

Assessment on Loan Recovery Performance in Case of Oromia International Bank Nekemte Branch Wollega University

*Gemechu Workina

Abstract

This study was carried out in Oromia International Bank, Nekemte branch. It was based on primary data collected through questionnaire survey from 21 employees working in loaning unit of the Bank. The study also used secondary data collected from financial statements, quarterly reports, annual reports, credit policy and procedure. Descriptive research methods were employed to identify the loan recovery performance of the Bank. The assessment result showed that the loan repayment period, assessment of customer credit history, collateral estimation, project follow up, monitoring and controlling system, delays to decide on non-performing loans have affected the loan recovery performance of the Bank. The study was very importance to measure whether OIB have adequate policies & procedure manuals, whether the credit unit verifies outstanding liabilities of the borrowers before additional and new loans are granted, the existence & adequacy of feasibility study, whether the bank has a proper way of gathering credit information internally & externally. Inadequate credit policies and procedure manuals, unrealistic loan repayment period, inefficient analyses of customers' financial statement and absence of well-designed project follow up system were the major finding of the study. Based on these findings, I recommended the bank to exert maximum efforts to be updated & review the credit policies & procedures manual frequently as the policies & procedures of the bank are outdated and do not consider the current situation, Furthermore, the bank loan repayment period should consider the nature and cash flow of the project in order to collect the loan as per the repayment schedule instead of performing based on assumption and in terms of loans period. The study will help to enhance the efficiency and effectiveness of loan administration operation & provide different methods and ways to safe guard asset (primarily loans), adequacy, and accuracy of its loan review function; promote to comply with management policy, procedure, applicable laws, and regulation

Key terms Loan recovery, performance

*Graduate Student at RVU, Nekemte Campus. Mob 0934029960

Background of the Study

The government has set policies and strategies to extricate the country from poverty, backwardness, and anti-domestic practices. Among the policies and strategies adopted by the government, bank service reform program is one of them. The program ascertains compatibility to effectively and efficiently. Bank service reform program in general and financial sector reform program in particular is believed to provide good opportunity for smooth credit operation Bank (Aklilu, 2002).

According to regulation 200/1994, the main objective of OIB is mobilization of funds from national sources and provision of short, medium, and long term investment credits. To achieve its stated objectives the bank has to be sustainable by generation sufficient profit from its operation. This rests on efficiency and effectiveness of loan able fund mobilization, credit provision, and ultimate collection of loans which has direct impact on the banks profitability and liquidity (Aklilu, 2002).

Credit recognized as the important financial service that contribute to the success of business venture. This success in turn, believed jot contribute towards economic development, however the existence of credit facility alone does not necessarily. Result in supporting economic development unless and otherwise it is combined by the existence of factors conducive to the efficient utilization of credit funds. For instance, if the abdication of making loan able funds available to these who want them for productive purpose on continuous basis to be met, a loan has to be rapid on time, chronic overdue becomes irrecoverable as a result of the next worth of the lending institution will be eroded and it will have a serious impact of the volume of lending activity (Bekele and Wolday, 2002).

In the light of above factors, the study is important to assess some dimensions and to suggest suitable remedies that should help to loan recovery performance of the Oromia international Bank Nekemte branch.

Statement of the Problem

The loan extended to various sectors of the economy must be recovered in full, if the objective of circulating more and more financial resources to meet the increase demands for credit and to keep the micro finance in sound

financial health. Both the principal and interest to meet the operation cost must be recovered. Our country Ethiopia is characterized by underutilization of land capital and abundant man power resources. There is scarcity of capital, lack of investment opportunity and unemployment. Considering this fact, bank provide credit for establishment and expansion of agricultural, industrial and other services with the objective of economic development in the country. The micro finance collects the principal and interest from the client during the due date but defaults may occur on the side of the client due to various reasons if there is a high incidence in the deficit of client, this leads the micro finance to be insolvent and weaken its financial position. This situation will be paralyzing the investment program as well as the economy as a whole. In this study the researcher will be focus on evaluation the credit repayment performance of Oromia international Bank Nekemte branch.

Thus based on the above statement of the problem, the following research questions were formulated.

1. What problems does the bank face in the process of loan recovery?
2. Does the bank collect its loan effectively on time?
3. Which sectors are more effective in returning of their debt?
4. What is the reason for the defaults of the client?

Research Methodology

Research Design

The study survey will employed descriptive research method since, descriptive research examines a situation as it is and enables us to understand the way things to assess the weak loan recovery performance in the oromia international bank Nekemte branch. Both quantitative data collected from different sources will be organized and presented in the way that it gives answer to the research question. Quantitative data gathered from the distributed questioners and expressed in terms of numbers and percentages.

Source of Data

This Study Will Be Using Both Primary And Secondary Source Of Data. Primary Data Will Be Obtained Through Questionnaires. The Secondary Data Will Be Collected From Manuals, Annual reports, and income

statements of loan collection performance on Oromia international Bank Nekemte Branch in Nekemte branch.

The target of populations for this study will be the employees and manager of loan recovery performance in Oromia international Bank Nekemte branch

Sample Size

For the purpose of this study purposively selected due to limited time to cover total employees. The total numbers of the employees will be twenty one... From the total numbers of the employees eight of them were selected by simple random sampling technique. In this case, simple random sampling technique is feasible to take representative sample.

Method of Data Collection

This study used questionnaires that contain open-ended and closed-ended questions that are distributed to respondents. The study used both primary and secondary method of data collection. To collect primary data, the researchers were used questionnaires. To collect secondary data, the researchers were used different sources of documents reviewed like manual reports.

Method of Data Analysis

After data has been collected, data analysis will be made. The researchers were used the data that will be described and analyzed to examine the finding of the study. The data will be organized, summarized, and described by using words, numbers, percentages, and rates. After the data have been collected and analyzed, the researchers were present the data by using percentages and tables.

Analysis, Discussion and Findings

This chapter contains analysis and interpretation of data collected on the credit recovery performance of Oromia International Nekemte branch in the period of four years that was the period from 2014/2015 to 2016/2017. The analysis is made using statistical tools graphs, tables, and ratio to assess the loan recovery performance of the bank.

General characteristics of the respondents

Table 1 Respondents Sex Structure

Sex	No of respondents	Percentage %
Male	6	75%
Female	2	25%
Total	8	100%

Source: Sample survey, 2018

As per presented in table 1 indicates that about 75% of the respondents of the organization employees are male and remaining 25% of the employees are female. From the above table 4.1.1 the researcher concludes that most of the respondents are male.

Table.2. Age Distribution of the Respondents

No	Age	Frequency	Percentage
1	18-23	1	12.5%
2	24-29	3	37.5%
3	30-35	2	25%
4	36-41	1	12.5%
5	Above 41	1	12.5 %
	Total	8	100 %

Source: primary data, 2018

As per presented in table 2 indicates that, majority of respondents 3 (37.5%) were between 24-29 age groups. While 2 (25%) of them were between 30-35 years and the remaining respondents were 1 (12.5%) of them were between 18-23 years, 36-41 years, above 41 years respectively.

Table 3 Educational Level of the Respondents

Educational level	No of respondents	Percentage %
Above degree	1	12.5%
Degree	4	50%
Diploma	3	37.5%
Certificate	-	-
Total	8	100%

Source: Sample survey, 2017

Table 3 indicates, 50% of the bank's employees were degree holders, while 37.5% and 12.5% were diploma and 2nd or 3rd degree holders respectively. On the other hand, there were no employees at certificate level. So this implies that the employees were competent enough to carry out their responsibilities or duties.

Table 4 Responses Given by Respondents

No	Question	No of respondents who say		Percentage %	
		Yes	No	Yes	No
1	OIB examine the potentiality of the clients before giving the loan	8	-	100	-
2	Does the organization collect and recover all loans at due date?	6	2	75	25
3	Are there factors responsible for non-payment of loan?	8	-	100	-

Source: Sample survey, 2017

As per presented in table 4 indicates that, for item number question out of eight respondents all of them responded by saying yes. This implies that the organization or the bank examine the potentiality of customer before giving the loan. Similarity to this, besides the respondents mentioned some of the criteria's such as trade license, master plan, kind of project, professional experience, legal registration certificate, sire plan, 5cs such as character, capacity, capital, collateral and condition of the clients and the like that the bank provide for evaluation of clients back payment capabilities. Based on the above information the researcher suggested that the bank holders a collateral, which is at least equivalent to disbursed amount. According to the table 4, item number two question 75% of respondents replied that the bank collects and recovers all loans on the due date. Contrasting to this, the remaining 25% of the respondents responded that the bank does not collect all loans on the due date. Based on the above responses the researcher concludes that the bank collects and recovers the loans on the due date. As indicated on the table.3 for item number three question 100% implies or reveals that all of the respondents responded that there is factors responsible non repayment of loan. As the respondents explain that the main factors responsible for non-repayment of loan are spending of the loan an intended project, incremental of the price of the raw materials, lack of raw material on the market, internal problem of the organization, and for seen occurrence and

negligence of the clients because most of the loan provided to customers are long term loan. Generally, the respondent's responses which are mentioned above indicate that as there are different bottlenecks on the collection and recovery of the loan against disbursement.

Table 5. Types of Service Provided by the Bank

No	Description	Respondent response	Percentage %
1	Short term	-	-
2	Medium term	-	-
3	Long term	-	-
4	All type	8	100%

Source: Sample survey, 2017

As indicated on the table 5 the respondent's response reveals that 100% the bank can provide all types of loan service that is short term, medium term and long term loan to its customer or client.

Table 6. Extent of Services Provided by the Bank for Customers

No	Description	Percentage %
1	Short term	12.5%
2	Medium term	25%
3	Long term	62.5%
	Total	100%

Source: Sample survey, 2017

Based on the information provide on the above table the researcher summarized that the bank can provide a widely loan service. Among the loan service which is provided by the bank, the largest portion of the loan is covered by long term loan, that is about 62.5% and it is followed by the medium term loan which is about 25%. Generally, the bank gives the loan for its customer in long term that is above five year. Source of funds for the bank to give loan service for the question raised for the respondents about the source of fund bank to provide loan service the respondents provided the following response. According to their responded, the banks gets the fund from the government budget, domestic loan, foreign loan, loan interest and other service income, based on the above information the researchers can conclude that the source of fund for the bank are domestic and foreign source.

The Major Factors for the Bank in Provision of Loan

For the question provided for the respondents about the factors of the bank to disburse loan service for loan demanders, the respondents replied as follows. As the respondents responded, the major factors of the bank are failure of providing loans service to an individual because the government gives priority for limited sectors. As the result an individual who wants to borrow could not get loan. Based on the above information the researchers conclude that even through the bank provides loan service it could not have capacity to provide loan for all loan demander.

Overall Credit Recovery Performance of OIB

Table 7. Overall Credit Recovery Performance of OIB

No	Description	2015			2016			2017		
		Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
1	Total Disbursement	274,650,000	26,091,750	300,741,750	1,413,997,000	134,329,715	1,548,326,715	1,282,557,000	121,842,915	1,404,399,915
2	Recovery Against Disbursement	154,243,440	11,436,014	157,468,380	1,364,365,704	77,951,534	1,326,451,497	1,070,422,072	115,373,056	1,246,264,485
3	Recovery Rate	56.16%	43.83%	52.36%	96.49%	58.03%	85.67%	83.46%	94.69%	88.74%
4	Balance in Arrears	120,406,560	14,655,736	143,273,370	49,631,295	56,378,181	221,875,218	164,295,552	6,469,859	158,135,430
5	Percentage in Arrears to Total Disbursement	43.84%	56.17%	47.64%	3.51%	41.97%	14.33%	12.81%	5.31%	11.26%

No	Description	2016/2017			Total (2015 -2016/2017)		
		Principal	Interest	Total	Principal	Interest	Total
1.	Total Disbursement	252,737,000	24,010,015	276,747,015	3,223,941,000	306,274,395	3,530,215,395
2.	Recovery Against Disbursement	191,928,478	16,780,599	209,110,045	2,780,959,694	198,496,435	2,247,688,142
3.	Recovery Rate	75.94%	69.89%	75.56%	63.38%	64.81%	63.67%
4.	Balance In Arrears	60,808,522	7,229,416	676,370	1,180,607,194	107,777,960	1,282,527,253
5.	Percentage In Arrears To Total Disbursement	24.06%	30.11%	24.44%	16.62%	35.19%	36.33%

As shown in Table 6 above total disbursements for the period under review, 2015 -2015/2017, was about Birr 3,530,215,395 of which Birr 3,002,500,897 was recovered. The overall average recovery rate during the four year was only 63.67%. Apportioning this figure in to principal and interest, the average recovery rates comes about 63.38% and 64.81% respectively. The total disbursement shows a various trend from period to period. Principal disbursement was increasing throughout the period. Interest disbursement for the period shows a fluctuation trend. The period 2013/2014 – 2014/2015 shows declination.

As indicated in Table 6 above, recovery rate was increasing except in the period of 2015-2017, similarly, , the interest rate also indicates an increasing trend with the exception of the 2015-2017. Constructing to recovery rate and interest rate amount in arrears rate was decreasing continuously for the first three years except for the period 2015—2017. The principal recovery rate was increasing throughout the four years. This implies that the recovery performance of the bank in its principal, interest and the total recovery rate was improving during the period of 2015 – 2017.

Credit Recovery Performance of the Bank

To understand the recovery performance of the OIB, it is important to see its loan recovery rate by sector. The following table shows the recovery performance of the development of Oromia International Bank in the agricultural sector.

Table 8 Credit Recovery Performance of the Agricultural Sector

Description	2015	2016	2017	Total
1.Total Disbursement	85,000	4,705,000	600,000	6,350,000
2.Recovery Against Disbursement	46,248	566,482	193,200	1,220,930
3. Recovery Rate	54.41%	12.04%	32.20%	31.46%
4. Balance In Arrears	38,752	620,118	406,800	1,610,670
5. Percentage In Arrears To Total Disbursement	45.59%	87.96%	67.80%	68.54%

As shown in Table 7, the total disbursement for the period 2015 to 2017 was about Birr 6,350,000 of which Birr 1,220,930 was recovered. The total

disbursement for agricultural loans indicates a fluctuating trend. It was increasing except for the period of 2014/2015. The recovery against disbursement for this sector shows increasing throughout the whole studied period. The recovery rate of this sector indicates an increasing trend from 2015 to 2013/2014 and decline in the period of 2014/2015 but it increased in the subsequent years. In the specified year ,2014/2015, there was inflation and other related bottle necks in the country. Due to this factors the recovery rate of the bank was declining however due to the interference of the government into the market, in the following subsequent years the inflation reduced and the market partially stabilized. So this indicates that the recovery performance of the agricultural sector rose and the bank brought an improvement performance.

Credit Recovery Performance of the Industry Sector

The development bank provides loans for financing the establishment and expansion of industrial sector for the national economy. The following table indicates the recovery performance of the industrial sector with in the development of Oromia International Bank branch.

Table 9. Loan Recovery Performance of the Industrial Sector

Description	2015	2016	2017	Total
1.Total Disbursement	1,278,230,000	1,059,982,000	128,835,000	2,675,567,0000
2.Recovery Against Disbursement	337,033,000	429,612,000	83,888,000	997,083,000
3.Recovery Rate	73.63%	40.53%	65.11%	82.38%
4. Balance In Arrears	941,197,000	630,370,000	4,497,000	213,537,230
5. Percentage In Arrears To Total Disbursement	26.37%	59.47%	34.89%	7.98%

As it is indicated in Table 8, the total disbursement for the industrial sector was Birr 2,675,567,000 of which Birr 997,083,000 was recovered. The overall average rate of the sector during the four years was 82.38%. the total disbursement indicates an increasing trend except for a decline in the period of 2015/2017. The recovery rate shows fluctuating trend from period to period. Even though, the recovery performance of the industrial sector shows a decreasing rate in the period 2014/2015, the recovery performance of the bank was improving in the years 2015/2017. This implies that the recovery performance of the industrial sector was satisfactory.

Credit Recovery Performance of the Service Sector

The service sector advances constituted a major part of the priority sectors. It was the activities of the development bank that advanced several types of sectors. The bank provided loan to transport, communication, mining and energy, education, health, hotel and tourism sector of the national economy. In evaluating the recovery performance of Oromia International Nekemte branch, the following table shows recovery performance of the sector.

Table 10 Credit Recovery Performance of the Service Sector

Description	2015	2016	2017	Total
1.Total Disbursement	135,682,000	217,870,000	123,302,000	542,024,000
2.Recovery against Disbursement	82,003,000	91,336,000	51,078,000	270,667,000
3. Recovery Rate	60.44%	41.94%	41.42%	49.94%
4. Balance in Arrears	53,679,000	126,504,000	72,224,000	271,357,000
5. Percentage in Arrears to Total Disbursement	39.56%	58.06%	58.86%	50.06%

As shown in table 9 the total disbursement for the period under review, 2015 to 2015/2017, was about Birr 542,024,000 of which Birr 270,667,000 was recovered from the sector. The total disbursement for the period shows an increasing rate except the decline in the year 2009/2010 from Birr 217,870,000 to Birr 123,302,000 in 2015/2017. But the recovery rate shows a continuous decline in the four subsequent years. In general, as indicated in the above table the recovery rate was decreasing from the period 2015 - 2015/2017. Based on this information the researchers summarized that the recovery performance of the service sector was not effective that much.

Conclusions and Recommendations

Conclusions

The aim of this research paper was to examine and assess the loan recovery performance of the Oromia International Bank of Nekemte branch. Thus, based on the findings the following conclusion has been drawn. Timely and planned recovery of loans contributes to the profitability as well as financial sustainability of any lending institution. the strength of which is believed to enhance the economic development effort. Hence, lending institutions like Oromia International Bank of Nekemte branch are expected to have good

loan recovery performance comparable to their counterpart elsewhere. The OIB examined the potentiality of the customer before giving the loan depending on the criteria stated. The OIB collected and recovered most of its loan on the due date and the remaining portion of the loan which was uncollected on the due date was recovered after the due date.

The major source of the bank capital for the bank to provide loan service was from domestic and foreign source. The OIB used lock box system to recover its loan from different sectors. As it is shown in the Tables, the disbursement for the period under reviewed (2015 to 2017) was about 3,530,215,395 of which Birr 2,247,688,142 was recovered. The overall average recovery rates during the four years period were only 63.67%. Apportioning this figure in to principal and interest, the average recovery rate was to about 63.38% and 64.81% respectively.

The gap between the total disbursement and the total recovered over the period under the consideration was significant. The recovery rate was increasing except in the period of 2015/2017. Similarly, the interest rate also indicates an increasing trend with the exception of the year 2015/2017. This implies that the recovery performance of the bank in its principal, interest and the total recovery rate was improving during the period 2015 to 2017 except for the period 2015/2017. It indicates decline for interest and recovery rates.

In sector wise recovery, the Oromia International Bank recovered 1,220,930 to the total disbursement in the agricultural sector during the period 2015 to 2015/2017 constituted Birr 6,350,000. The country is industrially backward and the performance of OIB in this sector was relatively better performance. It had a total of Birr 2,675,567,000 and only Birr 997,083,000 was recovered during the period under consideration. Therefore, the performance of OIB in the industry sector was satisfactory relative to other economic sector. Next to industry sector, agriculture sector is better recovering performance than the service sector which had a total disbursement of Birr 542,024,000 of which only Birr 270,667,000 was recovered.

Recommendations

Based on the abovementioned conclusions, the following points were recommended to help the bank improve its loan recovery performance.

♣ The bank did not allocate sufficient budget or funds to upgrade the knowledge and skill of its staff. In order to improve the quality of the project and to provide sufficient technical instance to debtors, the bank should allocate sufficient budget and upgrade the knowledge and skill of its staff.

♣ The Bank did not have adequate applicant screening criteria such as credit discipline or repayment history of current applicant's capacity. In order to select the applicants, the bank should have adequate applicant screening criteria such as credit discipline or the applicant's current capacity to repay loan, personnel behavior and business experience.

♣ The Bank did not revise and update the loan processing parameters and formats. The Bank should revise and update the loan processing parameters and formats that are used by lending departments.

♣ The Bank did not set conditions that enforce clients, especially clients with big project. The bank should set conditions that enforce clients to present project execution, contact document, and recent managerial and technical staff and their project.

♣ Government did not re-capitalization the bank to solve the problem of capital adequately. The government has to re-capitalization the bank to solve the problem of capital adequately and thereby to satisfy the capital adequacy requirement of international lenders by making additional investment or some other means.

♣ Finally, The researcher strongly recommends further detail research to be conducted in loan operation, specifically focusing on credit recovery performance of the bank which are problematic areas and core activities of the bank.

References

- Aklilu Y (2002) "The importance of finance institutions in developing economies: country experience and policy implications to Ethiopia", NBE staff working paper, ERD/SWP/005/2002.
- Befekadu B. kereta (2008) Outreach and financial performance analysis of micro finance institutions in Ethiopia. A paper institutions (AEMFI) Bi-annual conference on the future of micro finance in the new Ethiopian millennium, March 2008. Assosa Ethiopia.

- Borchgrevink, A, T. Woldehana (2005) “Marginalized groups credit and Empowerment”.
- Bringham Houston (1991) Micro finance institutions during the current financial crisis. p. 553
- Charles Mensh (2002) Impact of training on performance of micro and small enterprise surveyed by micro finance institution, Janzania, research journal vol 4 No 2 P103-(1)
- Demergian (2007) “promoting micro, small and medium enterprises for sustainable rural livelihood”; Dilper working paper No 11.Aalborg University of Denmark.
- James C. Vonhourn (2002). The role of micro finance in rural micro enterprise development. P.432
- Jean- LUC C (2006) “Micro and small enterprises and micro finance in Africa, the support to dynamic enterprises: an effective weapon for poverty alleviation”.
- Lakew B. (1998) Micro enterprises credit and poverty Alleviation in Ethiopia: The case project office for the creation of small scale business opportunities (POCSSBO) in Addis Ababa.
- Meyer R.C (2002) “Track record of financial institutions in assisting the poor in Asia” ADB institute research paper No 49 December 2002.
- Oyatoya A. (2003) “Policy impact and regulatory challenges of small and micro business enterprises” www.bussinesslink.gov.uk