapterpresents summary, conclusion and recommendation based on the findings.

CHAPTER TWO

LITERATURE REVIEW

2.1. Lone Advancing Procedures

2.1.1. Definitions and Concepts of Loan

Loan is the sale of goods, services and money claims in the present in exchange for a promise to pay in the future. That means the debtor and the creditor agrees to settle their transactions.

In respect of bank's meaning: credit means lending or granting money to those who are in need of it (investors) who fulfill the bank's requirements. It is a liability for the individual or corporation received it but an investment comparable to bond, stock or other asset. For each borrower a loan is adept, an obligation to repay the borrower money plus interest. (Smith, 1995)

Loans are typically less liquid than other assets because they cannot be turned in to cash until the loan matures. For example, if the bank makes a one year loan, it cannot get its fund back until the loan comes due in one year, a loan also has a higher probability of default than other assets. Because of the lack of liquidity and higher default risk the bank earns its highest return on loans. (Miskin, 1997: 203)

We live in a world of credit. Every day in every way we become more and more involved in various aspects of this credit world. Credit contributes to the development of the country and to high standard of living. The major participants in the credit world are banks. This is because most credits directly or indirectly originated from financial institutions, and credit granting is one of the major activities of banks. It is through this credit granting activities that they made up large portion of their earnings.

2.1.2. The Business of Banking

Banks act as financial intermediaries accepting money on deposit and lending it to other people for periods of time up to several years. The bank's function then is to convert short run deposit in to longer- run loans. (Palfremon D. and Ford F, 1998)

Like any privately operated business, the commercial bank has its aim in the maximization of long term profits. Bank profits are primarily derived from interest income on loans and investment securities.

Maximizing the long term profit is an appropriate goal because it considers the current year profit as well as the magnitude and timing of expected annual profits.

2.1.3. Profitability and Liquidity

Like any other financial institutions, the banks, objective in providing services to borrowers and depositors in the generation of profit.

Banks principally make their profit by issuing loans. Banks make profit by selling liability which one set of characteristics and using the proceeds to buy assets with a deferent set of characteristics. Thus banks provide a service to the public by transferring one type of assets in another. (Mishkin, 1989)

The more money they can lend, the more profit banks can earn. However, a bank can not lend out all the funds. It must retain enough money in liquid form to be able to meet depositor's requests for repayment. In this regard we find the root cause of the banker dilemma because generally speaking, the more liquid the form in which funds are held, the less the rate of return. Cash holdings for instance, being the most liquid form of asset, generate no profit at all.

It is true that successful banking requires successful management of both assets and liability. Safety and liquidity must be carefully balanced against asset earnings. And profitability requires care full controlee of the cost of the bank source of funds.

The banks there for affect a careful balance between the maximization of lending and the maximization of liquidity to the lowest level consistent with safety.

To some extent this task is taken out of the bank's hands by official controls but nevertheless, there is still considerable room for maneuver. The conflicting requirements of profitability and liquidity can be viewed as resulting directly from the conflicting

desires of the two groups who have provided the bank's financial resources, we share holders and depositors.

Loans are typically less liquid than other assets because they cannot be turned in to cash until the loan matures. If the bank makes a one year loan for example it cannot get its fund back until the loan come due in one year. A loan also has a higher profitability of default was other assets. Because of the lack of liquidity and higher default, risks the bank earn its higher return on loans. (Mishkinand, 1989)

2.2. Lending Procedure

2.2.1. The Principle of Lending

Lending money is easy, it is ensuring that loan are repaid that skill is required when asked to make a loan, the first concern of a bank will be to extract as much information as possible about the proposition so as to be able assess the probability of repayment.

Some loans will become **bad debts and cannot be** recovered but this should never happen as the result a risk which could have been foreseen from the outset. In coming to a decision you must check how well the proposition measures up to a number of criteria. Some of the questions to be asked are vital other less so but all help the lending officer to obtain an overall view of the proposals. (Palferman, 1989)

In one sense these criteria can be looked on as a series of hurdles. Which would be borrowers must clear, they fail to completely satisfy the bank on one of the important principles than the application will probably not be pursued all the way through the rest of the decision making process. On the other hand it has to recognize that few proposals for advance are perfectly satisfactory in all respects. In most cases the baker must use skill judgment and experience in balancing the good points and the bank points of the proposition to judge the probability of the outcome.

Each bank should immediately undertake a sample of the information and data sought for examination of loan proposal from clients in the priority sectors for ascertain whether the demands made by the bank are excessive and or unrealistic, with a view to initiating

corrective action. Banks must enjoy on their operating start to call for information data, etc for examination of loan applications, as far as possible in two or more installments.

In considering loan applications loan officers should be encouraged to adopt flexible approach here what is important is an overall appraisal backed by a good knowledge of laical market prices applicant and his /her back ground and familiarity with the nature of operations of applicant:

- Loan officers should be able to comprehend the total situation and determine whether,
- Applicant seems honest
- Applicants proposal seems reasonable
- The information give by the applicant makes sense
- Applicants can accomplish the purpose of the loan.
- Purpose of the loan of the loan is legitimate and productive
- Applicants with having with the capacity to repay the loan according to schedule under normal circumstance and
- There is margin of safety, if things just do not go right.

Bank staff should perform an additional duty of consulting these applicants where ever required, with a view to converting seemingly imprecise and in attractive proposals in to reasonably bank able proportions.

Controlling offices of bank's should advise their branches detailed reasons for rejection of loan proposals wherever this is not already being done this will enable branch staff to understand the core lending policy and in turn do counseling to applicants in appropriate cases.

It would be desirable to advise loan applicants, in each case, the reason for rejection of there applications but this may not be possible always. Banks would be justified in refusing to make known the reason for rejection. But, wherever possible, customers should be advised of the reason backed by counseling in appropriate manner. (Smith,1991)

2.2.2. Credit Term

How long is the advance required for although this will depend to all large degree on the proposals for repayment, it is important because the longer the loan is outstanding the more chance there is of something unforeseen happening to prevent the customer from adhering to the agreed schedule.

2.2.3. Control of Credit

In a developing economy as that of ours shortage of capital has always been as tumbling block on the road to industrial progress. The role of commercial banks in overcoming this difficulty by extending large credit facility is abundantly clear. However, this does not mean that they should be given a free hand in the creation of credit. The recent monetary policy of the reserve bank shows that it has taken a serious view of the rising price levels; the key note of the policy has been to exercise both a general and selective restraint on credit and pruning down of the less essential demands through a combination of measures, quantitative, qualitative and selective. The bank has been careful to implement the various methods of credit control in a flexible and judicious manner. (Suekhar,1987)

2.3. Interest Rate

2.3.1. Definition of Interest Rate

Interest rate is of course the priced charge a borrower for the loan of money. This price is unique because it is really a ratio of two quantities; the total required fee that a borrower must pay a lender to obtain the use of credit for a stipulated period divided by the amount of credit actually made available to the borrower.

$$\text{Rate of interest (Inannualized \%)} = \frac{\text{fee required by the lender in order for the borrower to obtain credit}}{\text{amount of credit made available to the borrower}}$$

By convention, the interest rate is usually expressed in percent per annum. For example, interest rate on overnight loan of reserves in Federal funds market are expressed in percent per annual although the loan is going to be paid the next day in addition, some interest rates measures use a 360 days year and others a 365 day year. Some

employ compound rate of return, with interest income earned on accumulated interest and some do not use compounding.

2.3.2. The Theory and Structure of Interest Rate

There are several theories of interest rates and their implications in financial system among this theory, the following four are the common and as well popular as believed by economists and financial analysis

1. Classical theory of interest rate
2. The liquidity preference theory of interest rate
3. The loan able funds interest rate
4. The rational expectation theory of interest rate

1. The Classical Theory of Interest Rate

It is one of the oldest theories concerning the determinant of the interest rate. The classical theory argues that the rate of interest is determined by two forces

- a. The supply of saving derived from household and
- b. The demand for investment capital

2. The Liquidity Preference Theory

During the 1930's the British economist John Maynard Keynes developed a short run theory of interest rate which he argued was most relevant for policy makers and explaining near-term changes in interest rate. (Richard, 1996)

This theory is known as the liquidity preference theory of interest rate.

3. The Loan Able Fund Theory

This view argues that the risk free interest rate is determined by the interplay of two forces

- I. The demand for loan able funds consist of credit demands from domestic business consumers and units of government and borrowing in the domestic market by foreigners
- II. The supply of loan able funds stem from;
 - Domestic savings

- Hoarding demand for money either positive hoarding or dishoarding which increase volume of loan able funds.
- Money creation by banking system and
- Lending in the domestic market by foreign individuals and institutions

4. The Rational Expectations Theory of Interest Rate

The rational expectation theory builds up on a growing body of research evidence that the money and capital markets are highly efficient institution digesting and reacting to new information attesting interest rates. (Mishkin and Frederic S, 1989)

We have already mentioned that banks pay interest on deposits and charge interest on loans. Before we more on to look at how these activities express themselves on the banks balance sheet, we should ask ourselves what we understand by term interest rate. As defined earlier the simplest definition of interest is that it is a payment made for the use of someone else's money. When we speak of a rate of interest we should be aware that there are a multitude of different rates in operation at any one time. The particular rate of interest charged by a lender or paid to a depositor depends on a number of interrelated factors the principle of which is the risk element and the time factor.

Any other form of loan will carry an appreciably greater level of risk that the funds will not be recoverable and the rate of interest charged will increase accordingly. Eventually, the point will be reached where a proposed loan is so risk that a lender will not be found no matter how high the offered rate return. Similarly the longer the period, over which the lender surrenders the liquidity of these funds the vaguer he will expect the rate of return to be.

The lower the risk of default the more attractive the loan and the lower the interest rate charge generally interest rates,

- Send price signals to borrowers, lenders savers and investors
- Higher interest rates generally bring forth greater volume of savings and stimulate the lending of funds.
- Lower rates on the other hand tend to dump the flow of savings and reduce lending activities.

- Higher interest rates tend to reduce the volume of borrowing and capital investment will lower rates stimulate borrowing and investment spending. (Gary Smitu, 1995)

2.3.3. Security for the Advantage

Once the proposition and its likely success have been assessed you then move on the consider what assets the customer can pledges as security for the advance. It must be proposition as supported by the security and not against the security alone.

If the proposition does not seem viable in its own right and he or she was a defaulter or no more good credit relation with other banks then is will almost certainly have to be relied on as the source of repayment. In other word you should have decided that you want to make loan before you look at the availability of security.

2.3.4. Source of Repayment

The source of repayment must always be clarified before the advance is taken generally this will come either out income or from realization of capital assets. Your objective will be to check that the proposals for repayment are feasible in the circumstance of the particular case. Repayment instalments should be fixed invariably not in relation the size of loan or on the basis of willingness of applicant, but strictly in relation to applicants paying in to also the minimum basic necessities of applicant and his dependent family members. It may at time be necessary to relax the maximum repayment period generally stipulated in various schemes formulated by bank concerned.

2.4. Loan Advancing Laws and Regulation in Ethiopia

Central bank in Ethiopia it is also called national bank of Ethiopia (NBE). This bank acts as a elder of the money market supervising, controlling and regulating the activities of the commercial banks and other financial institutions. The NBE functions in close touch with the government and assist in implementation of its economic policies. It serves as banker agent and advisor to the government.

Discussion under the compulsion

1. Under NBE, the house of people representative /HPR/ has categorically established the baker's right to capitalize inters 6% up on loan, if un paid by the borrower on yearly or half yearly basis irrespective of the fact whether it is secured or un secured loan.
2. It was held that the payment made by a debtor is in the first instance to applied towards interest and thereafter towards the principal, unless there 95 an agreement to the contrary.
3. Under the NBE the reserve bank is expound to collect credit information from banking companies relating to their customers.
4. Borrowing from other commercial bank, a bank may create addition liability by borrowing from other banks having excess reserves. But such borrowings are only for every short duration, for a day or week at the most. The interest rate of such borrowings depends up on the prevailing rate in the money market.
5. Borrowing from the central bank (NBE); bankers also create liabilities on them selvesby borrowing from the NBE.
6. Safety: it means that the borrower should be able to repay the loan and interest in time at regular interval without default.
 - The repayment of the loan depends up on the nature of the security, the character of the, borrower, his capacity to repay and his financial standing.
7. Diversity: this principle also applies to the advancing of loan to varied types of firms, industries business and trades. It should spread it risks by giving loans to various trade and industries in different parts of the country. (Moges, 1998)

CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND DISCUSSION

3.1. Introduction

In this chapter the secondary data that was received from different documents and the primary data that was collected through questionnaires from sample of respondents was analyzed and presented to satisfy the objective of the study.

3.1.1. Background of the Respondents

Table 3.1 summarizes Characteristics of the respondents by sex, education and length of time stayed as a borrower in the bank.

Table 3.1: Customer Respondents Background

No	Items	Responses	Number of Customers	Percentage
1	Sex	- Male	7	70%
		- Female	3	30%
		Total	10	100%
2	Educational background	- Less than grade 10	2	20%
		- Grade 11-12	2	20%
		- TVET and Diploma	3	30%
		- Degree and Above	3	30%
3	Length of time as a borrower of Wegagen Bank	- Below 2 years	4	40%
		- 2-5 years	6	60%
		- Above 5 years	-	0

Source: Data collected through questionnaire 2014.

According to the questionnaires conducted in the above table item number one demonstrates, among 10 prominent responded customers of the bank 7(70%) are males

while the numbers of female are 3(30%). From the above quantitative data, it is possible to understand that majority of the branch credit customers are males.

Item two in the above table is related to the educational back ground of the respondents. It shows 2(20%) are less than Grade 10,2(20%) are between grade 11-12, 3(30%) are TVET and Diploma and 3(30ve %) are Degree and above. From the above quantitative data, it is possible to understand that majority of the branch credit customers educational background are TVET, diploma, degree and above.

Item 3 of the above table shows the length of time that customers stay as a borrower of the branch. The analysis shows for respondents 4(40%) are below 2 years and 6(60%) are between 2-5 years and no one is stayed above 5 years as a borrower of the bank.

3.1.2. Type of Loan Granted by the Bank

There are many types of loans which are granted by Wegagen Bank. The following types of loans are loans that are identified and summarized under the study.

Table 3.2: Type of Loan Granted

What kind of credit have you taken from the bank?	Response	
	Number	Percentage
- Overdraft	1	10%
- Short term loan (1-12 months)	3	30%
- Medium term loan(13-60 months)	4	40%
- Long term loan (more than 60 months)	2	20%
Total	10	100%

Source: Data collected through questionnaire 2014.

According to the information revealed in table3.2, most of the respondents 4(40%) are taken medium term loan that is 13-60 months. Also over draft facilities is financed to 1(10%) respondent, 3(30%) of customers are taken short term loan which is 1-12 months and the other 2(20%) respondents are taken long term loan which is more than 60

months. We can infer this analysis that the bank is encouraging a sector that has a long term maturity.

3.1.3. Clients Opinion on Time Elapsed to Obtain Loan

Customers are very aware with regarding to the time takes to advance the loan they requested. Therefore, the following table summarizes the time elapsed from the data of application to data of disbursement.

Table 3.3: Time Evaluation of Customers

No	Item	Response	Number	Percentage
1	-How long it permits the loan requested	- Below 5 days	5	50%
		- 5-10 days	2	20%
		- 15-30 days	2	20%
		- Greater than 30 days	1	10%
		Total	10	100%
2	-How do you evaluate the advancing procedure as you compute to other bank?	- Long period	-	0
		- Medium period	3	30%
		- Short period	3	30%
		- Similar period	4	40%
		Total	10	100%

Source: Data collected through questionnaire 2014.

For the above table 3.3 similar interpretations is applied as the previous table-1. According to the above table analysis result in item one 5(50%) of the respondents took below 5 days to get the loan, 2(20%) of the respondents took 5-10 days to get the loan, 2(20%) of the respondents took 15-30 days to get the loan and 1(10%) of the respondents took greater than 30 days to get the loan. From the item two of the above table 3(30%) of the respondents get the banks advancing producers as medium period when computing with other banks, 3(30%) said it's short period and 4(40%) said it is similar period.

All respondents believe that loan is a source of revenue and loan is disbursed to customers by individual sufficient collateral.

All the respondents (100%) assured the bank provide both short term and long term loan and all respondents believe that customer will face problem when grant loan.

3.1.4. Customers Satisfaction

In this part the researchers try to gather information about the customer satisfaction towards the loan advancing procedure of the branch. The following table illustrates thereupon of the customers.

Table 3.4: Degree of Customer’s Satisfaction

How do you rate your level of satisfaction by the service of the bank?	Response	
	Number	Percentage
- Very high	1	10%
- High	4	40%
- Fair	3	30%
- Low	2	20%
- Very low	-	0
Total	10	100%

Source: Data collected through questionnaire 2014.

From the above table analysis 1(10%) of the respondents are satisfied very high, 4(40%) of the respondents are satisfied highly, 3(30%) of respondents satisfied fairly, 2(20%) of the respondents are not satisfied or satisfied at low rate and none of the respondents get very low satisfaction. According to the above table analysis majority of the respondents very high(10%)+ high(40%)) are highly satisfied.

3.1.5. Banks Facilities

Wegagen Bank has many facilities in granting the loan to its customers. The following table summarizes the adequacy of the bank’s facilities to its customers.

Table3.5: Adequacy of the Bank’s Facilities

How do you rate the adequacy of the bank’s facilities?	Response	
	Number	Percentage
- Very good	3	30%
- Good	4	40%
- Poor	2	20%
- Very poor	1	10%
Total	10	100%

Source: Data collected through questionnaire 2014.

Table 3.5 reveals that out of the total respondents, about 70% (30%+40%) of them found the banks facilities good or very good and the remaining 30% (20%+10%) of them found the banks facilities poor or very poor. From this analysis, the researcher group deduce that even though the majority of the respondents found the adequacy of the bank’s facilities above average, still considerable 30% of the respondents expectation is not meet.

3.1.6. Rationality of Banks Prerequisites

Table 3.6: Rationality of Prerequisites for Loan

Do you think that prerequisite set for advancing credit to a borrower by the bank is reasonable?	Response	
	Number	Percentage
Yes	8	80%
No	2	20%
Total	10	100%

Source: Data collected through questionnaire 2014.

Table6 reveals that out of the total respondents about 8(80%) of them found the banks prerequisite to grant the loan is reasonable, but the rest 2(20%) of them found the prerequisite to grant loan is not reasonable.

3.1.7. Loan Granted by Other Bank

Like Wegagen Bank other commercial banks give a credit service to the people. The table below summarizes customers trend to use other banks facilities before they came to Wegagen Bank.

Table 3.7: Loan Granted by Other Bank

Have you entertained any facilities by other banks	Response	
	Number	Percentage
- Yes	4	40%
- No	6	60%
Total	10	100%

Source: Data collected through questionnaire 2014

Table7 reveal that out of the total respondents, 4(40%) entertained other banks facilities before they came to Wegagen Bank and 6(60%) of the respondents never entertained other bank facilities before.

3.1.8. Other Comments

The respondent replied that the bank should revise the loan processing procedure as soon as possible to waiten its prominent customers. Also said that the main reason for following important customer to other bank is the length of loan processing procedure of the bank. They replied that there is a carry in security estimation since the bank engineer used to come from head office. So in order to facilitate the advancing produce the bank should reprise such dalliance.

3.2. Data Presentation and Analysis that Obtained from the Bank's Employees

In this section the data collected was been analyzed and interpreted according to the answers, comments and suggestions of the respondent's employees of Wegagen Bank. S.C. Kazanchis Branch. In distributing the questionnaire the researcher used judgmental sampling of 4(80%) of the employee of loan sector from Wegagen Bank S.C. in

Kazanchis Branch. From the total respondents 3(75%) are males and the rest 25 %(1) is female.

3.2.1. Background of the Respondent and Working Experience

Table 3.8 below summarizes characteristics of the respondents by sex, age, education and working experience.

Table 3.8: Background of the Respondent

No	Item	Response	Number of Employees	Percentage
1	Sex	- Male	3	75%
		- Female	1	25%
		Total	4	100%
2	Age	- 25-30	1	25%
		- 31-40	2	50%
		- Above 40	1	25%
		Total	4	100%
3	Education	- Diploma	-	0
		- 1 st Degree	3	75%
		- Above 1 st Degree	1	25%
		Total	4	100%
4	Work Experience in the organization	Below 1 year	-	0
		1-3 year	1	25%
		Above 3 year	3	75%
		Total	4	100%

Source: Data collected through questionnaire 2014

According to the above table analysis result 75% of the respondents are males and the remaining 25% are females.

Item 2 of the above table demonstrates the age distribution of the respondents. It shows 1(25%) of the respondents are between 25-30, 2(50%) of the respondents are between 31-40 and the rest 1(25%) of the respondents are above 40. From the above quantitative data, it is possible to understand that 75% (25%+50%) of the respondents are less than 40 years old.

Item 3 of the above table demonstrates the educational background of the respondents. It shows that 3(75%) of the respondents are 1st degree graduates, 1(25%) of the respondents have above 1st degree and none of them are below 1st degree.

Item 4 of the above table demonstrates the work experience of the respondents. It shows that 1(25%) of the respondents have work experience of between 1-3 years, 3(75%) of the respondents have work experience of above 3 years and none of them have below 1 year work experience.

3.2.2. Bank's Policy

Wegagen Bank has its own policies and procedures to grant the loan. The table below summarizes the credit approval procedures transparency to customers.

Table 3.9: Transparency of Policy

Do you think that the credit approval procedures are exhaustive and transparent to customers?	Response	
	Number	Percentage
- Yes	3	75%
- No	1	25%
Total	4	100%

Source: Data collected through questionnaire 2014

Table nine indicates that 3(75%) of the respondents agreed that the credit approval procedures are exhaustive and transparent to the customers, but 1(25%) of the respondents are not agreed. From this analysis the researcher group infer that even though the majority of them found the credit policy transparent, still 25% of them found it poor.

3.2.3. Bank's Operational Manual

Table 3.10: Implementation of the Bank's Operational Manual

Is the bank credit operational manuals properly implemented?	Response	
	Number	Percentage
- Yes	3	75%
- No	1	25%
Total	4	100%

Source: Data collected through questionnaire 2014

According to the above table analysis, even if 1(25%) of the respondents says 'No' regarding the proper implementation of credit manuals, 3(75)% of the respondents agreed in the proper implementation of credit manuals. This shows the majority employees assure that the bank's credit operation manual is implemented well.

3.2.4. Employees Opinion On Time Elapsed to Process a Loan

Table 3.11: Time Taken to Process Loans

How long it takes to process a credit?	Response	
	Number	Percentage
- 15 days	1	25%
- 15-30 days	2	50%
- More than a month	1	25%
Total	4	100%

Source: Data collected through questionnaire 2014

As per the above table, only 1(25%) of the employees respondent reply that the loan processing time takes less than 15 days but 5(50%) of them agreed as 15-30 days. The other 1(25%) of the respondent answered that it takes more than a month.

3.2.5. Banks Competitors Loan Processing Evaluation

Like Wegagen Bank other commercial banks also grant loans. Table 12 summarizes the comparison of the bank with other commercial banks loan processing time taken.

Table 3.12: Evaluation of the Loan Processing Time with Competitors

How do you evaluate the loan processing time compared to other similar banks?	Response	
	Number	Percentage
- Very good	1	25%
- Good	1	25%
- Fair	1	25%
- Poor	1	25%
- Very poor	-	0
Total	4	100%

Source: Data collected through questionnaire 2014

As shown in the above table, out of the total respondent 2(50%)(very good respondent % + good respondent %) are comfortable by the loan processing time, 1(25%) of the respondent said “fair” but 1 (25%) respondent replied that the loan processing time is poor compared with other banks. From this analysis and data gathered from interviewing branch managers and senior loan officers, the researcher group infer that the bank’s loan processing time is longer than the competitors ,due to inadequate discretionary limit of the branch, liquidity problem and long hierarchical organ of loan approval system.

3.2.6. Internal Factors which will Affect the Credit Decision Process

There are four broad internal factors which will affect the loan recovery performance in Wegagen Bank .The table below summarizes the internal factors from the opinion of respondents.

Table 3.13: Factors Affecting Credit Decision Process

What internal factors prevail affecting fast and timely decision of credits?	Response	
	Number	Rank
Submission of incomplete data by the prospective borrowers	4	1 st
Delay in obtaining credit information	3	2 nd
Lack of centralized decision making process	2	3 rd
Lack of adequate man power	1	4 th

Source: Data collected through questionnaire 2014

As presented in the above table majority of the respondent says that the major problem affecting fast and timely decision of credit is submission of incomplete data by the prospective borrowers and the second problem is delay in obtaining credit information, the third one is lack of centralized decision making process. Lack of adequate man power is the last problem mentioned by the staff respondents. As per the information gathered from interview they assure the customers does not provide the relevant document up on lodging the document. From this view the researcher group deduce that submission of incomplete documents from customers side, delay in obtaining credit information and lack of centralized decision making process in the bank side are the main factors that made loan processing time late.

3.2.7. Bank's Doubtful Loans

Since, Wegagen Bank is participating in granting loans it may have some doubtful loans. The following table summarizes respondents evaluation of the respondents towards handling doubtful loans.

Table 3.14: Handling of Doubtful Loans

How do you evaluate the bank credit management policy in dealing with none performing loan?	Response	
	Number	Percentage
- Very good	1	25%
- Good	3	75%
- Fair	-	0
- Poor	-	0
- Very poor	-	0
Total	4	100%

Source: Data collected through questionnaire 2014

As stated in the above table, the majority of the respondents 3(75%) replied that the bank's credit management policy in dealing with none performing loan is good and the rest 1(25%) said of them said very good. From this analysis the researcher group deduce that the bank's credit management policy in dealing with none performing loan is good.

CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMANDATION

4.1. Summary

This study was intended to assess the credit recovery performance of Wegagen Bank S.C. and factors which affect credit management practices, what organ of the bank involve in credit facility requests of prospective borrowers and what policy and procedures are in place to facilitate fast and timely decision of loans and advances.

To conduct the study research used both primary and secondary, interview data collection method through questionnaires, interview and referring of different quarterly, semi-annual and annual report and related books.

The analysis shows that there are internal, external and economic factors contributing to non performing credit. Submission of incomplete data, delay in obtaining credit information, lack of centralized decision making process and lack of adequate man power are the broad internal factors which affect the loan process. , 30% of the respondent revealed that the bank doesn't have a satisfactory and adequate facilities to its customers. This will have a negative influence on the credit system. Based on the data collected, the time taken to permit loan to customers before granting loan is indicated as another weakness of the bank by 30% of the respondent.

Moreover, the maximum amount of credit permitted in the branch is 200,000br, which is a small amount of money, so it is important to coup up the credit limit with the current value of money and to be alert on borrowers status. The bank gives overdraft, short term loan, medium term loan and long term loan.

4.2. Conclusion

Generally, this chapter gives a conclusion in relationship with the loan advancing procedure of Wegagen Bank S.C Kazanchis Branch. To this end, credit related issues are discussed and relevant data are analyzed.

The researchers conclude that loan is beneficial both to the bank as well as to the borrower, banks have to give a peculiar focus on it.

The current loan advancing procedure of Wegagen Bank Kazanchis Branch are too long and complex, thus it does not encourage customers to make loan rather it is causing customer to leave the bank and going to other banks.

- The main participants of the branch in loan customers are domestic trade and service. The other sectors comprise and insignificant portion of the loan
- To grant a loan, applicants for loan to present a written application, trade license of them corundum of association and registration certificate if the applicant is a cooperative or association. In addition, interview the applicants various questions to get high light about the borrower.
- According to the respondents the customers are living with the branch as a borrower for more than five years
- Practically the concerned bank staffs used to visit the business according to the manual.
- The researcher replied that the time taken for granting a loan is very lengthy.
- In our understanding the reason for length is not only the procedure, but also the borrower; some of the borrowers did not provide the appropriate documents at a right time
- Most of the clients are neither satisfied nor dissatisfied with the loan processing procedure, but they exist till now because they are satisfied with the staff members of the loan office in handling them.
- Therefore, the bank has to give special attention for the alleviation of encountered problems in lending.

4.3. Recommendations

- Improve its service delivery to increase customer satisfaction and also increase completion, avoid the problem of speed;
- Work closely with representative of borrows association and pertinent government organization and involve them in banks problem identification and resolution.
- To solve the problem of shortage of finance, the bank should make effort to reinforce the ongoing loan collection activity to achieve the objective of the bank.
- Strong follow up by the bank officer can help the bank as to where the customer business status and the collateral position are which in turn helps the management for sound decisions.
- To obtain more experienced and knowledgeable worker, the bank set budget for long-term training to its employees.
- The bank should provide loan advisory service to improve the loan collection performance
- The bank properly applied its requirement but it should be increase other requirements to minimize the borrowing risk.
- The bank uses effectively its criteria for evaluating credit worthiness, but additional criteria should be used to minimize the non repayment loan.
- Based on the findings of the available data and personal observation, the following recommendations are forwarded with the belief that they will be helpful for the betterment of the bank performance in loan advancing procedure.
- On the basis of the assessment, Wegagen Bank S.C Kazanchis Branch should take the following measures to improve its credit activity and to maintain its customer from moving to other banks.
- Training is one of the important mechanisms to upgrade the performance of employees. In Wegagen Bank there is no sufficient budget allocation for training on credit management. Therefore the bank should allocate sufficient budget for training to achieve smoothly organizational goals.

- The contribution of ICT as properly the instrument of the bank for the loan recovery performance of the bank for the loan enough, the bank should working hard to modernize its service and take the leading position from other banks by means of ICT.
- There are many types of internal and external factors that affect the loan recovery performance of the bank. To avoid the negative impacts of those factors the bank should given to different types of training to employees, additional technical workers to screen out collateral problems create continuous follow out adequate consultation and communication also create technological make research availability of demand and secure financial availability.

Bibliography

Asseffa Moges (1998). **Money, Banking and Insurance in Ethiopia** Addis Ababa: Birhan and Selam.

Gray, Smith. (1991). **Money Banking and Finance Intimidation** Lxion Lexington, Health and Co. Washington D.C.

Mishkin, and Frederic S. (1989). **The Economics of Money Banking and Financial Markets**, 2nd edition, Glenview Scott, Foresman.

Palfreman, D and Ford F. (1998). **The Business of Banking: In Elements of Banking** 2nd edition: Pitman, Great Britain, 10- 20

Raymon, P. Neveu. (1985). **Fundamentals of Managerial Finance** 2nd edition: South main.

Richard, A. Realey and Stewart C. Myers. (1996). **Principle of Corporate Finance** 5th edition.

Suekuar, (1987).**Banking Theory and Practice**: India, 8th edition.

Shekuar K.C (1993), **Total Quality of Credit Management**, Bankers Published Co.

Warren, Reeve Fess, (1999) **Carport Factual Accountings** 5th edition USA.

Wegagen Bank (S.C) **Yearly Published Management Annual Report**. 2012 up to 2014

On line source

www.wegagenbank.com

Appendices

Appendices

QUESTIONNAIRE- I

THIS QUESTIONNAIRE PREPARED FOR CLIENTS/ CUSTOMERS OF WEGAGEN BANK S.C. KAZANCHIS BRANCH

The questionnaires will try to identify some problems that will be improved for loan advancing procedure of Wegagen Bank Share Company Kazanchis Branch. So that, your response kept very confidential and you don't required to mention your name.

And finally thank you in advance for your cooperation

1. Sex: A. Male B. Female
2. Educational back ground,
 A. Less than grade 10 B. GRADE 11-12
 C. TVT and Diploma D. Degree& above
3. How long did you stay as a borrower in Wegagen Bank Kazanchis Branch?
 A. Below 2 year B. 2-5 year C. Above 5 years
4. How long did you take to permit the loan you request?
 A. Below 5 days B. 5-10 days
 C. 15-30days D. Above 30 day
5. Did you get loan service from other bank before?
 A. Yes B. No
6. If your answer for question no5 is yes how did you evaluate the advancing procedure as compared to other banks?
 A. Takes long period B. Takes short period
 C. Takes similar D. Takes medium period
7. Are you satisfied with the existing loan advancing procedure and practice?
 A. Very high B. High C. Fair
 D. Low E. Verylow
8. Do you think that prerequisite set for advancing credit to a borrower by the bank is reasonable?
 A. Yes B. No

9. Other comments that is important for the long run success of the bank.
-
-

QUESTIONNAIRE - II

- The purpose of this question is to collect primary data on the loan practice and procedure of Wegagen Bank S.C Kazanchis Branch
 - This question is answered by only the employees of loan sector Wegagen Bank S.C. Kazanchis Branch
1. Sex:
 - A. Male
 - B. Female
 2. Age:
 - A. 25-35
 - B. 35 and above
 3. Education:
 - A. Diploma
 - B. 1st Degree and above
 4. Working experience in the organization (WBS.C)
 - A. Below 1 year
 - B. 1-3 years
 - C. Above 3years
 5. Do you think that the credit approval procedures are exhaustive and transparent to customers
 - A.Yes
 - B.No
 6. How do you evaluate the bank credit management policy in dealing with none performing loan?
 - A. Very good
 - B. Good
 - C. Poor
 - D. Very poor
 7. What internal factors prevail affecting fast and timely decision of credit
 - A.Lack of centralized decision making process
 - B. Delay in obtaining credit information
 - C. Lack of adequate man power
 - D.Submission of incomplete data by the prospective borrowers
 8. What are type of loan that the bank provide to their customer
 - A. Providing long term loan
 - B. Providing short term loan
 - C. Providing both of the above

Interview Guide

1. Did the bank give without colorful?
2. What are the present impact of the bank?
3. What are impact could force the bank in the suture?
4. What are the major problems on served from the side of borrower that couldn't pay fulfill pre-condition for grating loan.
5. Who should borrow from bank? What amounts? On what bases
6. What is the maximum amount of loan permitted within the branch?

Statement of Declaration

This research is done on the process of assessment of Credit Management System a case on Wegagen Bank S.C. This research work is our own work .it is carried independently with the guidance and support of the research advisor.

Prepared By:

Name: NATNAEL YIHUNEWAMLAK

Signature: _____

BINYAM AREGA

Signature: _____

DATE: JUNE, 2014

Advisor:

Name: ALULA HAILU

Signature: _____

DATE: JUNE, 2014